

International Reform Monitor



*Bertelsmann Foundation (ed.)*

# **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 that are carried out every six months. Prognos AG, Basle and Berlin, is responsible for organising and implementing the surveys. Prognos, in close co-operation with the Bertelsmann Foundation, also produces the summarised International Reform Monitor.

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

# Editorial

## Reforms, Re-Elections, and Reversals

Politics, in principle, should always be reform-driven. Reforms are usually the result of a lengthy process with intense bargaining, discussion, lobbying, and applied pressure between the political parties and interest groups. However, in some cases the reform process has a slight Machiavellian touch – usually when political interests associated with elections interfere with those of reform. In such cases reforms may not be implemented because their enactment would hamper the chances for a certain party or individual to remain in power; sometimes they are part of expedient campaign promises made in order to get into office; sometimes they are introduced just before an election to support the incumbent's re-election; and sometimes reforms are reversed immediately after an election is over.

The latter case can be reported from Spain. The Spanish immigration reform, a highlight of the third issue of the Reform Monitor, came into force just before the last general election. During the campaign, the opposition party pledged to roll back the reform legislation immediately upon coming into power. The resulting major changes to the reform can now be reported in this issue. In

the United Kingdom, the Labour party has promised to invest heavily in the National Health System in the coming years – if it is returned to office. Health is a traditional Labour issue and this move certainly enhances their chances in this year’s campaign. Japan reports a reform of the co-payment system for the elderly, which was first discussed in the third issue of the Reform Monitor. The government postponed the reform because it feared that this necessary but very unpopular reform might hurt its re-election prospects. The USA, meanwhile, is an example of where the extensive presidential election procedure essentially brings the national reform process to a standstill. The impeachment proceedings against the president, the lengthy and tough election campaign, and the rather long transition (“lame duck”) period between presidents consumed the most recent two-year session of the U.S. Congress. Consequently, the reported U.S. reform in this monitor has taken place at the state level.

Sometimes, however, reforms must be implemented regardless of the current political climate. This is the case with most laws derived from EU directives. One example is the EU part-time work law, which is currently being implemented by Germany and the Netherlands (the UK and Italy were covered in Issue 3). The EU regulation puts a deadline on implementation, and even calls for penalising countries not in compliance.

Many reforms in the social policy, labour market, and industrial relations fields are too important to be used merely as vehicles or instruments for securing re-election. For this reason the partner institutions assess the reported reforms according to their degree of innovation, their impact on the status quo, and their level of public interest. A maximum of five stars represents the significance of the reform for each criterion. In addition, the reform tracker at the end of this issue lists more than 130 reforms that have so far been covered by the International Reform Monitor Project.

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# 1 Social Policy

## Health Care

In this issue, financial aspects dominate the reported reforms in health care – with one country standing out: the United Kingdom, which intends to significantly increase spending on the National Health Service to bring it up to the EU average. The other countries seek to curb health care expenditures by creating new incentive structures. Japan is changing its costs in a move to reduce demand for medical services; Italy and Spain are aiming to cut costs by promoting the use of generic drugs. Patients willing to pay the difference may still obtain brand-name products. However, in Italy the progressive elimination of co-payments is leading to increased expenditures in other areas. Apart from these financial reforms, quality improvements are targeted in Sweden. It is suspected that privately run hospitals may not provide adequate care in some areas; consequently, Sweden is restricting the operation of emergency-care hospitals run for profit. Details of the reforms are available from the project website [www.reformmonitor.org](http://www.reformmonitor.org).

The Labour government intends to increase public spending on the National Health Service in real terms to bring it up to the EU aver-

**United Kingdom –**  
The NHS Plan

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

age by 2006. In return, the NHS will be expected to accept further modernisation to improve performance and raise quality. Originally initiated as a White Paper last summer, the legislative and administrative reforms will be implemented throughout the next term of the Labour government if it is re-elected. The state of the NHS is one of the key criteria against which a Labour government is traditionally assessed, and hence a major political factor. The plan intends to raise NHS spending from under € 80 billion to almost € 112 billion a year by 2003–2004, backed up by a mixture of incentives and sanctions to raise performance and promote efficiency and effectiveness. Doctors should be made more accountable for their spending decisions, and for the quality of the care they provide. Furthermore, in order to deal with regional and local variations in performance, the plan attempts to develop significant national standards of performance, e.g., regarding treatment of heart disease, cancer, and mental illness.

The NHS is predominantly funded by taxation, and the 6.7 percent of GDP devoted to public health care is the lowest of any comparably developed country. Labour committed itself to not exceed the previous Conservative government's projected public expenditure plans before the 1997 general election, and successfully exercised tight control over expenditures in the following years up until 1999. This put pressure on the NHS when it proved difficult to significantly reduce waiting times for specialist appointments and operations. On coming to power, the Labour government removed some of the incentives and controls that previously existed under the Conservative government's "internal market", a system of competitive contracting between health authorities, some general practitioners, and hospital units or trusts. For example, it shifted from annual to tri-annual contracting between health authorities and hospital trusts. Furthermore, government funding has been arguably too low to deal with the country's four most pressing problems: growth in the numbers of sick older people; development of expensive new treatments; poor general health indicators; and continued low pay and poor working conditions for key staff, particularly nurses and junior doctors. Public confidence in the system decreased following a series of medical scandals, and the influenza epidemic in the winter of 1999/2000 exposed the fact

that bed provision was already stretched to the limit with little extra capacity to handle emergencies.

The plan will inject an additional total of € 31 billion into the NHS over the next four years until 2003–2004, thus raising public expenditures from 6.7 percent to around 8 percent of GDP. It includes targets such as a reduction of maximum waiting periods for appointments set at three months, and six months for hospital admissions. A Modernisation Agency and Board is being established, backed up by at least 10 task forces to drive implementation in key areas such as heart disease prevention and treatment. National targets for reducing health inequalities will be introduced, and a “traffic light” system of “earned autonomy” will be used to classify performance of local organisations such as health authorities, primary care organisations, and hospital trusts: those classified as “green” will be eligible for cash incentives and allowed to be largely autonomous; “yellow” ones will receive scrutiny from the Modernisation Agency and the Commission for Health Improvement; while “red” organisations will be subject to external controls from regulatory bodies which may involve a total replacement of the management team. In a controversial move, Labour has issued a “Concordat” which ends the historic hostility to the private sector by declaring that it will purchase private-sector hospital beds to ease NHS shortages. In the future, hospital doctors will not be permitted to take on private patients until seven years after they qualify. Nurses and pharmacists will be granted greater prescribing powers.

Expected results are reduced waiting times for appointments and treatments, increased efficiency and effectiveness, improved standards of performance in certain clinical areas, increased central control and managerial change, as well as new hospitals and equipment. The plan is designed also to enhance Labour’s chances in the coming general election. Success depends on whether the mechanisms put in place will cause the increased expenditures to lead to improved results, and on whether the government guarantees increased funding to the NHS in the long term beyond the current four-year period. Support from key staff, especially senior members of the medical profession, and local management is crucial to the Plan’s success.

◉ Critics from the right question whether the modernisation strategy will lead to improved performance, or whether more privatisation is required. Critics from the left argue that the main emphasis should not be so focused on improved efficiency of the medical services, but rather on improved public health. Details, such as the restriction for doctors to practice privately, have been criticised by doctors' groups. Experts say that the measures are not as radical as claimed, though they include many good ideas. They point out, however, that the extra spending will not as claimed bring the NHS up to the EU average. They view the agreement with the private sector as something that may erode the public nature of the NHS in the long run. It has been pointed out that the private sector often has even less effective systems for ensuring quality and dealing with complaints than the NHS. Rather than just increasing expenditures on health care, some argue that greater resources should have been used to raise benefits to low-income households as a strategy for reducing health inequalities.

**Italy –  
Progressive Abolition  
of the Co-Payment  
System**

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

The Italian government intends to abolish the co-payment system and to introduce new regulations on prescription drug cost reimbursement. Under the current system, pharmaceutical expenditures differ greatly among regions.

As of January 2001, co-payments on prescription drugs and on preventive tests for some tumoral illnesses have been abolished. The co-payment on outpatient care will be progressively decreased starting in January 2002 and abolished completely by January 2003. The abolition of the co-payment is expected to lead to total costs of more than € 3.6 billion over the next four years which then must be borne by the regions. If regional health budgets are not balanced, the respective region is entitled to re-introduce co-payments in March 2002.

Starting in July 2001, patients will have to pay the difference between entirely refundable prescription drugs and equivalent higher-priced drugs. The difference is calculated based on the average market price compared to a generic drug. Physicians prescribing the higher-priced product must inform patients about the availability of completely refundable generic drugs and their equivalent medical effects. Furthermore, a list of suitable drugs indicating the

maximum reimbursement will be published and updated every six months.

► The reform is expected to rationalise health care expenditures, but success depends on the ability of the regions to control costs, and on the co-operation of NHS physicians, pharmacists, and the pharmaceutical industry. Opponents of the reform are concerned about the total cost of more than € 3.6 billion over a three-year period. They also point to the current lack of an Italian generic drug market. Furthermore, they question the NHS physicians' and pharmacists' abilities to differentiate between the most expensive and the least expensive drug. Experts see the reform as a promising way to reduce administrative costs of health care management by abolishing a complex system of exemptions. However, they fear an increase in consumption due to lower prices.

Sweden reports the results of an inquiry into the sickness insurance system with the intention of reducing the number of employees absent from work due to illness.

Practically everyone in Sweden is insured through the regional social insurance offices. Employers must pay 80 percent of an employee's salary from the second day to the fourteenth day of sick-leave. Thereafter, sick-pay is replaced with a sickness benefit of unlimited duration paid by the regional social insurance office. Over the last few years an increase in the notification of illnesses could be observed which has been very unevenly distributed between men and women, different lines of businesses, and between age groups. One important factor in explaining the differences may be the working environment. The inquiry came to the conclusion that in its present form and organisation, the sickness insurance system cannot effectively utilise resources in order to prevent and shorten absences from work.

It is suggested that the sickness insurance system should be more strictly related to previous social insurance premiums paid, and organised outside the state budget. Furthermore, employers should have increased responsibilities for managing sick leave and rehabilitation. The inquiry calls for an independent, public, and compulsory insurance system. The annual income ceiling for calculating benefits will be raised from the current level of € 30,000 to

#### **Sweden – Sickness Insurance Inquiry**

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

€ 40,000, and employers should be given greater incentives to take measures to reduce absences. At the same time, the time period for the employers' responsibility for sick-pay should be extended in a two-step process from 14 to 60 days, beginning after 28 days. The cost increase for employers should be compensated for through a decrease in the employers' social security contribution to the sickness insurance programme. Small firms will have a special expenditure limit equal to the average sick-pay payments of all employers. Furthermore, the previously unlimited sick-leave period will be limited to 12 months. Afterwards, the person will only be entitled to continued benefits through planned medical or work-related rehabilitation.

► Union representatives fear that employers' increased responsibility could lead to discrimination against people with high risk of illness. Employers' organisations are opposed to their increased responsibilities, and small firms believe that the reform would primarily harm them. Critics point out that financial incentives for employers to prevent work-related illnesses are already extensive, without having the desired results.

**Sweden –  
Restrictions  
Regarding  
For-Profit Hospitals**

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

The Swedish government introduced regulations to restrict the operation of emergency-care hospitals for profit. The basic idea of the law is to make clear which parts of the health and medical service system may be run with commercial motives, and which parts may not be.

The reform has been brought about by the development during the 1990s of increasing numbers of people being covered with adequate care in Sweden. However, low public finances led to an insufficient increase in resources for health care services, resulting in longer waiting periods, inability of the patient to establish long-term relations with a personal physician, and massive pressure on nursing staffs. A broad political consensus developed whereby old structures had to be questioned and altered in order to guarantee the citizens' demands for the best possible health and medical care. A greater variety of service providers was suggested, and responsible authorities were prompted to seek agreements for specific health care services with private, co-operative, and non-profit associations to a greater extent.

Each county council in Sweden has the responsibility of providing health care services to everyone residing in its respective county. The county council, however, is not required to manage or own hospitals, and several counties have started selling off their emergency-care hospitals to private providers. Since health care services have been almost entirely dominated by publicly owned entities, laws governing ownership questions had been considered unnecessary up to now. The government is of the opinion that health care services should be available to all citizens and financed through general tax revenues. Furthermore, there should be democratic management, and citizens should be allowed insight into their activities. Each county should have a sufficient number of hospitals with a special emergency ward for patients who need immediate care. A prevalent view is that commercial motives may counteract the aim of providing every citizen with the right to sufficient care, especially those with serious illnesses and injuries.

Starting in January 2001, county councils are prohibited from handing over the responsibility for emergency-care hospitals to for-profit organisations or businesses. The regulation is expected to provide equal health care to all citizens, but success depends on the level of efficiency in non-profit hospitals compared to those which are privately run.

This legislation may violate national and EU public purchasing laws, which call for all public purchasing to be performed in an objective manner with all bidders being treated equally. Barring private bidders from running these hospitals may therefore violate the law.

❶ Critics and opponents of the reform argue that there is simply no need for legislation restricting hospitals from being run for profit. Others are concerned about the impact of the legislation on the autonomy of the local governments. Experts argue that even if the regulation is justified, there may be more appropriate means for achieving these goals without risking a violation of EU law.

## Changes and Results

### Australia – Increase in Private Health Insurance

Australia reports that the reforms encouraging private health insurance have achieved the desired increase in coverage. At the end of September 2000, membership in private health insurance programmes had increased to 45.8 percent of the population (compared to 31 percent prior to the introduction of the legislation). Although it is difficult to identify the separate effects of each of these reforms, some evidence suggests that a large proportion of the change has been brought about by the life-time coverage legislation.

The introduction of a 30-percent rebate for individuals taking out private health insurance (cf. Issue 1, p. 13; Issue 3, p. 13), and a life-time community rating (Issue 2, p. 13; Issue 3, p. 13), are aimed at relieving pressure on the public health insurance system. The 30-percent rebate encourages private health programmes by reducing coverage costs. The life-time community rating introduces penalties for those who do not maintain private coverage over their life-times, but then seek coverage late in life when they are likely to impose a net cost on insurance funds.

► Critics view the legislation as very effective in encouraging private health insurance, but point to the fact that the rebate provides a very large subsidy to those taking out private insurance. The legislation is likely to increase inequality since most of the benefits will go to middle-and upper-income groups.

### Austria – Diagnosis-Related Hospital Financing

A new report, published in 2000, by the Austrian government audit institution (*Österreichischer Rechnungshof*) shows mixed results regarding the introduction of a diagnosis-related hospital financing system (cf. Issue 1, p. 13). A point-based system was implemented to replace a financing system based on per-day flat rates. This was done in order to lower the average length of hospital stays and reduce the occupancy of hospital beds by patients who need long-term, but not hospital, care.

According to this report, the aims of the reform were only partially met – especially in the area of cost containment. Expenditures for hospital care grew more slowly than in the early 1990s, but this can be partially attributed to lower wage increases and

lower inflation rates. At the same time, excess capacity in the area of acute care hospital beds has decreased. The average length of hospital stays decreased further, but mainly due to statistical factors such as increased re-admissions and greater numbers of patients who stay one day or less. There is no evidence that the reform has led to a redirection of treatment from inpatient to outpatient services.

Furthermore, as each province can design essential parts of the financing structure independently, the reform failed to produce uniform financing schemes. This makes comparisons between provinces difficult when looking at the variations in terms of the value per point earned.

► Some critics state that the results are not so much due to the introduction of the diagnosis-related financing system as they are to the simultaneously introduced cap on aggregate hospital expenditures. Experts see the new system as an improvement compared to the old one with its flat per-day fees. Nevertheless, the reform is only a first step towards structural improvements in the health care system. Other steps should include the integration of outpatient and inpatient sector planning, and the streamlining of the existing regulations on quality standards and financing schemes at the provincial level.

The reform of the medical insurance system (cf. Issue 1, p. 11) has progressed with a change in the co-payment system for the elderly. As reported previously (cf. Issue 3, p. 15), the government had postponed the change from a system based on fixed prices to one based on a fixed percentage of costs. This was because of fears that it might have an adverse affect on the election outcome. The law was passed five months after the election in November 2000, with implementation begun in January 2001.

► Experts say that the change was inevitable if medical costs for the elderly were to be reduced. However, some evidence indicates that the demand for medical services by the elderly is not that price-sensitive.

**Japan –  
Medical Insurance  
System**

**Spain –  
Modernisation  
of the National  
Health System**

One of the main goals of the 1997 consolidation and modernisation of the national health system (cf. Issue 1, p. 12) has been the reduction of public expenditures on prescription drugs. Expenditures for drugs make up almost 25 percent of total public health care expenditures, a much higher percentage than the EU average. The measures implemented so far have only been successful in curbing the yearly increases in these costs, but not in actual cost containment.

In a renewed attempt in December 2000, the government passed a decree on reference prices for subsidised prescription drugs. Under the new decree, the pharmacist must provide a cheaper generic drug with the same characteristics if the price of the originally prescribed drug is higher than the reference price. However, consumers may still obtain the original drug if they are willing to pay the difference. As a first result, the pharmaceutical industry started to reduce prices and the government expects to save € 120 million in 2001 (total expenditures on subsidised drugs reached € 6.6 billion in 2000). Furthermore, the decree will provide an incentive to promote the use of generic drugs. These currently have a market share in Spain of only 2 percent, compared to 20 percent in Germany and 27 percent in Denmark.

► Experts point out that the Spanish pharmaceutical industry has a powerful lobby and is quite resistant to measures such as the promotion of generic drugs. They see doctors in a central role in promoting the use of generic drugs and in reducing prescription drug usage in general.

### **Pensions and Social Security**

Following an exceptionally large number of reforms in this area in the last Reform Monitor and in the special edition on advance funding of pensions (download under [www.reformmonitor.org](http://www.reformmonitor.org)), only one new reform in this section, from Denmark, can be reported. After many years of negotiation, the early retirement pension has been reformed there. Details of the reform are available under the Internet address given above.

After six years of negotiating, the Danish government approved the early retirement pensions reform in December 2000 (cf. Issue 3, p. 20). It will go into effect in January 2003 and will eliminate three out of the currently four different rates applicable to those not capable of joining the labour market. The reform is part of a more general project to consolidate services for the broader labour market, now administered jointly by the Ministries of Labour, Finance, and Social Affairs.

Approximately 270,000 people (equivalent to 10 percent of the work force) are currently receiving an early retirement pension, a figure considered by many observers to be too high. Held primarily responsible for this are the administrative services themselves, and unsatisfactory verification procedures when granting disability pensions.

Starting in 2003, the early retirement system will be simplified into one system and early pensioners will receive a pension equivalent to the unemployment benefit. The individual capacity to work will determine whether the person is granted early retirement or alternative employment – a so-called “flexijob” which is less demanding and subsidised (cf. Issue 1, p. 25). The flexijob system is administered by the municipalities and not from within the unemployment benefit system. This has been one of the most controversial aspects during the political debate.<sup>1</sup> Early retirement pensioners will also have the right to additional pension plan savings. Should someone refuse a flexijob without good reason, other sanctions yet to be determined would be imposed.

The success of the reform depends on the number of flexijobs created. The government expects 20,200 of them to be set up by the year 2020.

◉ Although the reform has been approved by all parties, there is still disagreement among the political parties about whether the new system should be managed by the unemployment benefit system or the municipalities.

#### Denmark – Disability Pensions

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

1 The Labour Movement criticises the fact that the flexijob system is managed by the municipalities because it believes this stigmatises those with flexijobs, and hence counteracts efforts to integrate them into the labour market.

## Changes and Results

### France – Pension System Proposal

As part of the currently discussed new public pension system (cf. Issue 1, p. 22; Issue 3, p. 27), a buffer fund was created in 1998 within the first part of the system with a view to accumulating reserves for financing future pensions. The fund is expected to increase with one-time revenues coming from privatisation, especially the revenues from the sale of licences for the third-generation mobile telephone service (UMTS). At the end of 2001, the buffer fund will have received more than € 7.6 billion. In 2020, € 152 billion are expected, including € 45.8 billion from accrued interest. The total amount will cover 50 percent of the expected deficit of the pension system between 2020 and 2040.

### Spain – Regulation on Supplementary Pension Funds

As part of the social security system reform, the regulation on complementary pension funds was completed with the approval of a Royal Decree in 1999. To protect employees from situations where companies may become insolvent, companies must externalise their commitments with their employees on private supplements to pensions (cf. Issue 1, p. 22; Issue 2, p. 21). According to the 1999 Decree, companies were obliged to externalise their commitments by 1 January 2001. This deadline has now been extended until 16 November 2002, supported by the government, the trade unions, and the employers' organisations.

At the end of 2000, 386,000 employees had supplementary pension funds compared to 300,000 in 1998, and this number will increase further. However, many small and medium-sized companies have pension commitments which must be adapted to the new regulation and externalised. This process requires more time.

## State Welfare and Social Assistance

In past issues, government welfare programmes have mostly appeared as a marginal aspect of a reform in other policy fields. In this issue, however, four new reforms can be reported. Australia, Italy, and Austria are attempting to extensively restructure their social security systems, while in the USA an increasing number of states

are using economic incentives, such as tax credits for low-income families, to get people to return to work. Details of the reforms are available from the project website [www.reformmonitor.org](http://www.reformmonitor.org).

The Australian government wishes to reduce welfare dependency with a new welfare reform for those of working age. Details will be announced in the May 2001 budget, but it is known that measures will be taken to increase transparency, improve work incentives, and include principles of mutual obligation. Substantial budgetary commitments are planned.

Australia has a single welfare system with benefits funded from general taxation revenues. The level of support depends on factors such as earnings and assets, age, marital status, and home-ownership status. Means testing ensures a tightly targeted system. The level of support is adequate but not generous in comparison to the levels available in many European countries.

Over the last number of years it has been observed that the level of welfare dependency is increasing in Australia, with 20 percent of the working-age population currently receiving some income support. Per capita government spending on welfare has been increasing but is still around 64 percent of the OECD average. Unemployment, including long-term unemployment, remains high although it has fallen from 8 percent to 6 percent over the last five years. There is also growing inequality of wages, persistent poverty, and increasing polarisation of households into those that are “work-rich” and those that are “work-poor”.<sup>2</sup> Other developments include an increasing number of part-time jobs and rising proportions of single person and one-parent households.

Reform measures are based on the report of the independent reference group on welfare reform (the McClure report). It emphasises five principles: individualised service delivery, simpler income support, better financial incentives and assistance, mutual obligation, and fostering of social partnerships. Specific details of the reform will be released in the May 2001 budget, but a number

#### Australia – Welfare Reform

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

2 “Work-rich” households are households in which all adults of working age are engaged in full-time paid work, while “work-poor” households are those in which none of the adults of working age are employed full-time.

of initial steps have been announced: improved service delivery with more individualised treatment and case management, a simplified and more responsive income support structure with a reduction in the number and range of payment types, improved incentives through the development of a transition bank<sup>3</sup> which will provide more flexibility for people with intermittent or part-time work, as well as a new participation framework which will incorporate obligations for income support recipients, government, business, and the community.

The government expects a drop in welfare dependency, reductions in the number of those trapped in poverty, reduced unemployment, fewer jobless families, as well as increased confidence in the income support system and greater social cohesion. These expected results depend on adequate funding by the government, continued strong economic performance to sustain funding and provide growth for jobs, as well as on the acceptance of the principle of mutual obligation by all stakeholders.

► Until details are available, critics remain unconvinced that the reforms will deliver the targeted benefits. Other critics claim that the reforms ignore the major drivers of welfare dependency. These, they claim, have more to do with the supply of jobs and continuing high levels of social inequality. Experts believe that the intentions announced by the government are encouraging. However, until the detailed measures are made public, the extent of the government's commitment to reform remains unproven.

**Austria –  
Assessment  
of the Social  
Security System**

The Austrian government took first steps to enhance the efficiency of the country's system of social services and benefits based on the recommendations of an expert panel. The panel was commissioned by the government to assess the efficiency of social security provisions, the extent to which they fulfil the intended aims ("efficacy"), and potential areas for reductions in the welfare budget. The Aus-

3 The purpose is to reduce disincentives, such as the total loss of benefits in cases of short-term higher income. It achieves this by allowing recipients to build up an account of their unused income test-free over time (up to a certain limit). Once a person with an income bank balance takes on work, the income is offset against this income bank balance until the balance is reduced to zero. The normal income test would then apply to additional income above the balance.

trian government intends to cut expenditures on social security and the welfare system by € 360 million as part of a set of spending cuts aimed at achieving a balanced budget by 2002.

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

The Austrian social expenditure-to-GDP ratio amounts to 28.5 percent, which is slightly above the EU average. The social system is characterised by a strong link between social protection and employment participation. Means-tested benefits are not as important as in the average EU member state and account for only 4 percent of social spending. Business and labour representatives (“social partners”) play a major role in social policy design, including participation in policy negotiations, and they hold major positions within the labour market administration and social insurance system. After the last change in government, however, the influence of the social partners diminished slightly. Whereas the former government party SPÖ had strong links with the trade unions, the new government party FPÖ is only marginally integrated into the Austrian social partnership system.

The commissioned expert panel, made up of representatives from a broad spectrum of institutions, including public authorities, business and labour, and non-governmental organisations, covered specific aspects of the welfare system including health and accident insurance, unemployment insurance and labour market policies, care and social services, as well as family assistance. In their final report they set out the following key findings. First, free co-insurance for certain family members should be abolished. Children and those spouses engaged in nursing family members or child-care should continue to be included in the health insurance system without charge, while others should be obliged to pay contributions. The experts call for a reform of the unemployment insurance system because in its present form it only covers employees and not the self-employed and those engaged in new forms of employment. Furthermore, benefit entitlement should be suspended for four weeks when an employment relationship is terminated by mutual agreement. The report also states that the payment of industrial injury pensions may currently lead to an accumulation of multiple benefit entitlements. In a general statement, the report calls social assistance unsatisfactory, with no potential for expenditure cuts. Instead, additional funding should be provided.

The government adopted some of the recommendations and decided that starting in 2001 industrial injury pensions will be subject to income taxation comparable to the invalid pension benefit. Of the expected revenues, 50 percent will be used to finance a job programme for handicapped persons. The family supplement for unemployed workers will be reduced from € 46 to € 29. In order to improve the incentives for taking up a new job, an upper limit for the net replacement rate has been introduced (80 percent of net wages). The proposed suspension of unemployment benefits when employment is terminated on the basis of mutual agreement has been replaced by a recent accord on the employment relationship of seasonal workers (cf. this issue, p. 62). The government has not abolished the free co-insurance for family members with children. Only family members who were not engaged in child-care activities for at least four years will have to pay contributions.

◉ The trade unions oppose the expenditure cuts and see no potential for reductions. Some have argued that the government is misusing the panel's report since it only seeks to implement the recommendations on expenditure cuts, and not the requests for additional funding (e.g., for social assistance). Furthermore, the lack of a coherent government strategy to combat poverty has been criticised. Some critics propose other measures to reduce welfare spending, such as benefit cuts for high-income families in the areas of family allowances or new home-construction aid. Experts support the broad spectrum of institutions that participated in the report. However, the report contains many small-scale proposals. A large-scale reform of the welfare state would imply a more general discussion about the objectives.

**Italy –  
Integrated System  
of Social Support  
and Services**

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

The Italian parliament approved a law in November 2000 that will completely reorganise the social assistance scheme. The reform plans an integrated network of social services and intervention mechanisms offering “active protection” (increasing the proportion of benefits in kind). Furthermore, it is intended to integrate individuals, households, and organisations (e.g., volunteer groups) into the planning process (e.g., projects to integrate disabled people). It also emphasises the role of local governments in the implementa-

tion process. So far, only the general law has been approved. Further regulations and guidelines are still to be implemented.

The previous Italian law on social assistance dates back to 1890. Italy is one of the few European countries without a minimum level of social assistance, such as income support. Furthermore, the existing family policies are not well integrated into labour market policies. The great disparities between the more productive and developed northern part of Italy and the southern regions have contributed to the existing problems.

The new law mandates intervention to alleviate poverty situations. The minimum income support system has so far been adopted on an experimental basis in some municipalities; over the next few years this experimental adoption will be extended to the rest of the country. Moreover, a new set of family care activities is planned, such as individual projects to integrate disabled people into society, home care for dependent elderly people, vouchers, financial benefits, and other forms of support for households caring for people in need. The reform requires the government to reorganise the social services and charity institutions to improve their efficiency. Detailed regulations and guidelines will be implemented to define, regulate, and organise their activities. Equally important, definitions and eligibility criteria for disabilities are required. The reform is heavily decentralised with local authorities co-operating in the planning and monitoring phases.

► Experts point out that the reform leads Italy to the standards and welfare approach that have already been adopted by the major European countries.

There are now 15 states which offer a state-earned income tax credit (EITC) in addition to the federal EITC. These refundable income tax credits are targeted at low-income working families, and provide an important earned income supplement to low-income families who have a working member. As families leave welfare rolls and return to the work force, they often begin with low-paying jobs or part-time positions. The EITC offers an additional financial incentive to remain in the work force and offset some of the lost welfare benefits.

While the federal EITC was established in 1975 as a tax relief

**USA –  
State Earned  
Income Tax Credit**

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measure for low-income families, its importance has grown substantially in the 1990s. The federal programme was expanded in 1986, 1990, and 1993. The federal EITC is currently available to families and individuals whose income is below certain thresholds. The tax credit is also “refundable” so that if the credit exceeds the family’s federal income tax liability, the credit is paid out as cash directly to the family. Only persons who have worked during the year may receive an EITC, so this programme serves as the centre-piece for “make work pay” initiatives. In 2000 the maximum EITC for a family with two or more children was € 4,244. Before this time, 12 state governments established similar – though less generous – versions of an EITC for low-income residents in their states.

The federal EITC by itself is often not enough to raise a family’s income above the poverty threshold € 19,000 in 1999 for a two-parent family of four), even when it is added to the cash earnings received by the family breadwinner. The state EITC supplements the breadwinner’s earnings and the federal EITC. Also, states can use this policy tool to address an important shortcoming of the federal EITC programme. For instance, in Minnesota the credit is phased out more slowly for families who have moderate earnings than is the federal EITC.<sup>4</sup>

Most state EITC programmes use the same income thresholds as the federal programme, and the benefits are usually expressed as a percentage of the federal credit. For instance, the state EITC in New Jersey provides 10 percent of the federal credit (rising to 20 percent in 2003). This allows straightforward processing of the credit applications and simple calculations of the benefit amount. Among the states with newly enacted state EITCs, the District of Columbia and New Jersey offer refundable credits like the federal programme. In contrast, the benefits in Illinois and Maine are non-refundable. This means that families with low earnings and

4 Both the federal EITC and state EITC programmes provide a benefit that rises with the breadwinner’s earnings at low income levels. But after the credit reaches a certain maximum value € 4,244 in the case of the federal credit), it is phased out as the family’s total income rises above a certain threshold. In the phase-out range of the credit, both the state and federal EITC programmes tend to effectively increase the marginal tax rates faced by moderate-income breadwinners.

who face very low state income tax liabilities receive a relatively small credit. While the state EITC programmes represent an expansion of an existing programme, they also signal the growing support for work incentive policies targeted on a part of the population that might otherwise prefer to receive public assistance benefits. Besides the three states which established new EITC programmes, an additional five states have expanded their existing EITC programmes in this legislative period.

As with other work incentive policies, the state EITC programmes are aided by an environment of low unemployment and state budget surpluses. An economic downturn could endanger some of these programmes. For example, the EITC in Colorado would be suspended if the state revenues fall below a specific threshold. Although evidence of the success of earlier state EITC programmes has not been intensively studied, it is widely recognised that the federal EITC programme has helped increase labour force participation and the employment rates of single parents by encouraging many of them to leave the public assistance rolls and enter the work force. The states that have established or expanded their state-level credit programmes are building on the widely recognised success of the more generous federal programme. While the effect in the new EITC states is not known at this time, the impact of the federal credit is widely recognised: it has increased single mothers' employment rates and hours of work, it has increased take-home pay, and it has reduced the poverty rates of working families with children.

● The EITC programme has received broad support across both main political parties and in the business community. The main criticism of the current EITCs focuses on the appropriate income guidelines and marginal tax rate in the credit phase-out range of the programme. Experts point out that the more generous federal credit is clearly much more important. In a few states, such as Wisconsin, however, the state credit provides a noticeable boost to working families' incomes.

## Family Issues

Family issues remain on the political agenda in many countries. Just as in previous issues, parental leave is at the forefront of the reforms. Sweden is following the example of other European countries in previous years by extending paid parental leave, strengthening the role of the father as a caregiver, and correspondingly strengthening the role of the mother as a breadwinner. The Canadian federal government last year revised the law to extend paid parental leave (Issue 3, p. 29), with the provinces now required to implement further legislation to make employers grant additional leave to their workers. The province of Ontario has reformed its relevant legislation, and also reports new early childhood development programmes. Slightly departing from this subject, Austria reports a reform whereby parents will be allowed to hold custody of their children jointly after a divorce. Two countries report increased financial support for children: while Canada is increasing the child tax benefit, Japan is raising the income threshold for the child allowance – thus increasing the percentage of children covered by the system. Details of the reforms are available from the project website [www.reformmonitor.org](http://www.reformmonitor.org).

### Austria – Joint Custody

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

A new custody law will come into force in July 2001 whereby parents will be allowed to hold custody of their children jointly after a divorce. So far, joint custody was already possible in the cases of conjoint divorces, but this was the exception. Custody was normally given to the parent residing where the child was living for most of the time. In most cases this was the mother.

Some have argued that the previous regulation prevented divorced men from taking responsibility for the upbringing of their children. In some cases, one of the divorced parents had almost no contact with the children. The reform offers parents the possibility of continuing the joint custody of children after divorce, except in cases where one of them opposes this arrangement. Their primary joint decision is to agree on where the children will live for most of the time until the age of legal majority. In this context the age of legal majority has been reduced from 19 to 18 years.

◉ Opponents point out that the new custody law can be used as

leverage during and after a divorce. Experts agree, and point out that the goal of improving the contacts between children and both parents after divorce can hardly be reached through custody law reforms. Women are disadvantaged because the children normally live with them, and the law can make some decisions more complicated.

The federal and the provincial governments reached an agreement over early childhood development programmes. Starting in April 2001, some € 1.8 billion will be made available by the federal government over the next five years to help provincial and territorial governments invest in early childhood development programmes in four areas: (1) for promoting healthy pregnancies, births, and infancy; (2) improving parenting and family support; (3) strengthening early childhood development, learning, and child-care; and (4) for strengthening community supports.

Compared to most countries, Canada's provisions for early childhood development (e.g., child-care, parent supports, early childhood learning, prenatal and child health) are unstructured and vary across and within provinces and territories. Child-care is largely private and unregulated, with affordability and quality problems for many families, including middle-income ones. Most provinces now fund part-day kindergarten, but there is limited child-care for pre-kindergarten children (e.g., nursery school, in-home child-care, child-care centres). Governments provide limited assistance through subsidised child-care and child-care expense deductions in the income tax system that offset part of the cost of child-care.

The federal and provincial governments have agreed on a broad approach to building better early childhood development programmes and services.<sup>5</sup> The federal government provides new funding to encourage provinces to build early childhood development programmes. The provinces can decide how the revenues are to be spent as long as they go to any of the four broad areas iden-

**Canada –  
Early Childhood  
Agreement**

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

<sup>5</sup> Under the new "Social Union Framework Agreement", the federal government may not spend in areas of provincial jurisdiction without agreement of a majority of the provinces.

tified in the agreement, and as long as the following principles are observed: the focus is on prevention and early intervention; an intersectoral approach is taken; integrated measures are adopted; the measures are supportive of the child within the family and community context; and the measures are inclusive of children with different abilities, and of those living in different economic, cultural, linguistic, and regional circumstances.

There is little or no federal control over provincial spending. Public reporting (e.g., through annual provincial reports, jointly agreed comparable indicators, best practices, etc.) will be crucial for enabling governments, experts, advocates, media, and the public (especially parents) to track and assess the provinces' progress in improving their early childhood development systems. But the very loose nature of the agreement and framework and provincial jurisdictional responsibility for this area – means that provinces likely will develop their systems in varying ways (e.g., some are concentrating initially on child-care, others on prenatal health). The prospect, therefore, of developing any genuine “national standards” and a “national system of early childhood development” is unlikely (at least in this first stage).

► Children’s advocates and experts welcome the initiative but criticise the level of federal funding as inadequate. They also point out the lack of federal influence over provincial spending (hence the absence of any national standards), and the very free hand given to the provinces (some of which do not support a public early childhood development system). Neo-conservatives believe that the money would be better spent on tax cuts and/or vouchers, thus favouring the demand side of the equation. Experts state that this federal-provincial initiative is a crucial first step for building a decent early childhood development system for Canada. It is particularly important given the increasing emphasis on the need to develop human capital and the importance of the early years of a child’s life.

**Canada –  
Ontario Employment  
Standards Act**

The Ontario government has extended leave provisions in January 2001 so that employees can take advantage of extended parental benefits under the federal employment insurance programme, and has created a “family crisis leave”. Studies have shown that the

amount of time parents spend with their new-borns in the first years is vitally important to a child's development.

The employment insurance (EI) system is under federal jurisdiction in Canada, while labour legislation for 90 percent of the work force is under provincial jurisdiction (the remaining 10 percent is under federal jurisdiction). The federal government in 2000 extended paid parental leave under the EI Act, but had no power to make employers grant additional leave to employees (this authority resides with provincial governments). The objective of the reform is to permit parents to spend more time at home with new-borns by lengthening the time the employer must hold their positions open for them.

The Ontario Employment Standards Act now provides job protection for 17 weeks of pregnancy leave and 35 weeks of parental leave for the mother. The Act also provides up to 27 weeks of job-protected leave for new parents (natural or adopted), generally applying to fathers and adoptive parents. If parents of new-borns each elect to take the maximum allowable job-protected leave at separate times, the new-born could have a parent at home for up to 89 weeks. It is expected that a high proportion of eligible women (but few men) will take advantage of the longer parental leave. The Act also introduces a family crisis leave of up to 10 job-protected days for anyone working for a company with 50 or more employees.

► Employers have pointed out that it is a burden for them to guarantee jobs for up to one year for persons on parental leave. Experts say that the extension is important for the development of a more balanced approach to work and family activities.

Sweden will extend parental insurance benefits and will increase the flexibility of working hours starting in January 2002. The purpose of the reform is to improve the financial situation of families with children and to enhance the opportunities for parents to combine work and family. In particular, the reform has the objective of increasing paternal participation in infant care.

Parental insurance is currently paid at 80 percent of gross wages for 12 months, with one month reserved for the mother and father, respectively. A further period of 90 days is paid at a flat-

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

**Sweden –  
Parental  
Insurance Reform**

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

rate set amount (€ 6.5 per day in 2000). Two weeks leave are reserved for the father in connection with a child's birth (so-called "daddy days"). Only fathers have the right to use "daddy days", and single parents may not transfer these days to other persons apart from the father.

Government cut-backs in social insurance in the early to mid-1990s have had a negative effect on family incomes. Some measures to improve the situation were implemented later, and since 1998 replacement rates in the parental insurance scheme have been partially restored. Due to the positive economic outlook, increased transfers to families with children are currently possible. There is also a debate in Sweden about shorter working hours, which is particularly important for parents of small children. Furthermore, fathers' utilisation of parental leave is increasing but is still regarded as too low.

Starting in January 2002, the duration of parental insurance is to be extended by 30 days up to 480 days. Out of these 480 days, 60 days will be designated to each parent specifically (currently 30 days). Parents will be able to shorten their work-day by one hour, compensated through parental insurance benefits. These hours can be collected over one week and be taken all together. Another designated and insured person may take the place of the father during child-birth and claim ten days of leave ("daddy days"). If a parent is unable to care for the child due to illness, the regional social insurance office can allow another insured person to stay away from work, care for the child, and be compensated through temporary parental insurance. Parents are entitled to temporary parental insurance compensation for one day each year to visit their child at school or in recreation centres (from the child's sixth to eleventh birthday).

► The Swedish Employers Confederation argues that the present situation is already burdensome for companies, and the extension is therefore unjustified. Others oppose 60 days being designated specifically to each parent, maintaining that the parents should decide themselves how to allocate this time. Some argue that letting another insured person take care of the children and receive temporary parental insurance will weaken the connection between contributions and benefits. Experts point out, though, that this

might actually increase the individualisation of benefits. Experts also say that the reform may strengthen the role of the father as a caregiver and correspondingly strengthen the role of the mother as a breadwinner.

### Changes and Results

The federal government, in its 2000 post-budget “mini-budget”, augmented its planned increases to the Canadian child tax benefit (cf. Issue 1, p. 28; Issue 3, p. 36). The maximum amount for one child increases from € 1,292 for July 1999 – June 2000, to € 1,490 for July 2000 – June 2001. The estimated amount for July 2001 – June 2002 is € 1,700, reaching an estimated € 1,800 by July 2004. Maximums for the second and each additional child rise from € 1,150 for July 1999 – June 2000, to € 1,342 for July 2000 – June 2001. The estimated amount for July 2001 – June 2002 is € 1,555, reaching an estimated € 1,650 by July 2004.

► Further increases will come closer to achieving the € 1,860 goal for an integrated child benefit replacing social assistance child benefits, and demonstrate the federal government’s continued political commitment to federal-provincial child benefit reform. Unfortunately, whereas the federal child tax benefits (and the personal income tax system) were fully re-indexed effective in 2000, provincial child benefits remain unindexed and hence have no protection against inflation.

Beginning in October 2001, the income threshold for the child allowance will be further increased with the intention of raising birth rates (cf. Issue 3, p. 34). For a family with two children, the threshold was increased from € 60,800 to € 70,800 for wage-earner families, and from € 39,200 to € 54,100 for self-employed families. The percentage of children under six years of age who are covered by the system is expected to increase from 72.5 percent to 80 percent.

The issue of how to pay for the increased amount of the allowance was fiercely debated by politicians. Some argued for a tax reform so that a permanent budget source for the increased amount

**Canada –  
National Child  
Tax Benefit**

**Japan –  
Child Benefit  
Extension**

of the child allowance will be secured. The political compromise that was reached for this year's budget (fiscal year 2001) covers the increase with a reduction in government spending (salaries of public servants, etc.), while beginning in the fiscal year 2002 a more permanent source of revenue will be decided upon.

◉ As before, the increase in the child allowance threshold is seen as a way of raising the income of households with children. However, it is argued that this will not help increase the birth rate. The reform is viewed sceptically by many as politically motivated.

**Spain –  
Maternity Leave  
Replacement  
Contracts**

Results can be reported for the reform of replacement contracts in maternity leave cases (cf. Issue 1, p. 28; Issue 2, p. 28). The aim of the so-called “zero-cost” measure was to avoid additional costs for the employer in the event of pregnancies and maternity leave. Around 150,000 employed women go on maternity leave each year, but it was estimated in 1997 that only 8 percent of them were temporarily replaced by new employees. The intention of the reform was to increase the number of replacement contracts from 8 percent to 25 percent. In 1999, the total number of subsidised temporary contracts in maternity leave cases was 29,627 (1998: 15,608). This is equal to 18 percent of the 165,946 women receiving maternity leave allowances in 1999.

◉ Exports say that the measure has helped increase the rate of replacement contracts, but the 25 percent mark has still not been reached. They point out that the measure only applies to the private sector and has not yet been extended to the public sector. Furthermore, the measure supports the general perception that the government supports employers with their family leave costs.

**Sweden –  
Limit for User Fees in  
Municipal Child-care**

As the result of a political compromise between the Social Democratic government and its political allies, the Left Party and the Green Party, the reform of user fees in municipal child-care has undergone change since its initial proposal (cf. Issue 2, p. 27). The main part of the reform, the implementation of maximum user fees in publicly subsidised child-care, is to be implemented beginning in January 2002. The reform also contains guaranteed child-care for the unemployed to be implemented six months earlier in July 2001.

The maximum monthly user fees entail higher maximum levels than those first proposed – € 125 for the first child instead of € 76 – which are scaled down with decreased income. The purpose of the change of the initial proposal is primarily to preserve a progressively redistributive profile by decreasing the gain of lowered user fees for middle- and high-income earners.

The implementation of maximum child-care fees is optional for municipalities, but the cost for the reform is largely compensated for through state subsidies. A new feature is that a supplementary subsidy is paid to increase, or at least maintain, the level of staff quality in municipal child-care.

☛ Since one of the underlying motives of the reform was to remove incentive effects of income-related child-care fees, the new proposal is somewhat weaker than the first proposal. It is, however, clear that the reform cuts child-care user fees by 30 to 50 percent for most income earners. The implementation of maximum user fees will lead to increased demand for child-care. Fears were raised that this could lead to decreased child-care staffing quality. The new child-care quality supplement may prevent such an outcome.



## 2 Labour Market Policy

The large number of cases of labour market reform covered in this monitor makes this the central issue of this edition. This is partly due to the ongoing efforts to implement EU regulations on part-time employment into national law. Whereas Italy and the United Kingdom reported their implementation of these regulations in the third issue of the Reform Monitor, this time implementation in Germany and the Netherlands is presented. It is interesting to note that their implementation processes are very similar, whereas Italy and the United Kingdom reported two rather different reforms due to their individual labour market situations. The Netherlands and Germany also report further labour market reforms. Germany initiated two pilot projects to evaluate different labour market measures intended to encourage the employment of low-skilled workers, long-term unemployed, and those from low-income families. The Netherlands has introduced an entirely new structure of income taxation which lowers the tax burden on labour income. Italy reports an increase in unemployment benefits – also based on EU legislation. Finally, Switzerland faces a referendum on the reduction of annual working time. Details of the reforms are available from the project website [www.reformmonitor.org](http://www.reformmonitor.org).

**Germany –  
Pilot Projects –  
Evaluation to  
Encourage  
Employment for  
Low-Skilled and  
Long-Term  
Unemployed**

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

The Federal Ministry of Labour and Social Affairs, in co-operation with the Federal Employment Service, initiated two pilot projects in the Summer of 2000 to evaluate different labour market measures. The measures are intended to encourage the employment of low-skilled workers, long-term unemployed, and those from low-income families. The evaluation will last until the Summer of 2004 and is funded by the Federal Ministry of Labour and Social Affairs, and the EU. The budget for the fiscal year 2000 was DM 60 million, of which 20 percent had to be financed by the federal states (*Länder*).

As in most industrialised countries, the German labour market is characterised by a relatively high unemployment rate for low-skilled workers, and by special problems related to the labour market integration of long-term unemployed and single parents. In 1997 the total unemployment rate in western Germany was 9.5 percent, with 24.2 percent of unemployed having no training (eastern Germany: 18.4 percent in total, with 55 percent with no training). In 1996 the risk of remaining among the long-term unemployed was 21.2 percent in western Germany (26.9 percent in eastern Germany). Given this background, the “Alliance for Jobs” decided in December 1999 to start with pilot projects to encourage the integration of low-skilled workers and long-term unemployed into the labour market (cf. Issue 1, p. 44). In particular, the programmes intend to address the problem that income transfers might reduce the incentives to go to work. In the case of Germany, this problem has been discussed in the context of two types of welfare state benefits: social assistance; and unemployment benefits. Another important issue for the reform is the increasing number of “marginally employed workers” who earn less than € 322 per month without social security payments. The reform intends to shift those marginal jobs to above the € 322 threshold.

The basic approach of the programme is to run two pilot projects in specific regions<sup>6</sup>, both of which seek to improve the labour market performance of low-skilled workers, long-term unem-

<sup>6</sup> Target regions for the approach of the “*Saargemeinschaftsinitiative*”: the whole Saarland and one labour market district in Saxony. Target regions for the approach of the “*Mainzer Modell*”: three labour market districts in Rhineland-Palatinate state, and two labour market districts in Brandenburg.

ployed, and those from low-income families. The programmes aim to: (1) develop new fields of employment for the target groups; (2) increase incentives to work; and (3) improve the effectiveness of incentives to create new jobs for the demand side of the labour market. At the end of the pilot period, an ongoing evaluation of the projects is expected to show the most important factors to be focused on. If successful, the federal government might continue with such programmes in a much broader manner. This will, however, mainly depend on the political situation in 2002 when the pilot period for applying for these subsidies ends.

The so-called *Mainzer Modell* (MZM) focuses mainly on the supply side of the labour market with low-income households. It is assumed that some of the labour market problems of low wages and low-income households are caused by excessively high social security contributions. The MZM also focuses on low-income families, in particular single parents, to make work for people on welfare worthwhile, and to increase the attractiveness of regular part-time work. To achieve these goals, model participants' social security contributions are subsidised in relation to monthly income, the average social security contribution rate, and marital status. Social security contributions are fully refunded at a monthly income of at least € 323 – the subsidy decreases with rising income, and reaches 0 when monthly earnings exceed € 805 for singles and € 1,610 for others. Participants with children receive an additional child allowance, which depends on income and which is limited to € 77 per month and child. Single parents' maximum monthly income must not exceed € 644 to be eligible for this allowance.

The so-called *Saargemeinschaftsinitiative* approach (SGI) focuses on both sides of the labour market. The special goal of this approach is to decrease the part of social security contributions for employees paid by the employers, thus increasing the incentives to create additional jobs for low-skilled workers and long-term unemployed. Two different subsidies are applied. First, the employers' part of the social security contributions is subsidised. The full amount is refunded at hourly wages of € 5 and below. The subsidy decreases with rising earnings and reaches zero at € 9 per hour. Employers (mainly small and medium-sized companies) must have

hired an eligible employee to apply for the subsidy. In addition, the aim is to further qualify the target group, thus opening up long-term employment perspectives for them. The second subsidy is intended for employees who enrol in further education and occupational training programmes while they are newly employed. Employees applying for this subsidy must be low-skilled in the sense, that (1) they do not have an occupational degree which requires a training period of at least two years; (2) they have been involved in occupational activities typical for lower occupational degrees for at least six years; or (3) they are long-term unemployed (for at least 12 months). The size of the subsidies (identical to the employers' subsidy) depends on the current wage rate of the employee, the current monthly labour market income, and the average social security contribution rate.

In both pilot projects, the subsidies are granted only to entrants into the labour market and to employees who live in one of the target regions, pay social security contributions, and work at least 15 hours a week. In addition, the wages for the new jobs must reflect the wages agreed upon in the corresponding collective agreement (or in case of no such agreement, the regional wage structure). Employers must prove that the subsidised job is a newly-created one. The federal and local employment services are responsible for the implementation of the two projects. Employees and employers who are interested in these subsidies must apply for them at the local employment offices. All subsidies in the two projects are limited to a period of 18 months and there is no legal entitlement to them: they are subject to a case-by-case decision of the local employment offices. Both projects will be observed by a federal co-ordinating committee headed by the Ministry of Labour. The local employment offices in charge of local project implementation are required to establish a local advisory council and to cooperate with the local institutions in charge of social assistance.

► Opponents argue that the monetary incentives are inadequate for affecting substantial change in the recruitment rates of the target groups. Others argue that existing labour market programmes, such as the federal programme to combat long-term unemployment, offer better incentives than those offered in the SGI model. Some experts from the scientific community argue that the effects

of pilot projects which are limited in their duration will not result in any substantial change in the behaviour or attitude of the groups involved. Some experts question the neutrality of the consortium of three research institutes in charge of the evaluations, since one of them is financially and organisationally part of the federal employment service.

A new law concerning the legal right to part-time work and temporary employment was passed in January 2000. The central goal of the reform is to encourage part-time work, create new jobs, and thus lower unemployment. The new temporary employment regulations are intended to be more flexible in order to improve the situation of temporary employed workers. A side effect should be the improvement of labour market opportunities for elderly workers. The new regulation is also a reaction to the EU directive to improve conditions for part-time work.

Prior to this reform there was no legal right to part-time work. A similar reform starting in 2001 only regulated the legal right to work 30 hours a week while on parental leave (cf. Issue 3, p. 30). However, various companies have implemented specific regulations for part-time work (e.g., Deutsche Bank, Volkswagen). Part-time work in Germany is generally not widely engaged in, with some 21.2 percent of employees working part-time in 1999. Although the public perception of part-time work has improved, disincentives still exist (e.g., joint taxation). Under the new law, employees are legally entitled to ask their employer to reduce the number of their working hours as stated in their job contract. Employees must file their request at least four months before the desired starting date, and they must have worked for the employer for at least six months. The employer and the employee must discuss the exact wishes of the employee (how many, and which hours are to be worked), and the employers must agree unless they have compelling business reasons not to (e.g., “organisational interference” or “disproportional costs for the employer”). Social partners can substantiate these reasons in collective agreements for a particular sector. If the employer does not react to the request until a month before the desired date of entry, the request is considered legally accepted (only the distribution of the working

**Germany –  
Part-Time and  
Temporary  
Employment Law**

Innovation	***
Impact	***
Interest	**

time over the week can be changed afterwards if it is no longer acceptable to the employer). These rules are not applicable to companies with less than 15 employees (excluding apprentices). Part-time working employees who wish to return to their former working hours or who want to increase their working hours must be considered first when a new position is filled. This only applies, however, to (potential) employees with the same qualifications. Any unjustified discrimination between part-time and full-time workers is forbidden. Employers have to ensure that part-time employees can participate in training measures which are important for their professional advancement. Employers are encouraged to inform employees who might want to adjust their working time regarding available part-time and full-time positions in their company. The works councils must be informed about part-time work in their company.

The previous law on temporary employment was limited up to the year 2000 and contained a specific form of temporary employment which could be renewed several times. The new regulation states that limited employment contracts without a specific justification are only possible in the case of newly hired employees. However, business and labour groups together can set the maximum time period for limited employment contracts, and the frequency of a possible renewal, in collective agreements for a particular sector. The age limit for a limited employment contract without further restrictions is reduced from 60 to 58. Any unjustified discrimination between temporarily and non-temporarily employed workers is prohibited. Employees with temporary employment contracts should be informed about free positions with open-ended employment contracts. Employers must make sure that employees with limited contracts can participate in training measures just like other employees. The works councils must be informed about the number and percentage of limited employment contracts in their company.

► The new part-time regulations are opposed by the employers associations. They argue that this new regulation is a step in the wrong direction, as it results in an increase in inflexibility, bureaucracy, and labour costs. They claim that the new regulations will result in many lawsuits, as the definitions of “compelling busi-

ness reasons” and “unreasonably high costs” are vague. They argue that the new law will result in limiting the growth of small businesses because they will refrain from hiring a sixteenth employee. The unions, in general, are in favour of the new regulations. However, they oppose the final veto power of the employer over a working time reduction. The employers associations criticise the temporary employment regulations because they restrict the frequency of limited employment contracts. Some argue that the flexibility of temporary work does not go far enough.

In December 2000 the Italian government, driven by EU employment guidelines, increased the unemployment benefit by raising the replacement ratio (percentage of previous wage covered by the unemployment benefit), and by extending the maximum benefit period for older unemployed persons.

Italy is characterised by a high unemployment rate with substantial regional variation. The unemployment benefit system consists of various schemes mainly paid to specific categories of workers. Some sectors (e.g., manufacturing) receive better protection and higher benefits than others do. In particular, the aim is to eliminate advantages for certain categories of workers and to offer more benefits to those who have so far received lower benefits in comparison to other groups.

The Italian reform increases the replacement ratio from 30 percent to 40 percent (the EU average is nearly 60 percent), and extends the benefit period for unemployed persons over the age of 50 from six to nine months. This is only the first step towards a comprehensive reform of the country’s unemployment benefits and employment incentives (known as “ALMP”).

🔹 Experts state that this partial reform alone may not improve the conditions of the unemployed. A more comprehensive reform based on the “welfare-to-work” approach may be required.

The Ministry of Labour initiated a reform of employment promotion measures to address the recent rise in joblessness. The reform contains five employment packages which have been implemented over the last three years starting in 1998. The most recent fifth implementation took place in May 2000 and focused on skills

**Italy –**  
Unemployment  
Benefit Increase

Innovation \*  
Impact \*\*  
Interest \*

**Japan –**  
Employment  
Promotion Measures

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

measures. Initially, the policy took the form of employment maintenance and demand management measures. In 1999, however, it began to place more emphasis on measures aimed at job creation.

Since 1992 annual real GDP growth rates have been close to 1 percent. The unemployment rate has increased steadily to 4.7 percent in 1999, and only slightly decreased to 4 percent in 2000. The situation has been attracting much attention and has therefore been considered a major social issue. Among the unemployed, older persons aged 60–64 and young persons aged 18–24 have been most affected (with unemployment rates of more than 10 percent and 8 percent, respectively). Problems adapting to technological development have been responsible for the unemployment of older persons.

The first employment package (Spring 1998) contained mostly training benefits and increased subsidies to small and medium-sized companies. The second employment promotion package (November 1998) was aimed at creating one million new jobs. It had a total budget of € 154 billion and contained general macro-economic measures to raise GDP, as well as job creation subsidies for small and medium-sized companies. The third package (June 1999) focused on an increase in employment opportunities. It contained special grants for creating employment in new and growing sectors, with a special emergency fund for job creation for middle-aged and older unemployed, and with special emergency subsidies for local job creation. The fourth package (November 1999) cost € 2.5 billion and included job creation and stability measures. These also included a special grant for the creation of local employment in small and medium-sized companies, a grant to encourage re-employment for workers in sub-contracting firms, a measure to assist new graduates and other young persons in finding jobs, and a measure to increase employment opportunities for health care workers. The fifth package, introduced in May 2000, included vocational training programmes for young people, job creation measures for new firms, support for health care services to recruit workers, and grants for employers in 15 established and growing sectors with plans to increase employment.

These measures were intended to promote economic recovery and increase labour demand. Mismatches in the labour market

should be reduced by encouraging employers and employees to upgrade necessary skills. It was expected that these measures would create new jobs, increase the number of people undergoing training, create new jobs in small and medium-sized companies, raise the number of applicants applying for grants, and increase the number of companies applying for subsidies.

First results show that the special grants for creating employment in new and growing sectors have only led to the employment of 4,463 persons – only 3 percent of the estimated 150,000 persons seeking work. Some 8,633 companies had applied for grants. Special emergency grants for job creation had achieved 1.4 percent (2,860 persons) of the estimated 200,000 jobs by September 2000. A total of 4,019 companies had applied for the grants.

► Job creation measures may be considered essential during the current period of high unemployment but demand management policy seems to be a more appropriate approach in the long run because it targets a much wider area. Whether the demand management policies contained in the five packages have contributed to raising employment has not been empirically studied.

The Working Hours Modification Act went into effect in July 2000. The Act, which is part of the Labour and Care Framework Act currently developed by the Dutch government, essentially requires employers to grant an employee's request for modification of working hours (both shortening and extending) unless conflicting business or departmental interests apply. The reform is intended to improve the possibilities for combining work with other responsibilities (such as family care needs), and should lead to an increase in labour supply. The government also expects that the emergence of more flexible work patterns will suit businesses' need for greater flexibility.

The government of the Netherlands has been promoting part-time employment intensively during the last few decades, and as a result the country has one of the highest part-time employment rates in the world. Part-time work is considered an adequate way for people to combine work and care duties, and the government strongly advocates this so-called "combination scenario". Part-time work has also contributed significantly to the recent growth

#### **Netherlands – Working Hours Modification Act**

Innovation	****
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of employment in the Netherlands. Before the introduction of the Working Hours Modification Act, there was no statutory right to part-time work in the Netherlands (cf. Issue 2, pp. 32–33). It was argued that the absence of such a right prevented people, notably men, from working part-time. Moreover, it was argued that the right to the modification of working hours could have a positive impact on the current tight labour market in the Netherlands. It was expected that more people would take or keep a job because they were able to adjust their working time.

The Act established the legal right to part-time work, as well as the right to increase one's working hours. This means, at least in principle, that employees or public servants can unilaterally adjust their terms of employment. The regulation applies to employees and civil servants who have been employed for more than one year. Certain provisions of the Act do not apply to employees who are employed by small firms (i.e., those with fewer than 10 employees).

Success of the reform depends on the way employers will respond to the requests for work-hour adjustments. They may reject the requests on the grounds of major business interests, but could still be legally forced to comply with the new legislation. In this case much depends on the way judges will interpret the law (especially the general provisions contained in the Act).<sup>7</sup>

► The main argument against the reform is the fact that the employee has been granted a unilateral right to change the terms of employment as laid down in an already existing employment contract. This is considered at odds with the general principles of employment law and contract law, may represent severe problems for business, and it might affect Dutch competitiveness. In particular, it is argued that too high a proportion of part-time workers in an organisation will create problems for communication and business

<sup>7</sup> The first and only result is a case that was decided by the Lower Court in Zwolle on 12 October 2000. In this case a nurse employed by a home care organisation had filed a request to work shorter hours in order to devote more time to child-care. The employer had rejected the request on the grounds that a new employee would have to be hired, which was not deemed possible from a financial point of view. However, the judge decided that organisations that receive public funding are not exempted from the Working Hours Modification Act, and that in this case, the interests of the employee to combine work and care outweighed the financial interests of the employer.

efficiency, and that it will overburden full-time employees. Furthermore, if an employee is to be granted more working hours, this implies higher labour costs for businesses. Experts say the reform is of major importance and a positive step towards the promotion of part-time work. However, the impact on business practice is far from clear. A number of collective agreements in the Netherlands already contained similar provisions but did not result in many requests from employees to adjust their working hours. In the current situation of labour shortage, the impact of the reform will be less visible than in an economic downturn.

The government introduced an entirely new structure of income taxation in January 2001. The objectives of the reform are: (1) stimulation of employment opportunities and strengthening of the country's economic structure and competitive position; (2) reduction of the tax burden on labour; (3) promotion of sustainable ("green") economic development; (4) a balanced and just taxation burden; (5) broadening of the tax base; (6) promotion of emancipation and economic independence; and (7) simplification of the tax code. The reform is wide-ranging, with consciously designed side effects for income from work at low levels of pay and for second earners in a household (effectively women) with or without dependent children.

Three fundamental changes characterise the new organisation of the tax system. First, it is individualised throughout. In the past, wages were taxed individually while other forms of income (especially interest) were taxed at the rate of the highest earner in the household (who also had to request the tax reductions). Now, such income and refunds can be declared in any possible (annual) division among the partners in the household. Second, instead of a number of exemptions, i.e., deductions from income which were used to determine taxable income, all income will now be taxed and certain "levy rebates" given on the amount of taxes due. Certain exemptions will, however, remain in effect (e.g., for mortgage interest payments). The advantage of the rebates is that they can be individualised and paid to persons who themselves do not pay taxes (e.g., the partner of the single earner). Another benefit is that they will have the same value for all taxpayers regardless of their

**Netherlands –  
Tax Revision 2001  
Affects Labour  
Market**

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

marginal tax rates. This will hopefully facilitate (official) labour market participation (away from the “grey” and “black” labour markets). Third, the split of income into three categories which are independently and differently taxed within three so-called “boxes” is achieved: (1) income from wages and estimated rent from home-ownership; (2) income derived from “substantial business interests”; and (3) income from savings and investments.

All taxpayers profit from a general tax rebate (€ 1,576), but in addition those with wage earnings of at least € 7,360 have a special “employment rebate” (which goes up to € 920 at a monthly income of € 8,600). Both rebates replace corresponding reductions of taxable income in the old system. Another relevant new measure concerns child-care. Individually, parents receive a general but fairly small tax rebate for children under the age of 12 (€ 38), unless the household’s income exceeds € 54,500. Parents with a low annual income (below € 27,250) receive an additional rebate of € 192 individually. Households with two working parents are entitled to a further “combination rebate” of € 138 for each taxpayer. The combined household maximum can amount to € 736. In addition to the rebates, households can deduct payments made for (certified) child-care up to an amount of € 6,333, depending on income. Furthermore, the tax brackets have been widened and the rates lowered. Together with the new employment rebate, this implies considerable tax cuts (with slightly greater benefits for lower-income groups). Income taxation decreases while at the same time value-added taxes and charges on energy consumption increase. Some important tax deductions are abolished, making taxation simpler and more effective. On balance, though, government revenues will fall by around € 2.3 billion. This shortfall will be financed by the current budget surplus.

► Most opposition concerns the taxation of wealth, which is not considered here, and the size and cyclical timing of the € 2.3 billion net transfer to the taxpayer. As to the structure of the system, there was some opposition to the new treatment of single-earner households. Some doubts have been voiced on whether the tax system itself does indeed exert more than a marginal influence on labour market participation (as the government presumes). Experts point out that the new system is expected to open up new opportunities

for low-skilled (and low-paid) women who have very low participation rates in the Netherlands. When they now start working in a paid job they will retain their general rebate (in the old system, in contrast, the employment deduction was worth more in terms of lower taxes when the generally better-paid husband could deduct it from his higher income). The effect may, however, be more cosmetic or ideological than real (although even cosmetic effects have a role to play). It should be noted that under the old system, a low-income household stood to lose relatively less and gain more from the additional labour market participation than a high-income household. In spite of this, better-educated women have much higher participation rates, often in lower-paying part-time jobs.

The Swiss Federation of Trade Unions (SGB) initiated a referendum<sup>8</sup> for a reduction of annual working time. The initiators propose an annual maximum of 1,872 hours, which corresponds to an average 36-hour work-week. The SGB reasoning is that the problems of so-called “over-employment”, unemployment, and the unequal distribution of working time between genders can be addressed by reducing the average work-week. The popular vote will take place towards the end of 2001. Should the referendum gain a majority of the votes (and a majority of the cantons), then the proposed measures would go into effect immediately.

Switzerland has the longest working hours in Western Europe, and among the longest in the industrialised world. Furthermore, Switzerland has a relatively large portion of “over-employed” workers, i.e., workers who would like to work less even if that implies a reduction in earnings. Needless to say, this is also a result of high levels of income in Switzerland (which in turn give rise to a high marginal value of leisure time). In the 1990s Switzerland was confronted with high unemployment levels (for Swiss standards)

**Switzerland –  
Referendum on the  
Reduction of Annual  
Working Time**

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

8 In Switzerland, a popular referendum (“*Volksinitiative*”) on a specific topic can take place if an organisation submits 100,000 signatures to support a specific policy measure within a certain time span. Such popular referendums are “constitutional referendums”, i.e., they envisage a change of the country’s constitution. In order for a referendum to be successful, a majority of the voters and a majority of the cantons must accept the amendments proposed by the referendum.

above 5 percent. The SGB argues that a reduction in the length of the average work-week will create new jobs. According to the Swiss Federal Labour Law, the length of the average work-week (measured over a period of 16 weeks) may not exceed 45 hours per week. Furthermore, not more than 170 hours overtime per year may be worked. There are, however, several sector-specific collective agreements which place a lower upper limit on the length of the average work-week. The most commonly reported work-week in Switzerland is currently 42 hours.

The SGB referendum proposes the following measures: (1) a maximum annual working time of 1,872 hours, with an upper limit of 2,184 hours allowed in the first year (this upper limit will then be reduced by 52 hours per year so that the maximum length of 1,872 hours will be reached in 6 years); (2) a maximum of 100 hours overtime per year and employee, with this overtime to be compensated for in some form (vacation days or financial compensation); (3) a maximum of 48 hours of work per week (including regular overtime); and (4) all persons earning less than 1.5 times the Swiss average monthly wage (currently approximately € 3,250) should not face a reduction in earnings as their working hours drop.

Should the referendum be approved, then a number of conditions must be met in order to assure that the referendum's objectives can be realised: (1) the demand for low-skilled workers must be large enough – should this not be the case, then unemployment cannot be reduced by shortening the length of the average work-week (on the contrary, unemployment will increase); (2) workers' hourly productivity should increase substantially so that labour costs can be held constant; and (3) the proposed reduction in the number of hours of overtime can only be realised if an effective registration of this overtime takes place.

► The main opponents of this referendum are the employers' associations and the Swiss federal government. Their main argument is that working time issues should be agreed upon by employers and labour unions. A constitutional change is inappropriate and would lead to more inflexibility in the labour market, since future changes of the constitution are tedious (usually such changes take at least three years). Furthermore, such collective agreements do not take

sector, regional, or individual differences into consideration. Higher labour costs would cause inflation to rise, while higher per-unit labour costs would adversely affect international competitiveness. Finally, the proposed measures would lead to a rise in illegal employment. Experts point out that in the past two years unemployment has reached a very low level (average for 2000: 2.0 percent). Combating unemployment has therefore ceased to be a topic of importance in public debate. In fact, due to the current shortage of labour, a reduction of the average work-week could have negative effects on the economy, especially on the rate of economic growth. Surveys reveal that the overwhelming majority (approximately 70 percent) of Swiss employees are satisfied with their current work/pay combination. Also, the SGB referendum only plans an earnings reduction for workers who earn more than 1.5 times the average, i. e., only for a minority of workers. This means that working time reductions will take place without a reduction in earnings (i. e., the hourly wage rate will increase). At least in the short term, this will lead to higher labour costs with potentially negative effects on employment.

### Changes and Results

Changes and results can be reported from the reform of the Austrian apprenticeship system in 1997 (cf. Issue 1, p. 40), which created expanded opportunities for training in new occupations. Existing training plans have been adapted to reflect the changing needs of the economy. The most recent changes in 1999/2000 have extended the trial periods for apprentices from two to three months, and allow later night-time working hours for apprentices in the restaurant sector (extended from 10 to 11 p.m.).

The results of a first evaluation of the 1997 measures are encouraging. The *Institut für Bildungsforschung und Wirtschaft* (IBW) found that the number of apprentices in the new occupational fields was satisfactory in 1998, and that a significant increase took place in 1999. In December 1999, more than 4,000 apprenticeship contracts had been entered into in the 24 new occupations. Around 1,600 companies had applied for authorisation

**Austria –**  
Training Curricula for  
New Occupations

to offer these new apprenticeships, representing more than 3 percent of all companies providing training for apprentices. According to the IBW, the results of the evaluation indicate that the new occupations are finding acceptance by companies and that the reform was successful in creating new job opportunities for young people. This is reflected in the fact that around two-thirds of the apprenticeship contracts concluded in these occupations can be regarded as additional contracts.

► Although the labour market situation for young people has improved considerably in recent years, further efforts appear to be necessary to ensure the functioning of the Austrian apprenticeship system in the future.

**France –  
Unemployment  
Insurance**

As reported earlier (cf. Issue 3, pp. 42–44), the redesign of the unemployment insurance system requires the government’s approval. The Department of Labour has been reluctant to give it, since it feared long-term unemployed persons with poor employability prospects might be further excluded. Finally, on 4 December 2000 an agreement was reached by the government after contentious debate between the Minister of Employment and Solidarity, and business and labour. On the latter side, an agreement was concluded for reforming the unemployment insurance scheme (MEDEF on the employers’ side; CFDT, CFTC, and CFE-CGC on the labour unions’ side).

Starting in January 2001, unemployment insurance contributions are to be scaled down from 6.18 percent to 5.8 percent (3.7 percent for employers’ contributions and 2.1 percent for employees’ contributions). To qualify for unemployment benefits, four months (122 days) of paid activity is required during the previous eighteen months (instead of eight months as before). The rate of unemployment benefits is now kept unchanged for the unemployment period. Starting in July 2001, the back-to-work help plan (*plan d’aide au retour à l’emploi*, or “PARE”) will apply to all newly unemployed persons. It will involve an in-depth interview for assessing the job-seeker’s employability conducted during the first month of the unemployment period. Next, a “personal action plan” (PAP) will be developed which defines a series of individualised measures to foster active job-seeking. The PAP will be signed

by both the public employment service (ANPE) and the job-seeker. The unemployment insurance body<sup>9</sup> (UNEDIC) will then monitor its implementation. No specific sanction is foreseen in case the personal action plan is not signed by the job-seeker. The government declared explicitly that no job-seekers who qualify for unemployment insurance benefits, namely regarding active job-seeking, should be refused those benefits if they do not agree to sign a personal action plan. The PAP will be updated after six months of unemployment in case no job proposal has been offered corresponding to the job-seeker's skills or professional capabilities. After twelve months the job-seeker will qualify for a subsidised job. Firms which hire such long-term unemployed will receive a grant based on a sliding scale (40 percent of gross wages during the first year, down to 20 percent in the third year).

► The largest labour union (the formerly pro-communist CGT) and the third-largest (CGT-FO) strongly opposed the first draft (cf. Issue 3, p. 44). They argued that it would put great pressure on the unemployed by forcing them to accept inferior jobs. In particular, they said that the concept of a "suitable job" (which gives unemployed the right to refuse a job offer because it does not suit their skills and expectations) would disappear in practice. The government backed their position and obliged the MEDEF and CFDT to water down the initial draft. It is unclear whether the new system (i.e., PARE) will provide job-seekers with additional employment opportunities.

More results can be reported from France after the reduction of the work-week from 39 to 35 hours (cf. Issue 1, pp. 32–33; Issue 2, pp. 40–41; Issue 3, p. 53). At the end of 2000, 5 million employees (34 percent of the 14.7 million eligible employees) worked in firms where such an agreement had been concluded. Since mid-1997, the actual work-week for full-time workers has decreased by

**France –  
Working Time  
Reduction:  
More Results**

<sup>9</sup> Employers' organisations and labour unions have an equal number of seats on the boards of the 52 local unemployment insurance offices, which process contributions and allocate benefits to unemployed recipients. In 1967 membership was made compulsory for all workers in the private sector. Since its creation in 1957, the system has experienced deficits several times. This was due to rising unemployment levels, and ultimately required government subsidies to keep the system solvent.

one hour on average (from 39 to 38 hours). It is expected that in 2005, 80 percent of full-time employees will work 35 hours a week. Evidence shows that a 10 percent decrease in working time has led to 6–7 percent of the new jobs created. The net outcome of the reform has been a creation of 200,000 jobs from mid-1998 to mid-2000, out of a total of 900,000 new jobs created in the French economy during the same period.

**Spain –  
Immigration  
Law Changes**

The new immigration policy introduced in February 2000 has been strongly opposed by the conservative People’s Party (PP), which has had an absolute majority in parliament since the general election in March 2000. The new Government argues that the new law would exacerbate the problem of illegal immigration by exerting a significant “pull effect” on illegal immigrants. One of the government’s first moves was to start reforming the law that had just gone into effect (cf. Issue 3, pp. 48–49). Parliamentary proceedings and negotiations started in September 2000, with the reform of the law finally issued on 2 December 2000. It went into effect on 23 January 2001.

The main changes introduced by the reform are: (1) illegal residence in Spain is again cause for repatriation; (2) illegal immigrants will have only the right to health care and education, whereas other rights (e.g., to assemble, associate, join trade unions, and strike) will be restricted to legal immigrants; (3) the prohibition against entering Spain again after having been repatriated is extended from three to ten years; (4) the period of residence in Spain required for illegal immigrants to legalise their status is extended from two to five years; and (5) free legal assistance will be limited to those immigrants already in Spain. Those who have not yet crossed the border are not entitled to legal assistance.

► Experts state that this reform represents a step backwards for Spanish immigration policy in the sense that it is aiming at controlling and restricting rather than at integrating. There is no proof that a more restrictive policy is going to reduce the number of illegal immigrants.

### 3 Industrial Relations

Many reforms with different approaches can be reported in the industrial relations section. While in Germany and the United Kingdom, employee representation at company level is made easier by new regulations on works councils and the recognition of trade unions respectively, the regulations implemented in the Canadian province of Ontario aggravate union recognition and make union leaders more accountable to their members. Additionally, working-time regulations are relaxed in Ontario. Finland reports a new employment contract law. After a trend towards more performance-related pay in the private sector has been reported on in previous issues, the United Kingdom now has introduced performance-related pay for the public sector teachers. Austria reports on the employment extension for seasonal workers. Details of the reforms are available from the project website [www.reformmonitor.org](http://www.reformmonitor.org).

The provincial government of Ontario introduced the Labour Relations Amendment Act in December 2000, effective January 2001, with the stated purpose of enhancing workplace democracy and making union leaders more accountable to their members. The changes require unions to disclose salary and benefit information regarding their paid officials; they make the withdrawal (“decerti-

**Canada –  
Labour Relations  
Amendment Act**

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

fication”) from a union easier; and they make union organising more difficult. The government believes these changes will make union leaders more accountable, and that it will allow workers to exercise their rights while creating an environment that enables Ontario’s businesses to be more competitive.

The changes to the Labour Relations Act will: (1) require unions and employee associations to disclose all salaries and benefits of € 71,600 or more paid to union officials and employees; (2) extend the open periods for decertification (withdrawal) or changing of unions from two to three months; (3) ensure that clear information on decertification is made available so that all employees will understand their rights; (4) require the Ontario Labour Relations Board to consider a decertification application before considering an application for first-contract arbitration; and (5) impose a one-year ban on further certification applications by any union following an unsuccessful application.

☛ The labour unions have strongly opposed these amendments. They argue that the changes make it harder for people to join unions, while making it easier for corporations to push their employees to remove the unions they have. They also note that the new Act requires unionised employers to tell their employees how they can remove or leave their union, while non-unionised companies are not required to tell their employees how they can start or join a union. Experts say that the amendments are important in shifting the rules of engagement toward employees and away from unions in Canada’s largest province (for possible demonstrative effects vis-à-vis the other provinces). The salary disclosure regulations for high-paid union officials are certainly justifiable as there have been cases of salary and benefit abuse in certain unions. Similar disclosure rules apply to high-paid public officials and officers in public companies. The changes to the union decertification and certification processes certainly favour employers, but it is unclear whether they will have a major impact on the degree of unionisation. The weak response from the labour movement and the lack of public interest in the changes is evidence of the decline of the influence of “Big Labour” on public policy issues in recent years in Ontario.

The government of Ontario has reformed the employment standards legislation in December 2000, effective July 2001, concerning the regulation of working hours. The changes have the objective of giving employers and employees more latitude in their ability to design work arrangements that fit their business and personal needs. The government believes that the legislation will promote business competitiveness, relieve employers of administrative obstacles, and help employees with their family responsibilities.

With the goal of furthering the competitiveness of the Ontario economy, the Ontario government has been concerned about the ability of employers to schedule work in a flexible manner. Employers have traditionally had to obtain a permit from the Ministry of Labour in order to schedule overtime hours, a process which has been considered excessively burdensome. The major changes of the new Employment Standards Act are: (1) the elimination of the permit system for employees working overtime hours; (2) overtime may be averaged over a period not to exceed four weeks by agreement between the employee and the employer; (3) while workers continue to have the right to refuse to work more than 48 hours per week (and still receive overtime for more than 44 hours), employers may request they work up to 60 hours per week; (4) employees and employers may agree that compensation for overtime be time off instead of overtime pay; and (5) vacation time may be scheduled one day at a time instead of in blocks of one week, based on mutual agreement by employees and employers.

☛ The union movement has strongly opposed these changes. Unions argue that the increase in the maximum work-week from 48 to 60 hours is a throwback to the 1884–1944 period when 60 hours was the legal limit. While acknowledging that workers would have to agree to this condition, they believe there will be enormous pressure on them to do so. They argue that instead of lowering employment standards, governments should work to raise them. Experts say that in principle greater flexibility for employers and employees to make joint decisions on working hours is a positive development. The danger is that workers will not have the real freedom to choose because of employer pressure, both direct and indirect. However, the return to low unemployment in Ontario has increased the bargaining power of workers. This is particularly re-

**Canada –  
Ontario Employment  
Standards Act**

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

flected in the possibility of quitting by an employee who is badly treated for turning down a request to work longer hours. This should permit workers to express their true preference in the joint determination of their work schedules.

**Finland –  
New Employment  
Contract Law**

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

The Finnish Parliament approved a reform of employment contract law in December 2000 which will go into effect in June 2001. The reform is effectively a modernisation of the basic regulations governing the labour market to correspond to current developments in the labour market and to relevant EU directives. The new law was prepared in a committee made up of representatives from the employers' and employees' central organisations and some members from the universities with expertise in labour law. The outcome is basically a compromise which was approved by the labour market organisations and the parties represented in the government.

There has been a marked structural change in the labour market such that temporary employment contracts have become more common. The increasing importance of mergers and acquisitions has also required new regulation concerning the position of the employees when these occur. Previous employment contract law, dating back to 1970, was considered obsolete, and there were disputes regarding its proper application. This was especially true concerning the definition of the so-called "general applicability" of the collective agreements, i.e., when non-organised employers (not belonging to an employers association) are obliged to obey the stipulations of a collective agreement in their sector. Small firms demanded that unorganised firms should also have the same rights as organised employers to deviate from the stipulations of the collective agreements (by means of local negotiations). This was not accepted by the trade unions. The basic differences in opinion were concerned with the general applicability of the collective agreements, with the right to dismiss and lay-off employees, and with the terms of hiring labour from temporary employment agencies. The collective agreement of a client firm using a temporary employment agency's services must be also applicable in regard to those temporary workers hired. This was demanded by the trade unions but opposed by the employers in the service industries.

The reform modernised the following aspects of the employment contract law: (1) the grounds for dismissal were clarified in that restructuring of a firm's activities can be more clearly regarded as the basis for terminating employment, while the acquisition of a company as such cannot be; (2) a temporary employment contract requires justification, just as under the old law (the law, however, does not include a list of pertinent examples); (3) the criteria for a generally applicable collective agreement will be changed so that the former criteria of at least 50 percent sector coverage will be replaced by looser criteria (such as the established basis of collective agreements and the general degree of unionisation in the sector); (4) notification periods for employers to terminate a contract will be changed such that for contracts of less than a year, the period of notice will be reduced from one month to 14 days – the longest notification period will be maintained at six months, but will be applicable for employment relations of at least 12 years (currently 15 years); and (5) the employer is now obliged to pay wages for only one week, instead of two weeks as before, when the company is temporarily shut down due to an external strike.

► The Federation of Finnish Enterprises, representing small firms, stated that the general applicability of collective agreements requires the employer to obey the stipulations of a collective agreement and does not entitle the unorganised employer to negotiate and agree on terms deviating from those contained in collective agreements. The employers associations argue that the mergers and acquisitions regulation may hamper the mergers of small and medium-sized firms as the purchaser has now more obligations towards the employees of the purchased firm. The reform was also criticised – although after its approval – by the Office of the Equality Ombudsman for not paying enough attention to gender equality issues during its preparation. This is reflected in the new law in that it does not prevent the bridging of successive temporary employment contracts (which is perceived to be mainly a handicap for women). Experts state that the reform is a milestone in industrial relations in Finland. The fairly broad consensus during the preparation of the law has also provided a solid ground for labour market relations between the business and labour social partners. It is, however, possible that the impact of the law towards a more

flexible labour market will be quite modest. This is because the approach has basically been one of preserving the status quo.

**Germany –  
Works Constitution  
Act Draft**

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

The German government intends to introduce a reform of the Works Constitution Act in summer 2001. The focus of the reform will be on a simplification of the electoral procedure of the works councils, and the expansion of the works councils' rights (mainly consultation rights).

In Germany the rights of employees are laid down in the "Works Constitution Act" (*Betriebsverfassungsgesetz*) which was established in 1952. The reform of 1972 strengthened the co-determination rights of the works council in cases of social matters. The Act establishes the right to set up works councils as the collective representation of employees in all private sector companies with at least five permanent employees with voting rights. The size of the works council depends on the number of employees in the company, and ranges from one for small companies, to 31 for companies with 9,000 employees. For larger companies, two additional members are added for each additional increase of 3,000 employees. Depending on the number of employees, some members of the works council must be released from their work duties. This ranges from one member (for companies with 200 employees) to 11 members (for companies with 10,000 employees.) In companies with more than 10,000 employees, one further member must be released for each additional increase of 2,000 employees. Whereas matters of human resource planning are subject to information and consultation, the works council has the right of real co-determination in social matters (e.g., the commencement and termination of daily working hours, and any temporary reduction or extension of normal working hours). Financial matters are subject to information provision by the employer.

The draft version of the new law intends to introduce more flexibility into the structures of works councils to allow for adaptation to new business organisational forms. It allows for joint works councils for several subsidiaries of a single company, and for works councils for special product or business units within a company. To facilitate the establishment of works councils in small companies of up to 50 employees, elections can be held within one

week in a two-step procedure. So far, the process has been much more complex and has required substantially more time. The size of the works councils in companies with at least 100 employees is increased by one member on average.

Furthermore, the size limit above which works council members must be released from their work duties will be lowered. This applies to companies with at least 200 employees (compared to 300 under the current law). The works council will be entitled to present proposals for human resource decisions, such as the promotion of flexible working hours or the reduction of overtime. Employers must present reasons if the proposals are not taken into consideration; in companies with at least 100 employees, this must be done in written form. For the first time works councils must also be consulted in environmental protection matters. The catalogue of social matters, which includes the full right of co-determination, will be expanded by one aspect: the principles for the implementation of teamwork. In addition to this, the councils receive the full right of co-determination in terms of vocational training programmes if the employer introduces new technology, working procedures, and operations for which the employees' current qualifications and knowledge are insufficient.

To strengthen individual rights, employees will be given the right to propose special topics and issues to be discussed by the works council. Furthermore, employers will be obliged to put well-informed employees at the works councils' disposal, and the works council will be entitled to transfer special tasks to teams.

◉ The employers' associations object that the costs of co-determination will increase by releasing more works council members from work duties. This is particularly problematic for small and medium-sized companies. Trade unions are of the opinion that facilitation of the elections of works councils must be expanded for establishments with up to 100 employees. Furthermore, they demand real co-determination in environmental protection matters and particularly in the safeguarding of jobs. Experts point out that by the facilitation of the elections of works councils in small establishments, the Ministry draft version offers a practicable chance to narrow – or even eliminate – the so-called “representation gap”. In some points (e.g., bringing the works council structure into line

with the companies' structures, or the works councils' right to transfer special tasks to teams), the reform merely substantiates already existing practise in more concrete form.

**Austria –  
Employment  
Extension for  
Seasonal Workers**

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

The Chamber of Commerce and the Austrian Trade Union Federation signed an agreement that should reduce seasonal unemployment in tourism (cf. this issue p. 23). Since January 2001 a new working time model extends employment by two weeks per season and should reduce unemployment benefit expenditures considerably.

The unemployment rate in Austria is quite low by international standards, but the high seasonal unemployment component of about 20–25 percent is exceptional. Almost one-third of the unemployed in Austria are re-employed by the same employer after a certain period of unemployment. Seasonal unemployment is well above average in agriculture, construction, and tourism. In these sectors, the benefits paid out by the unemployment insurance system significantly exceed contributions. The largest deficit is in tourism where benefits exceed contributions by approximately € 181 million. Based on the report regarding the efficiency of the social security system, the government announced that unemployment benefits should be suspended for the first four weeks if an employment relationship is cancelled by mutual agreement. The business and labour social partners opposed this measure and instead proposed an addition to the collective agreement between the Chamber of Commerce and the Trade Union of Hotels, Restaurants, and Personal Services. The Chamber of Commerce and the Trade Union signed the collective agreement which extends the employment of seasonal workers in the tourism industry by two weeks (average length of employment was seven months). This is achieved by using 40 hours of overtime to extend employment by one week (any additional overtime will be paid out in cash), and by adding up to seven days off at the end of the employment period.

► The extension will ease the seasonal unemployment problem and may lead to a better distribution of unemployment benefits and contributions between sectors. It is interesting to note that the social partners have not addressed the problem of high seasonal unemployment for a long time. Only the government announce-

ment that it would suspend unemployment benefits led to the agreement between business and labour.

The Department for Education and Employment initiated performance-based pay for teachers. Those teachers who demonstrate “high and sustained levels of achievement and commitment” will receive extra pay starting in April 2001 (retroactive beginning in September 2000).

Traditionally, schoolteachers have been able to progress beyond the main salary scale only by taking on managerial functions, partially or wholly removing themselves from the classroom. There have been debates regarding alleged problems of teaching quality but also problems of low teacher morale and high turnover. The reform will set up an appraisal system<sup>10</sup> to allow progression to higher salary levels for teachers demonstrating high achievement and commitment levels regardless of their managerial responsibilities. Successful teachers will obtain a € 3,200 “threshold-rise” in annual salary and will be placed on a new scale of up to € 48,000 a year. As with most individual performance-related pay systems, it will be necessary to avoid the appearance of unfairness in the award of extra pay. However, this reform may set a precedent for other areas of public service.

☛ These changes have been strongly criticised by the main teachers’ unions, particularly the largest, the National Union of Teachers (NUT). They have argued that the government is seeking to impose the new system without proper consultation, but they also have substantive objections. Decisions on promotion over the threshold would be made by head teachers in conjunction with external assessors, and it is feared that this would involve cases of favouritism. The criteria were also contentious since they included pupil achievement. The unions argued that this was largely dependent on factors outside the individual teacher’s control. This issue is of great symbolic importance since “payment by results” had existed when state education was first introduced. It was abol-

#### United Kingdom – Performance-Based Pay for Teachers

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

10 The appraisal is made by head teachers on the basis of applications submitted by individual teachers. There is provision for external validation of the decisions, and a possibility of external appeal against refusal of an increase.

ished after a fierce campaign by the profession in the 1890s. Experts say that the outcome is difficult to predict. Teachers have done poorly in salary terms during the 1990s, while new systems of external monitoring have intensified workloads. There has been a recruitment crisis at the same time in the wake of an increase in early retirement among experienced staff. The new structure could prove attractive in offering opportunities for higher salaries for classroom teachers, but could be counter-productive if its effects are divisive. Research in other fields has shown the problems caused by rewarding individuals when achievement depends on collective co-operation.

### Changes and Results

**United Kingdom –**  
Employment  
Relations Act 1999:  
Trade Union  
Recognition and  
Representation

The Employment Relations Act of 1999 (cf. Issue 2, p. 46) covered a wide-ranging agenda of reforms, but in most cases did not prescribe the detail of the new legislation. This was left to be determined by ministerial order. Two important issues were among the last to be so specified: trade union recognition, and representation at disciplinary hearings.

*Trade union recognition:* The new statutory procedure for trade union recognition came into effect on 6 June 2000. Its enforcement is assigned to the Central Arbitration Committee (CAC), a hitherto insignificant body consisting of employer and union representatives, as well as “neutrals” (lawyers and academics). The legislation applies to employers with more than 20 employees. A union with at least 10 percent membership in the bargaining unit that has been refused recognition may apply to the CAC for an employee ballot. The CAC, which will adjudicate any dispute as to the appropriate bargaining unit, will normally arrange a secret ballot. If a majority of those voting and constituting at least 40 percent of the relevant work force support the union(s), then the CAC will issue a declaration of recognition. The union(s) and employer then have 30 working days to agree to a procedure for collective bargaining. Failing this, the CAC itself will specify one (guided by the principles set out in the ministerial order). Procedures are also specified for derecognising a union. This cannot take place within three

years of an initial recognition order. Conversely, a union which fails to win recognition cannot re-apply within three years. There are procedures to allow union access to workers during recognition and derecognition votes.

*Right of representation:* British law provides a right of compensation for unfair dismissal, and in any claim before an employment tribunal the adequacy of the employer's procedures can be considered. However, until now there has been no legal obligation for an employer to allow an employee independent representation in disciplinary hearings. New provisions which took effect on 4 September 2000 provide a right to such representation which may result in a formal warning or more serious sanctions, and in grievance hearings which relate to a worker's statutory or contractual rights. On the same date there came into effect a new code of practice on disciplinary and grievance procedures drawn up by the Advisory Conciliation and Arbitration Service, a statutory but semi-autonomous agency. The code is not directly binding on employers, but is relevant in any case before an employment tribunal. The representative chosen by the employee may (but need not) be either a full-time or lay trade union official, even if the employer does not recognise the union. A fellow employee acting as representative must be allowed time off with pay in order to perform the function.

☛ Trade union recognition: the impact of the new procedure is as yet difficult to assess. It is very unusual for a union to have majority membership in a company and be refused recognition. However, an unrecognised union with substantial minority membership now has a clear incentive to pursue employee support for recognition. In anticipation of the law, there was a marked increase in the number of voluntary recognition agreements during 1999. Consequently, union membership increased slightly for the first time in 20 years. This trend seems to be continuing, though unions have been slow to commence claims under the new statutory provisions. Introducing a law on trade union recognition was one of the Labour government's campaign commitments. Employers' organisations opposed this in principle, but on virtually all issues of application the employers' preferences have prevailed. Many observers believe that it will be extremely difficult for a union to win recog-

dition against vigorous employer resistance. Right of representation: the great majority of larger British firms already allow independent representation in disciplinary hearings. However, the recent National Workplace Employee Relations Survey (WERS) showed that in medium-sized to large firms (25 or more employees), 6 percent did not. Almost all of these do not have trade union recognition. The new provisions may give unions additional leverage in such firms. The scope, however, of the right to representation is very narrowly defined.

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## Currency Conversion

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

1 €	=	USD	0.8952	=	DEM	1.95583
	=	JPY	110.16	=	ESP	166.386
	=	DKK	7.4637	=	FRF	6.55957
	=	SEK	9.1210	=	ITL	1936.27
	=	GBP	0.62400	=	NLG	2.20371
	=	CHF	1.5347	=	ATS	13.7603
	=	CAD	1.3962	=	FIM	5.94573
	=	AUD	1.7995			

Source: European Central Bank, Exchange Rates as of Tuesday, 27 March 2001.

