

**Economics Department Working Paper No. 429**

**ASSESSING THE OECD JOBS STRATEGY: PAST  
DEVELOPMENTS AND REFORMS**

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**ANNEXES**

*Note:* The Annexes to the OECD Economics Department Working Paper No. 429 are only available on the Economics Department Website at [www.oecd.org/eco/Working\\_Papers](http://www.oecd.org/eco/Working_Papers).

## TABLE OF CONTENTS

ANNEX 1: MAIN PLANKS OF THE OECD JOBS STRATEGY .....	3
ANNEX 2: COUNTRY NOTES .....	12
AUSTRALIA .....	13
AUSTRIA .....	17
BELGIUM .....	21
CANADA .....	25
CZECH REPUBLIC .....	29
DENMARK .....	33
FINLAND .....	37
FRANCE .....	42
GERMANY .....	46
GREECE .....	50
HUNGARY .....	54
ICELAND .....	58
IRELAND .....	62
ITALY .....	66
JAPAN .....	70
KOREA .....	74
LUXEMBOURG .....	78
MEXICO .....	82
NETHERLANDS .....	86
NEW ZEALAND .....	90
NORWAY .....	94
POLAND .....	98
PORTUGAL .....	102
SLOVAK REPUBLIC .....	106
SPAIN .....	110
SWEDEN .....	114
SWITZERLAND .....	118
TURKEY .....	121
UNITED KINGDOM .....	125
UNITED STATES .....	129
ANNEX 3: METHODOLOGY OF QUANTIFYING LABOUR MARKET REFORMS .....	132
A3.1.    Evaluating policies in different areas .....	132
A3.2.    Scoring method .....	133
A3.3.    Sensitivity analysis .....	140

## ANNEX 1 MAIN PLANKS OF THE OECD JOBS STRATEGY

### A1.1 Introduction

1. The policy recommendations below are designed to improve the ability of economies and of societies both to cope with, and benefit from, change, by:

- Enhancing the ability to adjust and to adapt; and
- Increasing the capacity to innovate and be creative.

2. The recommendations have been developed against the background of the tight budgetary constraints faced by virtually all governments. The focus throughout is on the design of policies which facilitate and encourage participation in work, thereby keeping to a minimum the numbers of those who have to live wholly on income support.

3. Most countries face broadly these basic policy needs and constraints; hence most of the recommendations apply to most countries. At the same time, differences in country circumstances and institutions mean that there will be differences in the priorities for individual countries.

4. The recommendations do not apply to governments alone. In many cases responsibility for action to improve employment performance lies most directly with employers, trade unions and individual workers.

5. The strategy for jobs contains a range of macroeconomic and structural policies: structural reforms will be more successful in a stable macroeconomic environment; in the absence of structural reforms, growth soon becomes stifled by inflation pressures.

6. The recommendations elaborate the following broad programme of action, which should be implemented by governments in a co-ordinated manner, to arrive at a balanced mix of policies which mutually reinforce innovative and adaptive capacity and improve conditions for job creation:

1. Set macroeconomic policy such that it will both encourage growth and, in conjunction with good structural policies, make it sustainable.
2. Enhance the creation and diffusion of technological know-how by improving frameworks for its development.
3. Increase flexibility of working time (both short-term and lifetime) voluntarily sought by workers and employers.
4. Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.

5. Make wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular of younger workers.
6. Reform employment security provisions that inhibit the expansion of employment in the private sector.
7. Strengthen the emphasis on active labour market policies and reinforce their effectiveness.
8. Improve labour force skills and competences through wide-ranging changes in education and training systems.
9. Reform unemployment and related benefit systems – and their interaction with the tax system – such that societies' fundamental equity goals are achieved in ways that impinge far less on the efficient functioning of labour markets.

## **A1.2 Policy recommendations**

### ***A1.2.1 Set appropriate macroeconomic policy***

*Macroeconomic policy has two roles in reducing unemployment: over the short term it limits cyclical fluctuations in output and employment; and over the longer term it should provide a framework, based on sound public finances and price stability, to ensure that growth of output and employment is sustainable, inter alia through adequate levels of savings and investment.*

- Macroeconomic policy should focus on assisting recovery through faster non-inflationary growth of domestic demand where there is still substantial economic slack, while policies should be adjusted promptly to avoid a rekindling of inflation when recovery is well underway.
- Over the medium term most countries need to set fiscal consolidation as a main objective in order to reduce budget deficits and public debt levels. Such consolidation will allow interest rates to be reduced and hence provide a better environment for private sector investment. If recovery proceeds more rapidly than expected, the process of consolidation should be accelerated.
- There is often room, as well as a strong case, for redirecting and improving the quality of budgets, and in particular of public spending, for example away from subsidies to existing enterprises and towards establishing better conditions for the birth and survival of new firms, and from passive measures of income support to active labour market policies.

### ***A1.2.2 Enhance the creation and diffusion of technological know-how***

*Technological development is the main force determining growth in productivity, employment and living standards in the medium and long run. While labour-saving technical progress reduces the labour inputs necessary per unit of production and hence can displace jobs in the short-run, in particular in low-skilled occupations, the higher productivity associated with process innovations increases real incomes, while the creation of new products and services generates additional demand. Policies should accordingly be aimed at improving the ability of societies and economies to create and make effective use of new technologies which form a base for the expansion of high-productivity, high-wage employment.*

- Invest in the creation of new knowledge through basic scientific research, and facilitate the access of firms to scientific and technological knowledge.
- Promote and strengthen mechanisms for international co-operation to reap economies of scale and reduce duplication in long-term R&D, especially in relation to the needs of megascience projects and networks of practising scientists and scholars.
- Reduce uncertainties which impair the creation and diffusion of new technologies:
  - Promote multilateral agreements on intellectual property rights and on international standards.
  - Promote transparency in, and where appropriate, “rules of the game” -- the application of GATT-consistent rules and criteria -- for government support to “strategic” technologies.
  - Ensure a sound legal framework for market-driven institutions to diffuse and effectively apply new technologies (research associations, technology extension services for small business, improved industry/university links).
- Facilitate absorption of new technologies in firms through measures which:
  - Make better use of public procurement and contracts (*e.g.* by encouraging innovation through performance requirements, by breaking up contract size, and by encouraging supply consortia of small firms and linkages between large firms and small firms).
  - Promote investment in new information infrastructures through removing regulatory barriers to market access and establishing adequate standards, protocols and intellectual property rights to stimulate the creation of new and more effective services.

### ***A1.2.3 Increase working-time flexibility***

*Increasing short-term and lifetime flexibility of working time in contracts voluntarily entered into by employers and workers would lead to higher employment. An important element in this process would be to foster the growth of voluntary part-time work. Governments have a role to play in this process by removing obstacles to, and facilitating, reductions in working time and by reviewing existing taxation and social security provisions which discriminate against part-time work.*

*More flexible working-time arrangements could result from measures that:*

- Remove obstacles in labour legislation which impede the emergence of flexible working-time arrangements, and encourage employer-employee negotiations on flexible working hours and part-time work.
- Extend part-time working in the public sector.
- Move from the household to the individual as the base for the income tax, and take measures to avoid any loss of tax allowances.

*More flexible retirement could result from measures that:*

- Reduce or remove non-neutral financial incentives for early retirement.
- Realign policies and programmes for older workers to provide them with more opportunities for participation in working life rather than incentives to withdraw.

#### ***A1.2.4 Nurture an entrepreneurial climate***

*Broadly-based policies are needed to encourage vigorous enterprise creation in the private sector. Public policy should remove regulations and practices that impede entrepreneurship and ensure that industrial assistance does not unduly favour established large firms at the expense of new small firms. These actions need to be accompanied by public education campaigns to encourage entrepreneurship and to remove any negative connotations linked to business failure. Programmes to foster entrepreneurship and small business should be integral parts of local development strategies.*

- Lower start-up costs and simplify compliance requirements to encourage new firm start-ups (e.g. improve information flows to prospective entrepreneurs, make government services more user-friendly, ease reporting requirements and record-keeping).
- Facilitate small business growth by improving information and advice for: business planning; equipment purchase; use of and access to training systems; access to technology and R&D; and access to export credit guarantee schemes. Regional and local governments should be encouraged to ensure an attractive environment for small business, while taking care to avoid creating distortions in business conditions, which could lead to the creation of enterprises that are non-viable in the longer term.
- Identify and eliminate any unwarranted regulatory impediments to credit accommodation for small business. Promote the development of products that can facilitate the financing of new businesses. Encourage the establishment of financial institutions with specialised expertise in specific sectors.

#### ***A1.2.5 Increase wage and labour cost flexibility***

*Wages have an important allocative role to play in labour markets by providing clear signals to workers and firms. At the same time, non-wage labour costs – employers' social security contributions, pay for time not worked etc. – which drive a wedge between what employers must pay to hire a worker and the value of his/her product have become a significant proportion of total labour costs in many countries over the last two decades. Where wage movements do not offset these growing non-wage labour costs, unemployment increases. Hence, there is a need in both the public and private sectors for policies to encourage greater wage flexibility and, in countries where the scope for increasing such flexibility is limited, to reduce non-wage labour costs. Actions on these fronts would involve changes in taxation, social policy, competition policy and collective bargaining.*

- Reassess the role of statutory minimum wages as an instrument to achieve redistributive goals, and switch to more direct instruments. If it is judged desirable to maintain a legal minimum wage as part of an anti-poverty strategy, consider minimising its adverse employment effects, including by:
  - Indexing it to prices, rather than average earnings;

- Ensuring sufficient differentiation in wage rates by age and region to prevent the minimum wage from harming employment prospects for young people or low-productivity regions.
- Reduce non-wage labour costs, especially in Europe, by reducing taxes on labour (where the budget situation or expenditure reductions make this possible) and/or by shifting away from taxes on labour towards other taxes, such as those on consumption or on income, where the base could be broadened to include more non-labour income.
- Reduce or remove provisions in the structure of tax and social security contributions which discourage part-time work or the employment of additional workers. Elimination of ceilings on the wage base that is subject to contributions should be a particular target (except in those few countries where there is an actuarially precise link between contributions and benefits).
- Reduce direct taxes (social security contributions and income taxes) on those with low earnings where this would shift the structure of labour demand towards low-wage workers, while protecting their incomes.

*Over the medium term, options include:*

- Refocusing sectoral collective bargaining to framework agreements which leave enterprises free to respond flexibly to market trends, provided they adhere to overall standards. The practice of administrative extension of agreements which impose inflexible conditions should be phased out.
- Introducing “opening clauses”, which allow higher-level collective agreements to be renegotiated at a lower-level.
- Stepping up competition in product markets through measures such as deregulation, lower tariff and non-tariff barriers, privatisation and a more open and vigorous competition policy, in order to reduce the ability of firms and employed “insiders” to exploit rent-sharing at the expense of employment opportunities for unemployed “outsiders”.

#### ***A1.2.6 Reform employment security provisions***

*Employment security provisions operate in two directions. These provisions recognise the reality of long-term reciprocal commitments between workers and firms, and encourage firms to retain and retrain workers who would otherwise be made redundant. However, if firms perceive that employment security provisions oblige them to keep workers who are no longer wanted, they become cautious in hiring, and “screen” applicants more carefully, to the particular detriment of job-seekers with labour market disadvantages.*

- Establish, *via* legislation or central-level collective agreements, employment security provisions which sanction unfair or discriminatory dismissals, yet allow dismissals which are required on economic grounds. More explicit long-term commitments overriding the latter provision should be negotiated at decentralised level, rather than imposed on all firms.

- Loosen mandatory restrictions on dismissals in countries where current provisions appear to seriously hinder economic restructuring and the hiring chances of new labour force entrants.
- Permit fixed-term contracts. In order to limit incentive for their use from becoming excessively widespread, mandatory protection for regular contracts could be kept relatively “light”, especially at the beginning of the contract. Further, policies should avoid any subsidy to fixed-term employment through the unemployment insurance system. Ways to achieve this could include increased rates of employer contribution; or a requirement that the employer pay a special bonus at the end of a fixed-term contract.

### ***A1.2.7 Expand and enhance active labour market policies***

*There is a general agreement on the need to shift the focus of labour market policies from the passive provision of income support to more active measures which assist reemployment. Public spending on labour market programmes in almost all countries is still dominated by passive measures. At the same time, it is important to enhance the effectiveness of active measures. Programmes should be targeted on specific client groups, or be designed to remedy specific labour market problems. It is also important to ensure a close interaction between active measures and unemployment and related benefit systems.*

- Improve the functioning of the Public Employment Service (PES):
  - Integrate three basic functions under the PES: placement and counselling services; payment of unemployment benefits; and management of labour market programmes. Ensure that the inflow, processing and dissemination of information on vacancies is given adequate attention which in most countries means greater attention.
  - Ensure that claimants remain in regular contact with the PES, and that they maintain job search efforts (back-to-work plans, job clubs, reorientation interviews).
  - Eliminate the monopoly position of the PES. There is a complementary role for private placement agencies as well as temporary work agencies. Require that the PES compete in the market for short-term placements (in order to increase the flow of vacancies).
- Maintain supply-side measures such as training for the unemployed during cyclical downswings:
  - Target and diversify training programmes for the unemployed, based on a thorough assessment of labour market needs.
  - Allow the labour market authorities to buy and sell training places for the unemployed in the private and public training market. They should also have the possibility of supplying training courses directly in order to increase flexibility and target efficiency for difficult-to-place groups.
  - Involve employers in the design and execution of training programmes for the unemployed at the local and community level.
- Target job creation measures to workers for whom joblessness is particularly harmful to future prospects (*e.g.* long-term unemployed youth) or to workers whose bargaining power is relatively weak (*e.g.* all long-term unemployed):



- Introduce incremental employment subsidies targeted to labour force groups in particular excess supply; pay specific attention to design and enforcement mechanisms so as to minimise deadweight and displacement effects.
- Set compensation levels in job creation programmes below what the participant could expect to get on the labour market, in order to maintain an incentive to search for regular work.
- Associate some training with temporary employment programmes in the public sector.
- Ensure that a significant part of public employment programmes is financed by municipalities out of local taxation and that the local PES is involved in managing the programme (so as to minimise “fiscal displacement” and maximise the quality of output).

#### ***A1.2.8 Improve labour force skills and competences***

*Extending and upgrading workers' skills and competences must be a life-long process if OECD economies are to foster the creation of high-skill, high-wage jobs. Education and training policies should be directed at furthering this goal, as well as at achieving other fundamental social and cultural objectives. This will require a major shift in policy in some countries and, in others, sustained development of existing policies, in particular those aimed at effective action to tackle three major problem areas: the quality of initial education, including early childhood education; the transition from school to work; and investment in work-related skills, especially for the least-qualified workers.*

- Improve the quality of initial education:
  - Increase the provision of pre-school programmes, especially for children from disadvantaged backgrounds.
  - Reduce early school-leaving and improve student performance through a wide range of reforms including more diversified curricula and learning methods; more scope for parents to choose schools for their children and more active involvement of parents; and better incentives for motivating teachers and more opportunities for their continuing professional development.
- Improve the school-to-work transition:
  - Promote industry-education partnerships to support new forms of apprenticeship-style training and to ensure that education remains relevant to labour market needs.
  - Create, at the national level, frameworks of standards for assessment, recognition and certification of training, to encourage young people to invest in skills and facilitate their mobility.
  - Set the “training wage” or allowance sufficiently low relative to the average wage in the occupation or sector in order to induce firms to supply a sufficient volume of training places.

- Prepare students better in post-secondary education by providing effective career guidance and by ensuring that overall balance is achieved between more traditional academic studies and technical and advanced vocational studies.
- Improve the incentives for enterprises and workers to invest in continued learning:
  - Enable workers to alternate between work and extended periods of off-the-job training over their working life (e.g. through reductions in working time that are compensated by increases in training time).
  - Implement a training levy/grant scheme to stimulate enterprises to undertake more skill development or a system of “training credits” for adult workers which permits them to acquire new skills at certified training establishments or firms; pay specific attention to design and enforcement mechanisms so as to minimise deadweight and substitution effects.
  - Make more transparent the value of skills relative to other factor inputs (e.g. by encouraging changes in financial accounting and reporting practices and related institutional arrangements), so that workers and firms can treat them as long-term assets.

#### ***A1.2.9 Reform of unemployment and related benefit systems***

*Unemployment insurance (UI) and related benefit systems were originally designed to provide temporary income support to the unemployed during the process of finding a new job. With the growth of long-term and repeat unemployment, these systems have drifted towards quasi-permanent income support in many countries, lowering work incentives. To limit disincentive effects -- while facilitating labour market adjustments and providing a necessary minimum level of protection -- countries should legislate for only moderate levels of benefit, maintain effective checks on eligibility, and guarantee places on active programmes as a substitute for paying passive income support indefinitely. Possibilities should be explored for making the transition from income support to work more financially attractive, through lowered income tax and social security charges on low earnings and the provision of in-work benefits to low-paid workers, and limiting the extent to which benefit is reduced when beneficiaries take a part-time job.*

*Reform of benefit entitlements:*

- Restrict UI benefit entitlements in countries where they are especially long to the period when job search is intense and rapid job-finding remains likely.
- Reduce after-tax replacement ratios where these are high, and review eligibility conditions where these require little previous employment history before drawing benefits.
- Impose restrictive conditions on indefinite-duration assistance benefits for employable people.
- Provide support for collective short-time working, but with administrative controls which restrict payment to firms that are in temporary difficulty and are taking appropriate adjustment measures.

*Reform of tax/benefits:*

- Ensure that low-paid workers are better off when there is some work income compared with relying entirely on social benefits by providing adequate universal child benefits, low average tax rates on low-wage workers relative to benefit incomes, or in-work income supplements to low-paid workers.
- Make the rate of withdrawal of assistance benefits with respect to the earnings of the spouse significantly less than 100 per cent in countries where many women work part-time, in order to leave a worthwhile incentive for the spouse of an unemployed benefit claimant to retain a part-time job.
- Make long-term benefits conditional on participation in active labour market programmes; this is especially desirable for young people leaving school.

*Reform of benefit financing and control:*

- Improve PES information systems so as to give staff access to information on the benefit status, declared work status, and past work history and job search efforts of claimants.
- Make employers pay some of the cost of lay-offs through: a requirement that they pay the first months of UI benefit; enforcement of severance pay requirements; or experience-rating of insurance contributions.
- Retain a local financing element in assistance benefits, to discourage the view that benefits are a costless transfer to the local economy, thereby encouraging local actors to implement eligibility restrictions and unemployment-reduction measures.
- Develop mechanisms for detecting and minimising benefit fraud.

## **ANNEX 2 COUNTRY NOTES**

### **NOTE**

The country notes in this annex contain a detailed description of reforms in each of the major seven policy areas discussed in the main text. The description in each country note is followed by tables that provide quantitative information about the developments of key institutional indicators for the country in question, and that show the scoring of reform intensity in each of the areas and for all seven areas together. In the latter table, "X" in the column "Recommendations" denotes that the EDRC recommended changes for the particular policy measure. The methodology applied in scoring reforms is discussed in Annex 3. The reform intensity indicators, reported in the main text, in each area and for all areas together are equal to the scores normalised by the maximum obtainable scores.

## AUSTRALIA

### Labour Taxes

**Overall labour taxes:** 2000, 2004 -- effective marginal tax rates were decreased substantially for some groups.<sup>1</sup>

**Overall payroll taxes:** 1997 -- 1 per cent health contribution surcharge for high income earners without private insurance came into effect; 1992-2002 -- mandatory employer contributions for pension funds gradually increased to 9 per cent.

**Labour taxes on low incomes:** 2000, 2003, 2004 -- tax-free thresholds were increased, tax bracket thresholds increased.

### Employment Protection Legislation (EPL)

**Notice periods:** 1996 -- Workplace Relations Act sets out factors that the Australian Industrial Relations Commission must take into account when determining whether a termination is unfair; employees have to be notified of the impending dismissal and of the reasons for it.

**Severance pay:** 2004 -- severance pay scale for employers with 15 or more employees was increased and smaller enterprises now have to pay as well.

**Dismissals:** 2001-- new employees have to be employed for three months before they can claim dismissal protection and the Australian Industrial Relations Commission must take into account the size of the business when determining whether a dismissal procedure was reasonable.

### Unemployment benefits

**Work availability requirements:** 1995 -- allowance for partners of unemployed jobseekers was abolished and all people without children under age 16 have to pass an activity test to receive benefits.

**Work disincentives:** 1994 -- individual entitlement to benefits for each spouse was introduced; 1995 -- one spouse's income below his or her own entitlement ceiling does not affect entitlements of the other spouse (unemployment benefits are means-tested in Australia); highest withdrawal rate entitlements was reduced to 70 per cent (from 100 per cent); 2000 -- further reduction of withdrawal rates for families and introduction of possibility for unemployed people to accumulate a portion of their income-test free earnings over time to offset this against the earnings test when taking up work later.

**Benefit conditionality:** 1998 -- introduction of compulsory activation after six months for jobseekers under the age of 24; 1999 -- extended to 25-34 years old job seekers (after 12 months); 2000 -- obligation for all job seekers under the age of 49 to participate in activation measures after 6 months with an additional requirement for job search; jobseekers with young children have to attend an annual interview instead.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** Regular evaluations of ALMPs.

**Extent of ALMPs:** 1998 -- compulsory activation measures among which benefit recipients can select, *inter alia* government funded part-time work (Work for the Dole), voluntary work, education and training; 2001 -- mandatory design of a plan of action and new transition to work programme, providing assistance to people trying to return to paid employment after a long absence from the workforce; 2002 -- job search training for all unemployed people, including those on welfare; 2003 -- introduction of enhanced, individualised support by a single counsellor throughout the unemployment spell.

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1. The increase in the tax wedges in 2002 reported in Table A2.1 is due to methodological changes (OECD, *Taxing Wages*, 2001-2002)

**Targeting of ALMPs:** 1994 -- wage subsidies and private job creation schemes primarily focused on the long-term unemployed; 1998 -- since the privatisation of placement activities, employment placement enterprises have to develop action plans and administer activity tests for the long-term unemployed and those at risk of long spells of joblessness; 2003 -- the long-term unemployed receive customised assistance after 12 months of unemployment, or earlier, if they are assessed as being disadvantaged.

**Integration and restructuring of ALMP activities:** 1997 -- labour market programmes streamlined and simplified to target the most cost-effective schemes in helping people into jobs.

**Contestability of PES:** 1998 -- introduction of a competitive market for employment placement services, where private and public firms compete with payment arrangements and future contracts related to placement success into jobs that last longer than 6 months, the highest fees are paid for those who are most at risk and hardest to place and the placement enterprises cannot refuse clients; labour market programmes are contracted out as well.

**Integration of job counselling, ALMPs and various benefit agencies:** 1997 -- Centrelink combines the responsibility for the administration of a wide range of different benefits, registry of jobseekers, their classification according to their employability and their referral to placement service enterprises, while employment brokerage services are contracted out.

### **Early retirement, invalidity schemes and old-age pensions**

**Invalidity and sick pay schemes:** 2002-03 -- increased support and tightened eligibility requirements for people claiming or receiving the Disability Support.

**Others:** 2002-03 -- provision of more effective employment assistance, as well as training and rehabilitation places, for disability benefit recipients.

### **Industrial relations and wage setting**

**Wage determination:** 1994 -- new and easier to implement direct enterprise-level wage agreements introduced; 1996 -- sectorally-negotiated awards are confined to 20 “allowable” matters which mainly set out minimum wages and work conditions, other matters being governed by enterprise level agreements and statute; new individual agreement which prohibits uninvited union involvement developed; 1997 -- greater choice in the way enterprise agreements are reached, role of unions in negotiations prescribed and industrial action limited; several states passed legislation that closely paralleled the federal provisions over the course of the 1990s; 2002 -- new law re-inforced the focus of agreements on local circumstances and required secret ballots for industrial action.<sup>2</sup>

### **Working time flexibility, part-time work**

No action.

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2. The OECD wage agreement centralisation indicator declined from 4 to 2 already in the 1980s, reflecting the increased role of plant level agreements; no further declines were registered over the 1990s, because the indicator is more a rough classification scheme for different bargaining systems than an indicator trying to capture the evolution of reforms with all their intermediate steps.

Table A2.1. Australia: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	27.8	--	32.3	--	32.1	--	31.4	--	29.9	--	29.4	--	--
All periods	28.2	--	32.9	--	32.6	--	31.9	--	29.9	--	29.4	--	--
1 year	18.6	--	21.3	--	21.0	--	21.0	--	19.8	--	19.7	--	--
All periods	18.9	--	21.6	--	21.6	--	21.3	--	19.8	--	19.7	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	64.8	--	71.1	--	55.0	--	57.3	56.5	--
Average long-term	--	--	--	--	64.8	--	71.4	--	55.1	--	57.3	56.5	--
Average initial	--	--	--	--	54.0	--	57.0	--	42.8	--	47.3	45.3	--
Average long-term	--	--	--	--	54.0	--	57.3	--	42.8	--	47.3	45.3	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Direct tax wedge average<sup>1,2</sup></b>													
Single No child	--	--	--	--	--	12.7	13.2	13.6	13.8	11.5	11.9	17.4	17.3
Single 2 children	--	--	--	--	--	-34.8	-36.6	-35.0	-33.7	-37.4	-59.8	-47.5	-47.7
Single 2 children	--	--	--	--	-6.8	-10.2	-9.7	-6.4	-4.1	-11.0	-11.8	-0.7	-0.4
Single No child	--	--	--	--	--	20.7	21.2	22.0	22.6	19.5	20.1	25.5	25.4
Couple No child	14.5	14.9	14.9	15.8	16.1	15.0	14.5	15.5	16.1	13.5	14.2	20.4	20.4
Couple 2 children	--	--	--	--	--	12.7	13.2	13.6	13.8	11.5	11.9	16.7	16.6
Couple No child	--	--	--	--	--	3.2	4.4	6.7	8.4	-2.2	-1.6	6.5	6.9
Couple 2 children	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPF	2631.5	1528.1	3064.6	3629.2	4912.0	3716.7	3160.4	2915.9	3624.1	4040.8	3739.6	3739.6	--
<b>Employment Protection Legislation</b>													
Temporary	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Permanent	1.0	1.0	1.0	1.0	1.0	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ----> 60 y. early retirement	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	--	--	--	-5.2 <sup>3</sup>
60 y. ----> 65 y. early retirement	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.7	--	--	--	23.4 <sup>3</sup>
60 y. ----> 65 y. old-age pension	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.7	--	--	--	23.4 <sup>3</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	20.4	22.6	24.3	24.4	25.0	25.2	26.0	25.9	26.1	26.2	27.2	27.5	27.9
<b>Wage setting</b>													
Ratio of minimum to median wage	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Coordination	4.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	--
Centralisation	4.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	--
Union density	--	40.5	37.5	34.7	32.6	31.0	30.3	27.9	25.4	24.5	24.3	22.9	--
Union coverage	--	80+	--	--	--	--	--	--	--	--	80+	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Increase in the tax wedge in 2002 is due to changes in methodology (see OECD, *Taxing Wages*, 2001-2002).

3. Currently legislated systems. The 2003 figures incorporate the 'steady state' tax of the Superannuation Guarantee scheme that became mandatory in 1992.

Table A2.2. Australia : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X		-1	+	1	0
Overall payroll taxes	X		-	-		0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X			+	4	2
Payroll taxes on low incomes						0
<b>Total</b>			<b>-1</b>		<b>5</b>	<b>2</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>			-2			-1
General stance	X					0
Prior authorisation						0
Notice periods			-			0
Severance pay				-	-1	-0.5
Dismissals				+	1	0.5
Others						0
<b>Temporary contracts</b>						0
Fixed-term contracts						0
Temporary work agencies						0
Guidelines for courts						0
<b>Total</b>			<b>-2</b>		<b>0</b>	<b>-1</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates						0
Benefit duration						0
Work availability requirements	X		+	1		0.5
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality			+	1	+	1
Waiting periods						0
Work disincentives			+	1	+	1
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>3</b>		<b>2</b>	<b>2.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X			+	1	0.5
Extent of ALMPs	X		+	4	+	3
Targeting of ALMPs	X		+	1	+	1
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities			+	1		0.5
Contestability of PES	X		+	2		1
Integration of job counselling, ALMPs and various benefit agencies			+	1		0.5
Others						0
<b>Total</b>			<b>9</b>		<b>5</b>	<b>7</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions						0
Invalidity or sick pay schemes				+	1	0.5
Others				+	1	0.5
<b>Total</b>			<b>0</b>		<b>2</b>	<b>1</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination	X		+	3	+	3
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages						0
Others						0
<b>Total</b>			<b>3</b>		<b>3</b>	<b>3</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements						0
Flexibility of part-time work						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>

<b>Australia : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	-1	5	2
Employment Protection Legislation	-2	0	-1
Unemployment benefits	3	2	2.5
Active Labour Market Policies	9	5	7
Early retirement, invalidity schemes and old-age pensions	0	2	1
Industrial relations and wage setting	3	3	3
Working time flexibility, part-time work	0	0	0
<b>Total</b>	<b>12</b>	<b>17</b>	<b>14.5</b>



## AUSTRIA

### Labour Taxes

**Overall labour taxes:** 1994 -- general tax credit was widened significantly; 1996 -- widening of the tax base and phasing out of the general tax credit for higher incomes; beginning in 1999 -- child tax credits and benefits as well as family allowances increased in several steps; 2000 -- general tax credit increased; 2004 -- increases in child benefits; 2004-2005 -- tax reductions mostly for low and middle-income workers.<sup>3</sup>

**Overall payroll taxes:** 1995 -- coverage of social security contributions extended to the self-employed and casual employment; 2004 -- partial harmonisation of health fund contribution rates leads to increased rates for many workers.

**Labour taxes on low incomes:** 2000 -- subsistence income up to relatively low ceiling made tax-free; 2004 -- increases in the basic tax allowance, as well as tax rate reductions, phased in.

**Payroll taxes on low incomes:** 1994 -- introduction of negative income tax of 10 per cent of social security contributions.

### Employment Protection Legislation (EPL)

**Severance pay:** 2003 -- right to a severance pay upon contract termination after three years with the same employer replaced by retirement accounts funded by monthly employer contributions which are accumulated over the employees' entire working life, removing the specific costs of dismissals.

**Dismissals:** 1996 -- fine introduced for dismissal of older workers; 2001 -- waiting period after recruitment before older workers benefit from special dismissal protection increased from 6 months to 2 years.

**Fixed-term contracts:** 2003 -- restrictions on temporary employment in tourism and agriculture eased.

**Temporary work agencies:** 2003 -- private job placement agencies are allowed to deliver services as temporary work agencies.

### Unemployment benefits

**Benefit replacement rates:** 1996 -- the earnings history for benefit calculation was increased from 6 to 12 months and working hours have to be averaged over time to deal with seasonal unemployment; 2000 -- single basic replacement rate of 55 per cent of former net earnings introduced with top-ups for low-income groups.

**Work availability requirements:** 2005 -- work availability criteria concerning geographical mobility and change of profession becomes stricter, as will sanctions for repeated non-compliance with the rules.

**Eligibility:** 1995-1996 -- special support schemes for some groups restricted or eliminated, the qualifying period for unemployment benefits increased from 26 to 28 months.

**Re-qualification possibilities:** 2001 -- earnings period to re-qualify increased from 26 to 28 months.

**Waiting periods:** 2001 -- four-week waiting period introduced.

**Work disincentives:** 1998 -- reduced social assistance and unemployment benefits can be combined with temporary employment.

### Active Labour Market Policies (ALMPs)

**Extent of ALMPs:** since late 1990s -- introduction of considerable efforts to offer training or subsidised employment before benefit recipients enter long-term unemployment; 2001 -- profiling of jobseekers according to their employability.

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3. The increase in the tax wedges in 1997 reported in Table A2.3 is due to methodological changes (OECD, *Taxing Wages*, 2001-2002)

**Targeting of ALMPs:** 2001 -- youth job promotion schemes extended.

### **Early retirement, invalidity schemes and old-age pensions**

**Early retirement schemes and old-age pensions:** 1996 -- social charges for older employees reduced; 1995-2000 -- minimum contribution periods for early retirement increased, minimum retirement age raised and actuarial adjustments for early retirement introduced and raised subsequently; 2001 -- subsidies for older workers working part-time introduced, a scheme which is effectively used as a route to early retirement; 2003 -- the earnings base used for benefit calculation will be progressively increased from the best 15 to the best 40 years, minimum age for eligibility for early retirement on account of unemployment or long insurance periods will gradually increase until it reaches the standard age in 2017;<sup>4</sup> 2004 -- further reductions in social charges for older employees.

**Invalidity and sick pay schemes:** 1996 -- stricter controls for invalidity schemes and increase in the minimum age for early retirement on account of reduced working capacity; 2000 -- some provisions for obtaining sick-pay relaxed; 2001 -- early retirement on account of reduced working capacity abolished, although with an accompanying relaxation of eligibility conditions for low-skilled workers within the general invalidity pension open to all disabled people independent of age.

### **Industrial relations and wage setting**

**Wage determination:** 1990s -- a number of wage agreements have allowed for some additional wage differentiation within the firm's workforce, provided there is an agreement between the management and the workforce, and subject to further conditions concerning the total wage bill.

### **Working time flexibility, part-time work**

**Flexibility of working-time arrangements:** 1997 -- maximum allowable working time can be distributed over a year rather than only 8 weeks.

**Flexibility of part-time work:** 1997 -- a legal right to claim part-time work was introduced for older workers under certain conditions; 2004 -- right to part-time work for all parents of young children introduced.

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4. This reform is not reflected in the implicit tax on continuing work beyond 60, as it is calculated based on the invalidity scheme in Austria.

Table A2.3. Austria: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	35.9	--	32.3	--	42.0	--	42.0	--	43.8	--	41.0	--	--
All periods	28.5	--	25.7	--	32.2	--	32.4	--	33.3	--	31.6	--	--
1 year	35.0	--	31.8	--	38.9	--	37.8	--	38.8	--	36.6	--	--
All periods	27.8	--	25.3	--	29.7	--	29.2	--	29.1	--	27.3	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	67.3	--	69.2	--	71.3	--	66.5	66.5	--
Average long-term	--	--	--	--	64.3	--	66.3	--	67.3	--	82.5	82.5	--
Average initial	--	--	--	--	64.3	--	65.4	--	67.8	--	64.3	64.0	--
Average long-term	--	--	--	--	62.3	--	62.6	--	63.3	--	63.8	64.8	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	12	--	12	--	10	--	--	10	--
<b>Direct tax wedge average<sup>1,2</sup></b>													
Single No child	--	--	--	--	--	33.1	36.9	36.9	36.8	36.6	35.7	35.7	35.7
Single 2 children	--	--	--	--	--	1.3	5.4	6.0	4.1	-2.1	-3.2	-2.4	-3.0
Single 2 children	--	--	--	--	15.6	16.3	19.8	20.1	18.6	15.7	15.3	16.2	16.3
Couple No child	--	--	--	--	40.2	44.3	44.5	44.5	31.6	43.7	43.3	43.6	43.8
Couple 2 children	25.6	23.6	24.3	24.6	27.2	28.0	32.2	32.7	31.6	29.5	29.0	29.5	29.5
Couple No child	--	--	--	--	--	33.1	36.9	36.9	36.8	36.6	35.7	35.7	35.7
Couple 2 children	--	--	--	--	17.8	17.8	21.8	22.1	20.5	18.7	17.8	18.1	17.8
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	3107.6	4524.4	3562.5	4519.6	4515.5	4560.4	5189.2	5267.6	7204.5	7657.0	7825.4	7062.5	--
<b>Employment Protection Legislation</b>													
Temporary	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Permanent	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.4
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	--	--	--	--	--	--	--	--	--	56.5	--	--	55.4 <sup>3</sup>
60 y. ---> 65 y. early retirement	--	--	--	--	--	--	--	--	65.6	--	--	--	65.6 <sup>3</sup>
60 y. ---> 65 y. old-age pension	--	--	--	--	--	--	--	--	10.0	--	--	--	8.8 <sup>3</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	--	--	--	--	11.1	10.9	10.8	11.5	12.3	12.2	12.4	13.5	13.6
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	--	--	--	--	--
Coordination	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	--	--
Centralisation	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	--	--	--
Union density	51.6	46.9	43.2	41.4	41.1	40.1	38.9	38.4	37.4	36.5	35.7	--	--
Union coverage	--	95+	--	--	--	--	--	--	--	95+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Increase in the tax wedge in 1997 is due to changes in methodology (see OECD, *Taxing Wages*, 2001-2002).

3. Currently legislated systems.

Table A2.4. Austria : Recommendation and actions since 1994

Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
	Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>					
<b>Overall taxes on labour income</b>					
Overall labour taxes	[+, -] = +	1	+	1	1
Overall payroll taxes	~				0
<b>Taxes on low income</b>					
Labour taxes on low incomes	+	1	+	2	1.5
Payroll taxes on low incomes	+				0
<b>Total</b>		<b>2</b>		<b>3</b>	<b>2.5</b>
<b>Panel B. Employment Protection Legislation</b>					
<b>Regular contracts</b>				2	1
General stance					0
Prior authorisation					0
Notice periods					0
Severance pay			+		0
Dismissals	X	-	+	1	0
Others		-1			0
<b>Temporary contracts</b>					0
Fixed-term contracts	X		+	1	0.5
Temporary work agencies			+	1	0.5
Guidelines for courts					0
<b>Total</b>		<b>-1</b>		<b>5</b>	<b>2</b>
<b>Panel C. Unemployment benefits</b>					
Benefit replacement rates		~	+	1	0.5
Benefit duration					0
Work availability requirements			+	1	0.5
Eligibility		+			0.5
Re-qualification possibilities			+	1	0.5
Benefit conditionality					0
Waiting periods			+	1	0.5
Work disincentives	X	+			0.5
Establishment or strengthening of UI schemes					0
Others	X				0
<b>Total</b>		<b>2</b>		<b>4</b>	<b>3</b>
<b>Panel D. Active Labour Market Policies</b>					
Evaluation effort					0
Extent of ALMPs	X	+	1	+	2
Targeting of ALMPs				+	1
Re-qualification via ALMPs					0
Integration and restructuring of ALMP activities					0
Contestability of PES					0
Integration of job counselling, ALMPs and various benefit agencies					0
Others					0
<b>Total</b>		<b>1</b>		<b>3</b>	<b>2</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>					
Early-retirement schemes and old-age pensions	X	+	1	+	2
Invalidity or sick pay schemes		+	1	[+, -] = ~	0
Others					0
<b>Total</b>		<b>2</b>		<b>2</b>	<b>2</b>
<b>Panel F. Industrial relations and wage setting</b>					
Wage determination	X	+	0.5		0.25
Wage distribution or indexation					0
Wage setting with regard to skill level, experience and productivity	X				0
Administrative extension					0
Use of "opt-out" clauses	X				0
Minimum wages					0
Others					0
<b>Total</b>		<b>0.5</b>		<b>0</b>	<b>0.25</b>
<b>Panel G. Working time flexibility, part-time work</b>					
Flexibility of working-time arrangements	X	+	1		0.5
Flexibility of part-time work	X	+	0		0
Others	X				0
<b>Total</b>		<b>1</b>		<b>0</b>	<b>0.5</b>

<b>Austria : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	2	3	2.5
Employment Protection Legislation	-1	5	2
Unemployment benefits	2	4	3
Active Labour Market Policies	1	3	2
Early retirement, invalidity schemes and old-age pensions	2	2	2
Industrial relations and wage setting	0.5	0	0.25
Working time flexibility, part-time work	1	0	0.5
<b>Total</b>	<b>7.5</b>	<b>17</b>	<b>12.25</b>

## BELGIUM

### Labour Taxes

**Overall labour taxes:** 2000 -- increase in the share of childcare cost that is tax deductible; 2001 - tax reform, including upwards shifts in tax brackets and the abolition of the two highest tax brackets, tax reductions for married couples and single parents.

**Labour taxes on low incomes:** 2001 -- introduction of an in-work tax credit concentrated on low wages (calculated on an individual basis).

**Payroll taxes on low incomes:** 1994 -- employers' contributions reduced on low salaries in a regressive way and to a maximum of 50 per cent; 1995 -- increase in the ceiling below which reductions in employers' social security contributions are granted; 1996 -- further reduction in employers' contributions; 2000-01 -- further cuts in employers' social security contributions.

### Employment Protection Legislation (EPL)

**Notice periods:** 2000 -- tightening of rules concerning notice periods and compensation in case of unjustified dismissal for blue-collar workers.

**Fixed-term contracts:** 1997 -- fixed term contracts made renewable; 2002 -- maximum total duration of fixed-term contracts lengthened in those cases where it is justified by temporary increase in work-load.

**Temporary work agencies:** 1997 -- restrictions on temporary work agencies reduced.

### Unemployment benefits

**Benefit duration:** 1996 -- tightening of rules governing the exclusion from the unemployment scheme on grounds of "abnormally long" periods of unemployment.

**Work availability requirements:** 2000 -- rules concerning the application of benefits made more flexible to allow a calibration of the sanctions with respect to specific transgressions leading to a strong increase in mild sanctions early in the unemployment spell.

**Eligibility:** 1994 -- lengthening of the period during which school leavers are not entitled to benefits.

**Work disincentives:** 2000 -- benefit recipients taking up employment at around the minimum wage can keep for a transition period the social security advantages -- such as family allowances -- linked to their previous status.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** 1996 -- regular evaluation of ALMPs and labour market programmes; 2000 -- continued efforts to evaluate labour market policies.

**Extent of ALMPs:** 1993 -- introduction of personalised support plans (*plans d'accompagnement des chômeurs*) for the unemployed younger than 46, plans include evaluation of skills and job prospects, monitoring, counselling and retraining; 1998 -- early activation through schooling, training and job-experience for young people after 6 months and after 12 months for the long-term unemployed.

**Targeting of ALMPs:** 1995 -- social security contribution reductions for employers hiring unemployed over the age of 50; 1995-97 -- introduction of employment schemes for the young and the long-term unemployed (*régime des contrats de première expérience professionnelle, programme de transition professionnelle, "Smet-jobs"*), some of them subsidised by unemployment benefits, others through reduced social security contributions; 2000 -- "First Job Programme" (*plan premier emploi*) targeted at young people (below age of 25) with reduced non-wage labour costs for those with low qualifications, further social security contribution cuts for workers older than 46; 2001 -- extension of the *plan d'accompagnement des chômeurs* to persons older than 46.

**Integration of job counselling, ALMPs and various benefit agencies:** 2000 -- improved co-operation between the federal government and the social security system financing unemployment benefits in implementing the “plans d’accompagnement des chômeurs”.

### **Early retirement, invalidity schemes and old-age pensions**

**Early-retirement schemes and old-age pensions:** 1995 -- age limit for early retirement lowered to 55 under certain conditions; 1996 -- widening of exemptions from job search for older unemployed (*i.e.* 50 years old or more); 1999 -- the age limit for early retirement (*pré-pension*) raised again to 58; 2000 -- special leave programme (*interruption de carrière*), allowing part-time work rather than a full withdrawal, aimed specifically at increasing the employment rate of older persons; 2002 -- job search requirement applied again for the newly unemployed from 50 to 55 with the age of job-search exemption being progressively raised to 58 until 2004, retirement age for women to be increased from 62 to 65 by 2009.

### **Industrial relations and wage setting**

**Wage determination:** 1996 -- law on employment and competitiveness providing a mechanism to keep aggregate wage and labour cost growth in line with the weighted average increase in the three major trading partners in the EU. This results in a strengthening of centralised wage bargaining, as maxima are now set at the central level rather than minima.

### **Working time flexibility, part-time work**

**Flexibility of working-time arrangements:** 1996 -- firms granted the right to spread conventional working hours more unevenly over the year; special leave programme (*interruption de carrière*) allowing employees to temporarily reduce their working time or to interrupt their career while receiving a benefit with the aim of preventing them from withdrawing from the labour market altogether; 2002 -- special leave programme replaced by a so-called time credit system differentiated for all prime-age employees and for employees aged 50 and over.

**Flexibility of part-time work:** 1996 -- improved rights for part-timers.

Table A2.5. Belgium: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	58.0	--	56.3	--	55.3	--	55.7	--	54.7	--	53.2	--	--
67% APW	48.9	--	46.7	--	44.7	--	46.1	--	45.1	--	44.7	--	--
67% APW	41.3	--	38.0	--	37.0	--	37.0	--	36.7	--	35.6	--	--
100% APW	34.7	--	31.3	--	29.8	--	30.6	--	30.3	--	29.9	--	--
All periods													
<b>Net replacement rate</b>													
Average initial	--	--	--	--	79.5	--	78.9	--	81.3	--	77.3	80.8	--
67% APW	--	--	--	--	89.3	--	78.1	--	77.5	--	72.0	77.0	--
Average long-term	--	--	--	--	62.0	--	61.5	--	63.5	--	59.8	62.8	--
67% APW	--	--	--	--	61.0	--	61.0	--	59.8	--	55.8	60.0	--
Average initial													
Average long-term													
100% APW													
100% APW													
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	No limit	--	No limit	--	No limit	--	--	No limit	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	41.9	34.1	34.3	34.5	27.1	29.8	24.6	22.4
40% APW	--	--	--	--	--	16.0	5.0	5.0	5.2	-5.2	-0.6	-7.0	-8.1
Single 2 children	--	--	--	--	--	33.8	32.6	34.5	34.6	33.5	33.1	32.3	31.7
67% APW	--	--	--	--	--	50.3	50.5	50.8	50.8	50.1	49.6	49.1	48.3
100% APW, 0% APW	38.4	--	38.6	38.6	40.3	40.4	40.8	41.1	41.2	40.5	40.3	39.7	39.0
Couple 2 children	--	--	--	--	--	43.9	36.4	36.6	36.6	29.5	32.1	27.4	24.9
Couple No child	--	--	--	--	--	31.6	22.5	22.7	22.9	15.2	18.2	13.4	11.2
Couple 2 children													
40% APW, 40% APW													
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	5386.4	9378.1	8237.4	7539.3	8264.4	8745.0	7864.6	8765.3	8855.2	12073.3	13192.6	13192.6	--
<b>Employment Protection Legislation</b>													
Temporary	4.6	4.6	4.6	4.6	4.6	4.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Permanent	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	--	--	--	--	58.4	58.0	57.6	57.2	56.8	--	--	--	28.3 <sup>2</sup>
60 y. ---> 65 y. early retirement	--	--	--	--	70.6	70.9	71.1	71.3	71.5	--	--	--	76.5 <sup>2</sup>
60 y. ---> 65 y. old-age pension	--	--	--	--	47.2	47.1	47.1	47.0	46.9	--	--	--	48.8 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	11.5	13.5	14.7	14.6	14.6	14.8	15.0	15.6	19.9	19.0	17.0	17.2	17.7
<b>Wage setting</b>													
Ratio of minimum to median wage	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	--	--	--
Coordination	4.0	4.0	4.0	4.0	4.5	4.5	4.5	4.5	4.5	4.5	--	--	--
Centralisation	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	--	--	--
Union density	52.4	53.9	55.0	54.7	55.7	55.9	56.0	55.4	55.1	55.6	55.8	--	--
Union coverage	--	90+	--	--	--	--	--	--	--	90+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.

Table A2.6. Belgium : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes				+	1	0.5
Overall payroll taxes						0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X	+	3	+	3	3
Payroll taxes on low incomes	X			+		0
<b>Total</b>			<b>3</b>		<b>4</b>	<b>3.5</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						0
General stance						0
Prior authorisation						0
Notice periods	X			-		0
Severance pay						0
Dismissals						0
Others						0
<b>Temporary contracts</b>			3			1.5
Fixed-term contracts		+		+		0
Temporary work agencies		+				0
Guidelines for courts						0
<b>Total</b>			<b>3</b>		<b>0</b>	<b>1.5</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates	X					0
Benefit duration	X	+	1			0.5
Work availability requirements	X			+	1	0.5
Eligibility		+	1			0.5
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0
Work disincentives						0
Establishment or strengthening of UI schemes				+	1	0.5
Others						0
<b>Total</b>			<b>2</b>		<b>2</b>	<b>2</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X			+	1	0.5
Extent of ALMPs	X	+	4	+	3	3.5
Targeting of ALMPs	X	+	1	+	1	1
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities	X					0
Contestability of PES						0
Integration of job counselling, ALMPs and various benefit agencies	X			+	0.5	0.25
Others						0
<b>Total</b>			<b>5</b>		<b>5.5</b>	<b>5.25</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X	[-,+]=+	1	+	1	1
Invalidity or sick pay schemes						0
Others						0
<b>Total</b>			<b>1</b>		<b>1</b>	<b>1</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination		+	1			0.5
Wage distribution or indexation	X					0
Wage setting with regard to skill level, experience and productivity	X					0
Administrative extension	X					0
Use of "opt-out" clauses	X					0
Minimum wages	X					0
Others	X					0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements		+	1	~	0	0.5
Flexibility of part-time work	X	+	1			0.5
Others						0
<b>Total</b>			<b>2</b>		<b>0</b>	<b>1</b>

<b>Belgium : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	3	4	3.5
Employment Protection Legislation	3	0	1.5
Unemployment benefits	2	2	2
Active Labour Market Policies	5	5.5	5.25
Early retirement, invalidity schemes and old-age pensions	1	1	1
Industrial relations and wage setting	1	0	0.5
Working time flexibility, part-time work	2	0	1
<b>Total</b>	<b>17</b>	<b>12.5</b>	<b>14.75</b>



## CANADA

### Labour Taxes

**Overall labour taxes:** 1996-2004 -- personal income tax reductions at provincial levels; 1999-2001 -- gradual abolition of an income surtax; 2000 -- restoration of full indexation of tax brackets for inflation, increase of the threshold for the middle and highest tax brackets, reduction of the middle income tax bracket (from 26 per cent to 23 per cent), personal income tax relieves in several states, increase in the child tax benefit; 2001-2004 -- lowering of all federal personal income tax rates and increase in the child tax benefit in yearly steps.

**Overall payroll taxes:** 1996-2003 -- pension contributions increased from 5.6 per cent to 9 per cent to accommodate shifting demographics and life-expectancy; 1996 and 2001-2004 -- unemployment contributions decreased.

**Labour taxes on low incomes:** 1997 -- two-step increase of the working supplement of the child tax benefit for low-income families; 1998 -- National Child Benefit targeted at medium and low-income families replaces the working supplement; 1999 -- ceiling for tax-free income raised, basic and the spousal tax credit for low-income increased and extended to all tax-payers.

### Employment Protection Legislation (EPL)

No Action.

### Unemployment benefits

**Benefit replacement rates:** 1996 -- maximum insurable earnings decreased by 9 per cent, reduced benefits for people with short earnings histories and an intensity rule introduced, lowering benefits upon successive claims, along with a claw-back provision with a lower earnings ceiling for people with long or repeated benefit receipt spells; 2001 -- experience rating abolished; claw-back principle now exempts special benefits and first-time claimants; a uniform income threshold is introduced (rather than thresholds decreasing with the intensity of previous claims).

**Benefit duration:** 1996 -- duration of benefits reduced from 50 to 45 weeks.

**Work disincentives:** from 1996 on -- widespread reforms of provincial social assistance programmes, including benefit reductions (by 10 to 35 per cent in real terms), new waiting periods and stricter working tests (Alberta), greater emphasis on job search; introduction of the possibility of earning up to 25 per cent of the unemployment benefits without benefit reduction; 1997 -- new treatment of “small weeks” in the calculation of benefits in high unemployment regions, to remove incentives not to work at all rather than working part-time; 2001 -- extension of the new treatment of “small weeks” in benefit calculation to the entire country.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** 2000 -- provincial ALMPs evaluated in annual monitoring and assessment reports, unemployment insurance reform is assessed and annually reported to parliament.

**Extent of ALMPs:** mid-1990s -- introduction of job centres and kiosks featuring advanced on-line job matching services and profiling of jobseekers according to their employability; after 1996 -- as a result of the decentralisation of ALMPs, increase of expenditures on counselling, action planning and training of job search skills together with a reduction of expenditures for wage subsidies and training.

**Targeting of ALMPs:** 1997 -- new internship programme for young people along with improved access to job postings and educational courses, youth measures more narrowly focused on risk groups (young people with low educational attainment, problems with the law, disabilities, single parents).

***Integration and restructuring of ALMP activities:*** 1996-2001 -- much of the responsibility for ALMPs shifted to provinces, either in co-management with the national government or by devolution of full responsibilities; existing federal spending for labour market programmes was phased out over three years.

#### **Early retirement, invalidity schemes and old-age pensions**

***Early-retirement schemes and old-age pensions:*** 1996 -- pension reform involving higher contribution rates in order to accumulate more assets in the reserve fund.

***Invalidity and sick pay schemes:*** 1994 -- medical factors were given primacy over socio-economic factors in the assessment of eligibility for disability benefits; medical status regularly monitored.

***Others:*** since 1994 -- vocational re-training is provided.

#### **Industrial relations and wage setting**

No action.

#### **Working time flexibility, part-time work**

***Flexibility of part-time work:*** 1996 -- move to an hours-based system for unemployment benefits to ensure better coverage of part-time workers.

Table A2.7. Canada: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	57.8	--	57.8	--	57.8	--	44.8	--	46.0	--	45.8	--	--
All periods	11.6	--	11.6	--	11.6	--	9.0	--	9.2	--	9.2	--	--
1 year	57.8	--	57.8	--	57.8	--	44.8	--	46.0	--	45.8	--	--
All periods	11.6	--	11.6	--	11.6	--	9.0	--	9.2	--	9.2	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	64.8	--	65.9	--	80.0	--	73.8	70.3	--
Average long-term	--	--	--	--	63.8	--	61.7	--	63.2	--	57.8	53.0	--
Average initial	--	--	--	--	64.5	--	66.1	--	77.0	--	73.0	70.3	--
Average long-term	--	--	--	--	47.5	--	45.8	--	46.8	--	46.5	43.3	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	12	--	45 weeks	--	11	--	--	10	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	22.5	22.8	21.4	20.3	21.5	21.4	22.0	22.4
Single 2 children	--	--	--	--	--	-7.3	-9.3	-12.7	-27.5	-30.8	-20.0	-26.7	-25.8
Single 2 children	--	--	--	--	11.4	10.6	10.3	8.4	5.1	4.0	3.9	1.2	1.4
Couple No child	--	--	--	--	--	28.0	28.4	27.8	27.1	27.3	26.6	28.9	29.1
Couple 2 children	15.2	--	20.6	21.4	21.7	22.7	23.4	22.9	21.2	21.4	20.4	23.1	23.3
Couple No child	--	--	--	--	--	22.5	22.8	22.1	20.9	21.5	21.4	23.1	23.5
Couple 2 children	--	--	--	--	--	14.7	15.3	14.7	1.8	0.5	10.8	11.5	11.7
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	2570.3	2741.5	2532.2	2704.4	2753.5	2282.8	2430.6	3033.5	3154.4	3175.9	3135.3	3135.3	--
<b>Employment Protection Legislation</b>													
Temporary	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Permanent	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
<b>Early retirement - Implicit tax on continued work</b>													
55 y. --> 60 y. early retirement	2.2	2.1	2.6	2.7	2.9	3.1	3.3	3.8	4.2	--	--	--	6.9 <sup>2</sup>
60 y. --> 65 y. early retirement	4.9	11.5	11.5	11.6	11.7	11.9	12.1	12.5	13.0	--	--	--	15.5 <sup>2</sup>
60 y. --> 65 y. old-age pension	4.9	11.5	11.5	11.6	11.7	11.9	12.1	12.5	13.0	--	--	--	15.5 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	17.2	17.1	19.3	19.0	18.9	19.2	19.1	18.9	18.5	18.1	18.1	18.7	18.8
<b>Wage setting</b>													
Ratio of minimum to median wage	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	--	--
Coordination	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--
Centralisation	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--
Union density	32.6	32.9	32.8	34.2	33.8	34.0	28.8	28.5	27.9	28.1	28.2	28.2	--
Union coverage	--	38.0	--	--	--	--	--	--	--	32.0	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.

Table A2.8. Canada: Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes		+	-1	+	-1	-1
Overall payroll taxes		[-,+] =		-		0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X	+	4			2
Payroll taxes on low incomes						0
<b>Total</b>			<b>3</b>		<b>-1</b>	<b>1</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						0
General stance						0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals						0
Others						0
<b>Temporary contracts</b>						0
Fixed-term contracts						0
Temporary work agencies						0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates		+	4	-	-1	1.5
Benefit duration		+	1			0.5
Work availability requirements						0
Eligibility	X					0
Re-qualification possibilities						0
Benefit conditionality	X					0
Waiting periods						0
Work disincentives	X	+	1	+	1	1
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>6</b>		<b>0</b>	<b>3</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X			+	1	0.5
Extent of ALMPs	X	+	3	+	3	3
Targeting of ALMPs		+	1			0.5
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities	X	+	1	+	1	1
Contestability of PES						0
Integration of job counselling, ALMPs and various benefit agencies	X					0
Others						0
<b>Total</b>			<b>5</b>		<b>5</b>	<b>5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions		~	0			0
Invalidity or sick pay schemes	X	+	1			0.5
Others		+	1			0.5
<b>Total</b>			<b>2</b>		<b>0</b>	<b>1</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages	X					0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements						0
Flexibility of part-time work		+	1			0.5
Others						0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>

<b>Canada : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	3	-1	1
Employment Protection Legislation	0	0	0
Unemployment benefits	6	0	3
Active Labour Market Policies	5	5	5
Early retirement, invalidity schemes and old-age pensions	2	0	1
Industrial relations and wage setting	0	0	0
Working time flexibility, part-time work	1	0	0.5
<b>Total</b>	<b>17</b>	<b>4</b>	<b>10.5</b>

## CZECH REPUBLIC

### Labour Taxes

**Overall labour taxes:** 1997 -- income-tested child benefit introduced; 2000 -- abolition of the top personal income tax bracket and reduction of top marginal rates to 32 per cent, widening of tax brackets and increases in allowances; 2004 -- minimum tax introduced for self-employed persons along with increased social security contributions.

### Employment Protection Legislation (EPL)

**Dismissals:** 2004 -- amendment to the Labour Code with a legal definition of collective dismissals to comply with an EU directive.

**Fixed-term contracts:** 2004 -- a limit of two years on the maximum total duration of temporary contracts, with exceptions applying to working pensioners, substitutes for long-term absent employees and operational or technological reasons on the side of the employer.

### Unemployment benefits

**Benefit replacement rates:** 1998 -- reduction of maximum replacement rates (from 60 to 50 per cent of previous net earnings during the first three months of an unemployment spell and from 50 to 40 per cent during the second three months). 2004 -- benefits were increased to 45 per cent of previous net earnings after the third month of unemployment.

**Work availability requirements:** 2004 -- registration with labour offices and reporting requirements become more stringent.

**Eligibility:** 2004 -- conditions for provision of unemployment benefits become more stringent; school-leavers do not automatically qualify for unemployment benefits anymore and have to comply with the 12-month-work condition, though temporary jobs and in-job training will be counted in the assessment of work history.

**Work disincentives:** 2003 -- freezing in nominal terms of the basic cash-welfare benefit (known as the minimum-living standard or MLS); 2004 -- introduction of "partial unemployment", allowing the unemployed to earn up to a half of the minimum wage and keep his/her right to receive unemployment benefits.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** 1999 -- independent quasi-experimental evaluation of public sector job creation, of training and of wage subsidies, but no framework for regular evaluation.

**Extent of ALMPs:** 1990s -- tight control of job-search and an extensive programme of subsidised employment for the unemployed aimed at preventing long-term unemployment from rising further; 2004 -- new employment law spells out active labour market policies, including re-training, public work creation and investment subsidies for employers creating new jobs or retraining employees in regions with high unemployment.

**Targeting of ALMPs:** 2004 -- wage subsidies for disadvantaged groups.

**Integration and restructuring of ALMPs activities:** 2003 -- integration of training grants into incentive schemes for foreign direct investment, while traditional ALMPs were scaled down.

### Early retirement, invalidity schemes and old-age pensions

**Early-retirement schemes and old-age pensions:** 2001 -- stronger incentives to work beyond the normal retirement age by adjusting pension benefits upwards in an actuarially fair manner; actuarial adjustments to benefits for those who retire three years before the standard retirement age, although for those who retire

two years early the programme (conditioned on having been six months unemployed or disabled) continues to subsidise early labour-market withdrawal; 2004 -- the six-month standard duration of unemployment benefits prolonged to nine months for those older than 50 years and to twelve months for those above 55 years of age. One early-retirement route was eliminated in 2003 and further two will be phased out after 2006, after which only the actuarially-fair alternative will remain in place.

***Invalidity and sick pay schemes:*** 1998 -- new law on pensions which, among other things, restrict eligibility to full-time disability pensions; 2004 -- cut in replacement rates of sickness benefits in the first three days of sickness and reinforced obligation for doctors to make responsible decisions.

***Others:*** 2000 -- support to workers with disabilities including job counselling and training, subsidies for job creation, subsidies to employers where workers with disabilities represent more than 50 per cent of employees.

### **Industrial relations and wage setting**

***Minimum wages:*** 1999-2004 -- substantial increases of the minimum wage above the minimum living standard (the basis upon which virtually all social benefits are determined), with the stated objective to improve work incentives.

### **Working time flexibility, part-time work**

***Flexibility of working-time arrangements:*** 2001 -- rules limiting involuntary overtime work to 150 hours per year and voluntary overtime to 416 hours per year in line with the EU Health and Safety Directive.

Table A2.9. Czech Republic: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	--	--	--	--	--	--	--	--	--	--	17.9	--	--
All periods	--	--	--	--	--	--	--	--	--	--	3.6	--	--
1 year	--	--	--	--	--	--	--	--	--	--	17.4	--	--
All periods	--	--	--	--	--	--	--	--	--	--	3.5	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	71.8	--	77.1	--	69.3	--	52.8	52.5	--
Average long-term	--	--	--	--	86.0	--	83.2	--	83.3	--	75.0	71.3	--
Average initial	--	--	--	--	71.3	--	72.3	--	64.3	--	52.5	52.0	--
Average long-term	--	--	--	--	69.3	--	62.4	--	62.8	--	56.5	53.3	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	6	--	6	--	6	--	--	6	--
<b>Direct tax wedge average<sup>1,2</sup></b>													
Single No child	--	--	--	--	--	39.1	39.2	39.1	39.1	39.4	39.4	39.8	40.1
Single 2 children	--	--	--	--	--	15.6	15.5	-3.2	-3.0	-1.7	1.2	1.8	4.0
Single 2 children	--	--	--	--	21.9	26.2	26.3	14.5	14.1	15.4	17.2	18.0	20.7
Couple No child	--	--	--	--	--	41.5	41.3	41.3	41.2	41.5	41.4	41.9	42.3
Couple 2 children	--	--	23.1	26.0	28.5	31.4	31.2	23.4	24.4	25.2	28.2	28.7	30.6
Couple No child	--	--	--	--	--	39.1	39.2	39.1	39.1	39.4	39.4	39.8	40.1
Couple 2 children	--	--	--	--	--	27.3	27.4	17.9	18.0	18.9	20.3	20.8	22.5
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	--	--	1008.5	880.8	830.5	748.0	524.5	387.0	402.7	490.3	526.3	471.9	--
<b>Employment Protection Legislation</b>													
Temporary	--	--	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Permanent	--	--	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ---> 65 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ---> 65 y. old-age pension	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Working time flexibility</b>													
Percentage of part-time workers	--	--	3.6	3.6	3.4	3.4	3.4	3.3	3.4	3.2	3.2	2.9	3.2
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	0.4	0.3	0.3	0.3	0.2	0.2	0.3	0.3	--	--	--
Coordination	--	--	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--	--
Centralisation	--	--	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--	--
Union density	--	78.8	61.6	--	46.3	--	--	--	--	--	27.0	25.0	--
Union coverage	--	--	--	--	--	--	--	--	--	25+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.  
2. Decrease in the tax wedge in 1998 is due to the fact that means-tested child benefits introduced in 1997 are reported for the first time (see OECD, *Taxing Wages*, 2001-2002).

Table A2.10. Czech Republic : Recommendation and actions since 1994

Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
	Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>					
<b>Overall taxes on labour income</b>					
Overall labour taxes		~		+	0
Overall payroll taxes					0
<b>Taxes on low income</b>					
Labour taxes on low incomes					0
Payroll taxes on low incomes		-			0
<b>Total</b>		<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel B. Employment Protection Legislation</b>					
<b>Regular contracts</b>					
General stance					0
Prior authorisation	X				0
Notice periods	X				0
Severance pay					0
Dismissals	X			~	0
Others					0
<b>Temporary contracts</b>					
Fixed-term contracts				-	-1
Temporary work agencies					0
Guidelines for courts					0
<b>Total</b>		<b>0</b>		<b>-1</b>	<b>-0.5</b>
<b>Panel C. Unemployment benefits</b>					
Benefit replacement rates		+	2	-	-1
Benefit duration				-	-1
Work availability requirements				+	1
Eligibility				+	1
Re-qualification possibilities					0
Benefit conditionality					0
Waiting periods					0
Work disincentives	X			+	1
Establishment or strengthening of UI schemes					0
Others					0
<b>Total</b>		<b>2</b>		<b>1</b>	<b>1.5</b>
<b>Panel D. Active Labour Market Policies</b>					
Evaluation effort	X		+	0.5	0.25
Extent of ALMPs	X		+	1	1
Targeting of ALMPs				+	1
Re-qualification via ALMPs					0.5
Integration and restructuring of ALMP activities				+	1
Contestability of PES					0
Integration of job counselling, ALMPs and various benefit agencies					0
Others					0
<b>Total</b>		<b>1.5</b>		<b>3</b>	<b>2.25</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>					
Early-retirement schemes and old-age pensions				[+.-]=+	2
Invalidity or sick pay schemes	X		+	1	0.5
Others				+	1
<b>Total</b>		<b>1</b>		<b>3</b>	<b>2</b>
<b>Panel F. Industrial relations and wage setting</b>					
Wage determination					0
Wage distribution or indexation					0
Wage setting with regard to skill level, experience and productivity					0
Administrative extension					0
Use of "opt-out" clauses					0
Minimum wages			-	-	-1
Others					-0.5
<b>Total</b>		<b>0</b>		<b>-1</b>	<b>-0.5</b>
<b>Panel G. Working time flexibility, part-time work</b>					
Flexibility of working-time arrangements				-	-1
Flexibility of part-time work					0
Others					0
<b>Total</b>		<b>0</b>		<b>-1</b>	<b>-0.5</b>

Czech Republic : Summary table of scores			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	0	0	0
Employment Protection Legislation	0	-1	-0.5
Unemployment benefits	2	1	1.5
Active Labour Market Policies	1.5	3	2.25
Early retirement, invalidity schemes and old-age pensions	1	3	2
Industrial relations and wage setting	0	-1	-0.5
Working time flexibility, part-time work	0	-1	-0.5
<b>Total</b>	<b>4.5</b>	<b>4</b>	<b>4.25</b>



## DENMARK

### Labour Taxes

**Overall labour taxes:** 1994-1998 -- tax reform reduced marginal income tax rates and extended the tax base, but with partially off-setting increases in municipal taxes; 1998-2002 -- tax reform reduced marginal tax rates by 2 per cent.

**Overall payroll taxes:** 1994 -- introduction of labour market contributions for employees; 1997 -- for employers; 1998 -- reductions in employers' contributions to labour market funds of 0.1 (1997) and 0.3 (1998) percentage points financed by "green" taxes; 2000-2002 -- employers' contributions to labour market fund abolished.

**Labour taxes on low incomes:** 1998-2002 and 2004 -- the upper bound of the tax bracket with the lowest tax rate was extended substantially; 2004 -- introduction of earned income tax credit of 2.5 per cent of taxable income below the threshold for the intermediate tax bracket and a fixed annual deduction above this threshold.

### Employment Protection Legislation (EPL)

**Temporary work agencies:** 1995 -- the role of temporary work agencies has been recognised by social partners and their scope increased.

### Unemployment benefits

**Benefit replacement rates:** 1994 -- benefit payments reduced, but declining benefits over time were abandoned; 2003 -- the cash benefit rate for married breadwinners is reduced when benefits have been received for six months.

**Benefit duration:** 1994 -- limited to seven years; 1998 -- 5 years; 1999 -- 4 years.

**Work availability requirements:** 2003 -- introduction of requirements for job search and to accept a "reasonable" job from the first day; benefit sanctions for unemployment insurance and cash benefit recipients made stricter and harmonised for all offences.

**Eligibility:** 1996 -- required period of non-subsidised work doubled to 52 weeks and the minimum age raised by 2 years to 18; 2003 -- minimum contribution period for graduates increased from one to two years.

**Benefit conditionality:** 1994 -- compulsory activation for the insured unemployed after 6 months (younger than 25) or 4 years (older than 25); 1996 -- compulsory activation after 2 years for adults; 1998 -- extended to recipients of cash benefits; 2001 -- compulsory activation after 1 year for adults; 2003 -- extended to 58-59-year-old workers, all unemployed now have to participate in an activation measure after one year each time they have been "out of touch" with the labour market for 6 months (before 75 per cent of the time each year).

**Work disincentives:** 1994 -- possibility to combine unemployment benefits and wage income introduced; 1998 -- withdrawal rates for income-dependent child-care subsidies lowered; 2003 -- greater scope to receive cash benefits while earning wage income (DKK 28 rather than DKK 11.5 per hour previously); 2003 -- ceiling for the sum of cash, special and housing benefits introduced and cash benefits for young people who receive compulsory educational activation reduced.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** since mid-1990s -- regular evaluations of ALMPs.

**Extent of ALMPs:** 1994 -- individualised action plans for insured jobseekers based on intensified job counselling and broking, compulsory activation measures feature individual job training, voluntary activities and education and training; 1998 -- extended to non-insured benefit recipients; 1994-2001 --

progressively shorter unemployment spell after which adults are activated; 2003 -- contact with PES every three months and individual action plans refined with a new database containing the CVs of all unemployed persons.

**Targeting of ALMPs:** 1996 -- for youth without vocational qualification, compulsory qualifying training with reduced benefits starts after 6 months; 2003 -- youth measures extended to the 25-29 year-olds, targeted job schemes for the long-term unemployed; 2004 -- new placement units to target social assistance recipients, the disabled and ethnic minorities.

**Re-qualification via ALMPs:** 1994 -- activation can no longer restore benefit rights; 1996 -- no re-qualification via subsidised work and paid leave for education.

**Integration and restructuring of ALMP activities:** 2003 -- compulsory activation now based on an individual assessment for each case with a focus on in-job training in private firms.

**Contestability of PES:** since 2003 -- Public Employment Service and municipalities have engaged in more contracting out of employment services, education and training with payment based on outcome.

**Integration of job counselling, ALMPs and various benefit agencies:** 1994-1995 -- information systems set up so that the Ministry of Labour can monitor communications from the placement service to the union-based insurance funds about refusal of job offers and similar problems, and audit the sanction decisions of the insurance funds.

### **Early retirement, invalidity schemes and old-age pensions**

**Early-retirement schemes and old-age pensions:** 1996 -- early transitional retirement scheme for the 50-59 year old long-term unemployed closed for new entrants; 1999 -- extended unemployment benefit rights for those aged 50-54 abolished, but maintained for those aged 55-59; 1999 -- a new contribution payment to voluntary early retirement pension introduced on top of unemployment insurance payments, practically doubling the payments, and contribution period raised from 20 to 25 years, additional tax discounts to postpone retirement beyond 62 years and stronger means-testing against income from private pension schemes or pension assets in case of early retirement before 62; 2004 -- standard retirement age reduced from 67 to 65.

**Invalidity and sick pay schemes:** 2003 -- disability benefit system reformed (integrating three different types of pensions dependent on the level of disability into one); the required reduction in working capacity to qualify for benefits to be reduced by two thirds (50 per cent was the lowest requirement before), but those who do qualify will receive higher support than under the old system.

**Others:** 1996-1999 -- targeted job schemes for the disabled (*fleksjobs*); 1998 -- subsidised "*fleksjobs*" adapted to remaining working capacity; 2004 -- new placement units targeting weak groups, including for people in need of "*fleksjobs*" and vocational rehabilitation.

### **Industrial relations and wage setting**

**Wage determination:** 1990s -- wage bargaining increasingly decentralised by the social partners, featuring more and more plant-level agreements (4 per cent in 1989, 17 per cent in 1997 and 23 per cent in 2003) and agreements where only a minimum pay is fixed centrally (30 per cent in 1989 and 35 per cent in 2003<sup>5</sup>).

### **Working time flexibility, part-time work**

**Flexibility of part-time work:** 2002 -- a right was introduced for employers and employees to enter into an agreement on part-time work irrespective of any provisions to the contrary laid down in collective agreements, custom or practice.

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5. These figures are from the Danish Employer Federation (DEF).

Table A2.11. Denmark: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	90.0	--	90.0	--	82.0	--	80.0	--	79.0	--	77.9	--	--
67% APW	59.0	--	58.1	--	82.0	--	80.0	--	79.0	--	62.3	--	--
All periods	64.0	--	61.0	--	55.0	--	53.0	--	52.0	--	52.2	--	--
1 year	41.3	--	39.3	--	55.0	--	53.0	--	52.0	--	41.7	--	--
All periods													
<b>Net replacement rate</b>													
Average initial	--	--	--	--	93.5	--	91.7	--	92.3	--	91.5	91.5	--
Average long-term	--	--	--	--	83.5	--	83.8	--	95.0	--	74.3	82.0	--
Average initial	--	--	--	--	71.8	--	70.3	--	69.3	--	68.5	69.3	--
Average long-term	--	--	--	--	73.5	--	70.5	--	72.0	--	68.8	68.8	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	84	--	60	--	60	--	--	48	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	36.5	37.1	36.1	37.6	38.3	38.1	37.6	37.6
Single 2 children	--	--	--	--	--	-9.6	-8.1	-8.8	-7.2	-4.5	-4.4	-4.4	-4.2
Single 2 children	--	--	--	--	13.3	13.6	14.5	13.4	14.3	15.4	14.9	14.5	14.6
Single No child	--	--	--	--	--	37.6	37.8	36.7	37.7	37.7	37.3	36.7	36.7
Couple No child	37.7	--	32.5	30.3	30.9	31.1	31.3	30.1	31.1	31.0	30.7	30.1	30.1
Couple 2 children	--	--	--	--	--	36.5	37.1	36.1	37.6	38.3	38.1	37.6	37.6
Couple No child	--	--	--	--	--	28.4	29.0	27.8	29.4	30.0	29.8	29.5	29.5
Couple 2 children	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	6810.4	4717.2	6095.4	8956.5	11329.1	11193.3	13539.3	15172.1	16239.3	16848.7	16848.7	16848.7	--
<b>Employment Protection Legislation</b>													
Temporary	3.1	3.1	3.1	3.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Permanent	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
<b>Early retirement - Implicit tax on continued work</b>													
55 y. --> 60 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. --> 65 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. --> 65 y. old-age pension	--	--	--	--	--	--	--	--	--	--	--	--	-1.5
<b>Working time flexibility</b>													
Percentage of part-time workers	20.3	19.2	19.0	17.3	16.9	16.6	17.2	17.1	15.3	16.1	14.7	16.2	15.8
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	--	--	--	--	--
Coordination	4.0	3.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Centralisation	3.0	3.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Union density	78.2	75.3	77.3	77.5	77.0	77.4	75.6	76.8	76.3	74.4	73.8	73.8	73.8
Union coverage	--	70+	--	--	--	--	--	--	--	80+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

Table A2.12. Denmark : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X	[+,-] = +	1	+	1	1
Overall payroll taxes		-		+		0
<b>Taxes on low income</b>						
Labour taxes on low incomes		+		+		0
Payroll taxes on low incomes						0
<b>Total</b>			<b>1</b>		<b>1</b>	<b>1</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						0
General stance						0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals						0
Others						0
<b>Temporary contracts</b>			3			1.5
Fixed-term contracts						0
Temporary work agencies		+				0
Guidelines for courts						0
<b>Total</b>			<b>3</b>		<b>0</b>	<b>1.5</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates	X	[+,-] = +	2	+	1	1.5
Benefit duration	X	+	1			0.5
Work availability requirements	X			+	1	0.5
Eligibility	X	+	1	+	1	1
Re-qualification possibilities						0
Benefit conditionality		+	1	+	1	1
Waiting periods	X					0
Work disincentives		+	1	+	1	1
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>6</b>		<b>5</b>	<b>5.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort				+	1	0.5
Extent of ALMPs	X	+	4	+	4	4
Targeting of ALMPs		+	1	+	1	1
Re-qualification via ALMPs		+	1			0.5
Integration and restructuring of ALMP activities				+	1	0.5
Contestability of PES				+	1	0.5
Integration of job counselling, ALMPs and various benefit agencies		+	0.5			0.25
Others						
<b>Total</b>			<b>6.5</b>		<b>8</b>	<b>7.25</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X	+	1	[+,-]=+	1	1
Invalidity or sick pay schemes	X			[+,-]=+	0	0
Others				+	1	0.5
<b>Total</b>			<b>1</b>		<b>2</b>	<b>1.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination		+	3	+	3	3
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages	X					0
Others						0
<b>Total</b>			<b>3</b>		<b>3</b>	<b>3</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements						0
Flexibility of part-time work				+	1	0.5
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>

<b>Denmark : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	1	1	1
Employment Protection Legislation	3	0	1.5
Unemployment benefits	6	5	5.5
Active Labour Market Policies	6.5	8	7.25
Early retirement, invalidity schemes and old-age pensions	1	2	1.5
Industrial relations and wage setting	3	3	3
Working time flexibility, part-time work	0	1	0.5
<b>Total</b>	<b>20.5</b>	<b>20</b>	<b>20.25</b>

## FINLAND

### Labour Taxes

**Overall labour taxes:** between 1996 and 2000 -- reductions in all central government marginal income tax rates by 2 percentage points in total; 2001 -- major change in state income tax schedule with increased minimum limit for taxable income between 2000 and 2003, all the state marginal income tax rates reduced by 1½ percentage points; between 1993 and 2003 -- average local income tax rate increased by ¾ percentage point.<sup>6</sup>

**Overall payroll taxes:** 1996-99 -- various reductions of employers' social security contributions leading to a fall of their share in overall labour costs by an average of 0.7 per cent; 1997 -- employees' contributions raised; 2000-2004 -- further reductions of unemployment insurance and pension contributions.

**Labour taxes on low incomes:** 1997-99 -- substantial increase in the earnings-related deduction in the local income tax and in the deduction for work-related expenses in the central government income tax aimed at improving work incentives of lower-paid workers; 2000 -- increase of the earned-income tax credit, the minimum limit for taxable income, the earned-income tax credit in municipal taxation system and the earned-income tax allowance, abolition of the lowest tax bracket.

### Employment Protection Legislation (EPL)

**Notice periods:** 1997 -- halving of notice periods for employers and employees; 2001 -- reduction of the notice period for short-term contracts and increases for long-term ones.

**Fixed-term contracts:** 1997 -- atypical work granted equal status to that of permanent employment, fixed-term contracts can be employed in service sector enterprises subject to unstable demand.

**Temporary work agencies:** 1994 -- removal of restrictions on temporary work agencies and other private placement services.

### Unemployment benefits

**Benefit replacement rates:** 1997 -- lowering of benefits in case of re-entering unemployment after a short spell of work as they are calculated on the basis of the average earnings during the last 43 weeks rather than the pre-unemployment earnings; 1998 -- increase of basic daily unemployment benefit and shift to wage instead of consumer price indexation; 2002 -- increase of the earnings-related part of unemployment benefits from 42 to 45 per cent.

**Work availability requirements:** 1998 -- more frequent contact of jobseekers with PES adopted, increase of the length during which benefits are suspended in case of absence of job search or refusal of a suitable job or training offer; 2001 -- social assistance on grounds of unemployment requires registration to employment offices as unemployed jobseekers and active job search.

**Eligibility:** 1997 -- increase of the duration of previous employment required for being eligible to unemployment insurance and allowance schemes (to an employment record of 43 weeks during the previous two years, from 26 weeks during 8 months);

**Benefit conditionality:** 1996-1997 -- benefits for unemployment insurance and the means-tested labour market support scheme made conditional on accepting job offers, training, studying or participation in active labour market programmes for 17-24 year olds. From 2005, plans to make participation in active measures mandatory for continued receipt of labour market support (the basic means-tested unemployment benefit) after some period of unemployment.

**Waiting periods:** 1998 -- waiting period increased by 2 days to 7 working days.

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6. Decrease in the tax wedge in 1999 reported in Table A2.13 is due to changes in methodology (OECD, *Taxing Wages*, 2000-2001).

**Work disincentives:** 1997-- earned-income tax allowance no longer applies to unemployment benefits; 2000 -- easing of benefits means-testing for spouses; 2001 -- 20 per cent earnings disregard introduced for social assistance recipients with small income.

### **Active Labour Market Policies (ALMPs)**

**Evaluation effort:** 1998-1999 -- reforms of the PES evaluated; 2000-2001 -- evaluation of subsidised jobs.

**Extent of ALMPs:** 1998 -- individual counselling improved, including entry interview, compulsory half-yearly intensive interviews, job-search training and compulsory individual job-search plans, creation of job clubs where the unemployed assist each other, training or a job subsidy offered to the young unemployed during the first six months of unemployment, and to older workers during the first twelve months; 1998-99 -- recruitment of additional special employment officers; 2001 -- increase of social assistance for those involved in labour market training or practical training; from 2003 -- substantial expansion in measures planned with the aim of raising activation rate from 23½ to 30 per cent of unemployed persons.

**Targeting ALMPs:** 1998 -- new wage subsidies for long-term unemployed person; 2002 -- employment subsidies more targeted to disabled, long-term unemployed and youth.

**Re-qualification via ALMPs:** 1997 -- re-qualification through subsidised jobs of unemployment insurance schemes conditioned to a full ten months of work; 1999 -- training no longer counts for 16 weeks of the qualification period for the unemployment insurance scheme.

**Integration of job counselling, ALMPs and various benefit agencies:** 2003 -- more collaboration between labour and social administration with the aim of creating a one-stop shop for the difficult-to-place jobseekers to be implemented 2005.

**Restructure and integrate ALMPs:** mid-1990s -- active labour market policy shifted somewhat from subsidised jobs to training and job-search assistance; 2000 -- start of a gradual shift from subsidised public sector jobs to subsidised private sector jobs, but the former still account for 40 per cent of all wage-subsidy-based ALMPs in 2003.

### **Early retirement, invalidity schemes and old-age pensions**

**Early-retirement schemes and old-age pensions:** 1994 -- increase of minimum age for unemployment pensions; 1996 -- pension reform including a longer working period used as the base for the calculation of benefits, the exclusion of employees' pension contributions from wages in the calculation of the pension benefits, a decrease of the weight of wages in favour of the consumer price index in the indexing formula for benefits, an extension of means-testing for eligibility to the national pension; 1997 -- increase of the minimum age for the unemployment pension to 60 years and the lower age limit of the unemployment "pipeline" (whereby the standard unemployment insurance period is automatically extended until an old age pension is drawn) increases from 53 to 55; increase of the accrual rate for delaying retirement after 60; 1998 -- lowering of the minimum age for part-time retirement; 2000 - increase of the minimum age for individual early retirement to 60 years and reduction of unemployment pensions, increase of employers' contributions to unemployment pensions, suppression of the accumulation of pension rights during unemployment pensions for new pensioners; 2005 -- the minimum age for a part-time pension is to be raised from 56 to 58, while the amount of old-age pension accumulated during part-time retirement will be halved; reforms of old-age pension include a flexible retirement age between the ages 62 and 68, with a sharp rise in accrual rates after 62, pension to be based on earnings over the entire career (rather than the last 10 years), introduction of life expectancy adjustment; the lower age limit of the "unemployment pipeline" will rise from 55 to 57 and the upper age limit will also rise from 64 to 65; 2009 -- unemployment pension to be phased out.

**Invalidity and sick pay schemes:** 1995-1998 -- gradual increase from 55 to 58 years in the lower age limit for individual early retirement pensions (a disability-related pension with weaker medical criteria for workers with a long work history); 1999 -- possibility of shelving the disability pension in case of finding work together with receiving an "incentive allowance"; 2000 -- reduction of the disincentives for large employers to use the disability pension scheme (they have to pay 80 per cent of the pension rather than

100 per cent as before); 2005 -- medical criteria for a disability pension for those aged over 60 to be relaxed.

**Others:** 2002 -- people with disabilities become a priority group for employment subsidies; 16-19 year-olds with disabilities are entitled to rehabilitation allowance if a personal study and rehabilitation plan has been drawn up for them.

### **Industrial relations and wage setting**

*Wage determination:* 1994 -- temporary interruption of central wage bargaining (ended in 1995).

### **Working time flexibility, part-time work**

*Flexibility of working-time arrangements:* 1996 -- reduction of maximum annual overtime (from 480 to 330 hours), but more flexible working time arrangements at the local level; 1997 -- new Working Hours Act allows more flexible working time arrangements at the local level, although these are principally agreed upon in collective agreements.

*Flexibility of part-time work:* 1997 -- part-time employment and other atypical work arrangements are granted equal status to permanent employment.

Table A2.13. Finland: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	57.0	--	62.8	--	57.7	--	57.2	--	56.9	--	55.9	--	--
All periods	35.8	--	40.0	--	37.5	--	36.3	--	36.0	--	35.0	--	--
1 year	50.5	--	55.8	--	51.2	--	50.7	--	50.1	--	48.8	--	--
All periods	28.0	--	31.9	--	29.9	--	29.1	--	28.6	--	27.8	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	87.3	--	85.8	--	85.5	--	82.8	84.5	--
Average long-term	--	--	--	--	90.5	--	90.8	--	83.5	--	82.5	83.0	--
Average initial	--	--	--	--	78.0	--	74.2	--	76.5	--	73.3	74.8	--
Average long-term	--	--	--	--	74.0	--	74.9	--	68.8	--	66.8	67.3	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	23	--	23	--	25	--	--	23	--
<b>Direct tax wedge average<sup>1,2</sup></b>													
Single No child	--	--	--	--	--	40.2	38.8	38.8	37.2	37.2	35.5	34.8	33.7
Single 2 children	--	--	--	--	--	12.5	11.7	12.0	11.3	12.5	11.8	11.6	11.3
Single 2 children	--	--	--	--	28.0	28.7	27.9	27.9	27.0	27.7	26.7	26.3	26.0
Couple No child	--	--	--	--	--	50.3	48.9	48.8	47.4	47.3	45.9	45.2	44.5
Couple 2 children	35.6	--	38.1	40.5	42.1	42.0	40.8	40.7	39.6	39.9	38.8	38.3	37.8
Couple No child	--	--	--	--	--	40.2	38.8	38.8	37.2	37.2	35.5	34.8	33.7
Couple 2 children	--	--	--	--	--	29.8	28.7	28.7	27.5	28.0	26.6	26.1	25.4
<b>Active Labour Market Policies</b>													
ALMP's spending per unemployed person, constant US\$ PPP	7365.1	13469.1	4151.7	4163.9	4218.1	5145.1	5780.4	5948.5	5951.8	5175.5	5286.3	5686.6	--
<b>Employment Protection Legislation</b>													
Temporary	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Permanent	2.8	2.8	2.5	2.5	2.5	2.3	2.3	2.3	2.3	2.3	2.2	2.2	2.2
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ----> 60 y. early retirement	62.4	72.0	78.3	76.4	74.4	74.0	73.7	71.7	69.7	--	--	--	49.7 <sup>3</sup>
60 y. ----> 65 y. early retirement	72.3	76.3	80.8	78.5	76.3	73.1	69.9	72.2	74.5	--	--	--	59.4 <sup>3</sup>
60 y. ----> 65 y. old-age pension	16.0	25.2	23.4	20.6	17.8	18.4	18.9	20.5	22.2	--	--	--	30.7 <sup>3</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	--	7.6	8.9	8.9	8.7	8.5	9.3	9.7	9.9	10.4	10.5	11.0	11.3
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	--	--	--	--	--
Coordination	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	--
Centralisation	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	--
Union density	69.1	72.3	78.8	78.0	79.2	78.8	79.4	77.7	77.4	76.2	77.8	--	--
Union coverage	--	90+	--	--	--	--	--	--	--	--	--	90+	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Decrease in the tax wedge in 1999 is due to changes in methodology (see OECD, *Taxing Wages*, 2000-2001).

3. Currently legislated systems.



Table A2.14. Finland : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X	[-,+]= -	-1	+	1	0
Overall payroll taxes		[+,-]= -		+		0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X	+	1	+	1	1
Payroll taxes on low incomes						0
<b>Total</b>			<b>0</b>		<b>2</b>	<b>1</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>			1		1	1
General stance	X					0
Prior authorisation						0
Notice periods		+		[+,-]= +		0
Severance pay						0
Dismissals						0
Others						0
<b>Temporary contracts</b>						
Fixed-term contracts	X	+	1			0.5
Temporary work agencies		+	1			0.5
Guidelines for courts						0
<b>Total</b>			<b>3</b>		<b>1</b>	<b>2</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates	X	[+,-]= +	2	-	-1	0.5
Benefit duration	X					0
Work availability requirements		+	1	+	1	1
Eligibility	X	+	1			0.5
Re-qualification possibilities						0.5
Benefit conditionality		+	1	+	1	1
Waiting periods	X	+	1			0.5
Work disincentives		+	1	+	1	1
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>7</b>		<b>2</b>	<b>4.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X	+	1	+	1	1
Extent of ALMPs	X	+	4	+	1	2.5
Targeting of ALMPs		+	1	+	1	1
Re-qualification via ALMPs	X	+	1			0.5
Integration and restructuring of ALMP activities	X	+	1	+	1	1
Contestability of PES	X					0
Integration of job counselling, ALMPs and various benefit agencies				+	0.5	0.25
Others						0
<b>Total</b>			<b>8</b>		<b>4.5</b>	<b>6.25</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X	+	2	+	2	2
Invalidity or sick pay schemes	X	+	1	-	0	0.5
Others				+	1	0.5
<b>Total</b>			<b>3</b>		<b>3</b>	<b>3</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination	X	[+,-]= ~				0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity	X					0
Administrative extension	X					0
Use of "opt-out" clauses						0
Minimum wages	X					0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements		[-,+]= ~				0
Flexibility of part-time work	X	+	1			0.5
Others						0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>

<b>Finland : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	0	2	1
Employment Protection Legislation	3	1	2
Unemployment benefits	7	2	4.5
Active Labour Market Policies	8	4.5	6.25
Early retirement, invalidity schemes and old-age pensions	3	3	3
Industrial relations and wage setting	0	0	0
Working time flexibility, part-time work	1	0	0.5
<b>Total</b>	<b>22</b>	<b>12.5</b>	<b>17.25</b>

## FRANCE

### Labour Taxes

**Overall labour taxes:** 1999-2002 -- tax rates reduced in several steps; 1999 -- “taxe professionnelle” moved entirely to non-wage bases over 5 years.

**Overall payroll taxes:** 1997 -- social contributions were in part moved to a broader base covering all incomes; 2002 -- unemployment insurance contributions increased by a total of 0.6 percentage points for both employers and employees (0.3 percentage points for each).

**Labour taxes on low incomes:** 1999-2002 -- tax rate reductions were more generous for lower and middle incomes; 2002 -- working tax credit introduced, which is progressive for earnings lower than the annual minimum wage and digressive for higher wages turning zero at 1.4 times the minimum wage; increased subsequently and adjusted to benefit part-time workers as well.

**Payroll taxes on low incomes:** 1996 -- different reductions in social contributions combined into a single digressive rebate for all wages lower than 1.3 times the minimum wage; 1997 -- further social security contribution reductions on low wages introduced for those employers who had moved to a 35-hour-week; 2003 -- abatements increased for all firms, regardless of the working time, to cover wages up to 1.7 times the minimum wage; different abatements will be harmonised completely by 2005 for all firms.

### Employment Protection Legislation (EPL)

**Severance pay:** 2002 -- severance entitlements increased.

**Dismissals:** 2002 -- conditions for lay-offs tightened, but part of these measures have been temporarily suspended since 2002.

**Temporary contracts:** 2002 -- premium that is paid by firms at the expiration of a contract, if it is not transformed into a permanent one, is increased from 6 per cent of the gross wage to 10 per cent.

### Unemployment benefits

**Benefit replacement rates:** 1997 -- the rate of reduction of benefits over time was slowed and the minimum benefit was raised; 2001 -- digressivity was abandoned;

**Benefit duration:** 2003 -- duration was reduced for all age groups (from 30 to 23 months).

**Work disincentives:** 1998 -- possibilities to receive unemployment benefits, social assistance and the housing benefits (introduced in 2001 and 2002) after returning to work have been widened; 2004 -- new form of social assistance introduced which can be used as a wage subsidy for some time after recipients return to work.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** 1996 -- efforts to carry out evaluations of active labour market programmes were stepped up; the labour market performance of programme participants is now regularly followed up on and results are published.

**Extent of ALMPs:** 1999 onwards -- placement staff of the PES increased over several years; 2001 -- introduction of enhanced job assistance programme, which obliges job seekers to sign a back-to-work assistance plan, although jobseekers can still decline offers without reason.

**Targeting of ALMPs:** 1996 -- new programmes with exemptions from social security contributions created for the long-term unemployed; 1997 -- same for young people; 1998 -- programme of close personal guidance for the least employable youth introduced; several existing ALMPs re-focused on weak groups as part of the “Fresh Start” programme that consists of intensified personal counselling, help with job search and training programmes, aiming at offering the young and the long-term unemployed activation before they reach six and twelve months of unemployment respectively; 2002 -- “youth contract in a firm” for

youth with low educational attainment employed in the private sector in exchange for complete exoneration of social charges during two years.

**Integration and restructuring of ALMP activities:** 2003 -- youth employment programme redesigned with the aim of improving its outcome.

**Integration of job counselling, ALMPs and various benefit agencies:** 1994 -- improved coordination and information-sharing of different bodies responsible for the unemployed; 2003 -- mutual evaluation and decision-making introduced for these bodies.

### **Early retirement, invalidity schemes and old-age pensions**

**Early-retirement schemes and old-age pensions:** 1993 -- the length of the contribution period required to be eligible to a full pension increased gradually;<sup>7</sup> 1996 -- allowance for the elderly jobless introduced; 2000-- introduction of early retirement for people having worked under difficult conditions; 2002 -- duration of unemployment benefits for older workers were cut and eligibility requirements were tightened; 2003 -- a scheme for civil servants started to be phased out; the pension reform included an alignment of required contribution periods for a full pension between the public and the private sectors, future increases in line with longevity and adjustments of benefit entitlements for early and deferred retirement towards more actuarial neutrality; 2004 – workers who have reached full-pension age can no longer be laid-off at zero cost to firms; 2005 -- National Employment Fund's (FNE) early retirement programme will be phased out over several years.

### **Industrial relations and wage setting**

**Minimum wages :** 2000 -- introduction of the 35-hour week resulted effectively in the creation of several different hourly minimum wages, to be harmonised at the highest minimum wage rate by 2005; resulting increases in labour costs are however almost offset by reductions in social charges.

### **Working time flexibility, part-time work**

**Flexibility of working-time arrangements:** 1994 -- regulations concerning maximum weekly working hours eased and social partners given the possibility to calculate working hours on an annual basis; 2000 -- introduction of the 35-hours-week made it more difficult and costly for companies to resort to overtime as overtime contingents were lowered, although the deadline for small and medium-sized companies to conform to this was later extended, contingents were raised and the overtime premium was reduced.

**Flexibility of part-time work:** 2000 -- partial exemptions in social security charges for employers hiring part-time workers abolished with the introduction of the 35-hours-week; 1998 and 2003 -- various discounts on social charges for low wages adjusted to be calculated on an hourly basis, so as to not unduly favour part-time work and reduce the effective cost of overtime; 2003 -- working tax credit adjusted to fully benefit part-time workers

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7. This is not reflected in the indicator shown in Table A2.15, as it was calculated for a stylised individual with specific characteristics.

Table A2.15. France: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	63.0	--	61.0	--	60.3	--	63.5	--	62.5	--	65.4	--	--
All periods	31.4	--	36.8	--	36.5	--	35.6	--	35.8	--	43.7	--	--
1 year	60.0	--	55.5	--	55.5	--	55.3	--	55.0	--	57.4	--	--
All periods	26.5	--	30.4	--	30.2	--	28.3	--	29.3	--	36.3	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	86.0	--	84.1	--	79.8	--	88.3	85.0	--
Average long-term	--	--	--	--	58.1	--	58.1	--	50.8	--	73.5	74.3	--
Average initial	--	--	--	--	77.3	--	72.8	--	70.8	--	73.5	72.5	--
Average long-term	--	--	--	--	46.5	--	43.2	--	35.8	--	56.0	56.8	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	30	--	30	--	30	--	--	30	23
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	43.2	35.5	34.3	34.7	35.8	34.1	32.7	33.2
Single 2 children	--	--	--	--	--	31.2	23.0	21.6	22.3	23.5	21.0	20.1	21.0
Single 2 children	--	--	--	--	34.5	36.0	32.7	30.4	31.3	31.6	30.8	29.1	29.4
Couple No child	--	--	--	--	--	45.8	45.0	43.9	44.4	44.5	43.9	44.1	44.5
Couple 2 children	--	--	--	39.7	39.5	40.7	39.5	38.5	38.9	39.8	39.4	39.5	40.0
Couple No child	--	--	--	--	--	43.2	35.5	34.3	34.7	35.8	34.1	32.7	33.2
Couple 2 children	--	--	--	--	--	37.2	29.2	27.9	28.5	29.6	27.7	26.5	27.2
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	2680.7	4096.1	5312.6	5013.4	5483.8	5516.5	5680.5	5920.4	6405.8	7385.7	8569.9	8569.9	--
<b>Employment Protection Legislation</b>													
Temporary	3.1	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Permanent	2.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.5	2.5	2.5
<b>Early retirement - Implicit tax on continued work</b>													
55 y. --> 60 y. early retirement	63.5	64.8	63.8	60.7	57.5	57.7	58.0	58.2	58.4	--	--	--	50.0 <sup>2</sup>
60 y. --> 65 y. early retirement	81.6	82.8	82.6	82.5	82.4	82.2	82.0	82.3	82.6	--	--	--	50.6 <sup>2</sup>
60 y. --> 65 y. old-age pension	81.6	82.8	82.6	82.5	82.4	82.2	82.0	82.3	82.6	--	--	--	50.6 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	11.7	12.2	13.2	13.8	14.2	14.0	14.8	14.7	14.6	14.2	13.8	13.7	12.9
<b>Wage setting</b>													
Ratio of minimum to median wage	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	--	--	--
Coordination	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	--	--	--
Centralisation	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	--	--	--
Union density	13.6	10.1	10.1	10.0	9.8	9.8	9.8	9.8	9.8	9.7	9.6	--	--
Union coverage	--	90+	--	--	--	--	--	--	--	90+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.

Table A2.16. France : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X	+	1	+	-1	0
Overall payroll taxes		+		-		0
<b>Taxes on low income</b>						
Labour taxes on low incomes		+	4	+	1	2.5
Payroll taxes on low incomes	X	+		+		0
<b>Total</b>			<b>5</b>		<b>0</b>	<b>2.5</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>					-1	-0.5
General stance						0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals	X			[+,.] = ~		0
Others						0
<b>Temporary contracts</b>						
Fixed-term contracts	X			-	-1	-0.5
Temporary work agencies						0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>-2</b>	<b>-1</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates	X	-	-1	-	-2	-1.5
Benefit duration	X			+	1	0.5
Work availability requirements						0
Eligibility	X					0
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0
Work disincentives	X	+	1	+	1	1
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X	+	1			0.5
Extent of ALMPs		+	3	+	3	3
Targeting of ALMPs	X	+	1	+	1	1
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities	X			+	1	0.5
Contestability of PES						0
Integration of job counselling, ALMPs and various benefit agencies	X	+	0.5	+	0.5	0.5
Others						0
<b>Total</b>			<b>5.5</b>		<b>5.5</b>	<b>5.5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X	[+,.] = +	2	+	3	2.5
Invalidity or sick pay schemes						0
Others						0
<b>Total</b>			<b>2</b>		<b>3</b>	<b>2.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension	X					0
Use of "opt-out" clauses	X					0
Minimum wages	X			-	-1	-0.5
Others						0
<b>Total</b>			<b>0</b>		<b>-1</b>	<b>-0.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements	X	+	1	-	-1	0
Flexibility of part-time work	X	+	1	+	1	1
Others						0
<b>Total</b>			<b>2</b>		<b>0</b>	<b>1</b>

<b>France : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	5	0	2.5
Employment Protection Legislation	0	-2	-1
Unemployment benefits	0	0	0
Active Labour Market Policies	5.5	5.5	5.5
Early retirement, invalidity schemes and old-age pensions	2	3	2.5
Industrial relations and wage setting	0	-1	-0.5
Working time flexibility, part-time work	2	0	1
<b>Total</b>	<b>14.5</b>	<b>5.5</b>	<b>10</b>

## GERMANY

### Labour Taxes

**Overall labour taxes:** between 1999 and 2005 -- top and bottom statutory tax rates both decreased by around 10 percentage points, basic tax allowance as well as child benefits and allowances increased in several steps.<sup>8</sup>

**Overall payroll taxes:** 1995 -- a new payroll tax for long-term care insurance introduced; 1997 -- pension contributions increased, decreased again in 1999 financed with new eco-taxes; 2004 -- pension and health care reform aiming at stabilisation of contribution rates.

**Labour taxes on low incomes:** 1996 -- basic tax allowance was almost doubled along with increases in child allowances and benefits and the lowest tax rate, the latter by almost 6 percentage points.

**Payroll taxes on low incomes:** 1999 -- introduction of employers' social charges at a reduced rate for "Minijobs" that were formerly tax- and contribution-free; 2000 -- if held as a secondary job, "Minijobs" became subject to regular tax and social charges, reversed in 2003; 2003 -- increase of the earnings ceiling for "Minijobs" from € 310 to € 400, employees' contributions now rise gradually between € 400 and € 800, replacing subsidies for social charges within this earnings range that had been introduced in 2002.

### Employment Protection Legislation (EPL)

**Dismissals:** 1996 -- company size limit for dismissal protection lifted from 5 to 10 employees; reversed in 1999 and re-introduced in 2004; 2003 -- the number of social selection criteria dictating which employees have to be dismissed first in case of collective dismissals were reduced.

**Fixed-term contracts:** 1997 -- permissible renewal frequency of fixed-term contracts, as well as their maximum combined duration, increased; 2000 -- upper age limit for restrictions on renewability decreased from 60 to 58 (but renewability of fixed-term contracts, that are not based on "reasonable" motives, tightened); 2003 -- further decrease to 53, admissible duration of fixed term contracts for small enterprises extended.

**Temporary work agencies:** 1994, 1997, 2002 and 2004 -- maximum duration for contracts through temporary work agencies increased.

### Unemployment benefits

**Benefit replacement rates:** 1997 -- crediting of redundancy payments against unemployment benefits introduced, reversed in 1999; 2000 -- wage base for benefit calculation extended to extra payments, such as Christmas allowances; 2004 -- benefits no longer adjusted automatically to wage increases; 2005 -- unemployment assistance merged with social assistance into a new benefit which takes the lower level of the latter after being topped up somewhat during the first two years of receipt, its withdrawal rate is slightly lower than that of its predecessors.

**Benefit duration:** 1997 -- minimum age for receiving benefits for more than a year was increased by three years; 2004 -- benefit duration harmonised for all age groups under 55 to 12 months, will be lowered to 18 months by 2006 for those aged above 55, cutting entitlement periods by more than half for many older age groups.

**Work availability requirements:** 1997 -- benefit recipients have to accept lower earnings and jobs that do not correspond to acquired qualifications; 2002 -- more scope for benefit sanctions; 2005-- rejection of any job offer entails benefit sanctions for recipients of the new unemployment assistance benefit.

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8. Decrease in the tax wedges in 2000 reported in Table A2.17 is due to changes in methodology OECD, *Taxing Wages*, 1999-2000).

## **Active Labour Market Policies (ALMPs)**

**Evaluation effort:** 1999 -- local labour offices required to report regularly on the success of their measures; 2004 -- National Public Employment Service (PES) defined performance targets for local offices and intends to control their placement performance regularly.

**Extent of ALMPs:** 2002 -- beginning of the re-assignment of PES staff from administrative tasks to job placement including extensive new hirings, profiling of newly registered job seekers' strengths and perspectives started to be developed; PES intends to activate the young after 6 months at latest and older unemployed after 12 months, but activation rates are still below 50 per cent for both groups; 2005 -- design of individual action plans becomes mandatory.

**Targeting of ALMPs:** 1999 -- some efforts to target active labour market policies more on the long-term and older unemployed, programme of wage subsidies and training for the young introduced.

**Re-qualification via ALMPs:** 1998 -- participation in training programmes ceased to re-establish benefit eligibility; 2004 -- ALMPs in general do not lead to re-qualification.

**Integration and restructuring of ALMP activities:** 1997 -- Employment Promotion Law designed to re-orient ALMPs towards encouraging job search and re-entry and scale down job creation.

**Contestability of PES:** 2002 -- placement can be outsourced to private agencies.

**Integration of job counselling, ALMPs and various benefit agencies:** 2005 -- centralisation of responsibility for the benefits and job placement of the long-term unemployed who were previously assigned either to municipalities or the PES. In most communities the PES delivers these services, while in some the municipality are in charge of this.

## **Early retirement, invalidity schemes and old-age pensions**

**Early retirement schemes and old-age pensions:** 1996 -- the minimum entry age in different retirement schemes gradually increased to the standard retirement age until 2004; since 2001 -- early retirement entails discounts of 3.6 per cent per year, and the unemployment benefit pathway into retirement is being phased out progressively as the exemption of older workers from job search requirements expires.

**Invalidity and sick pay schemes:** 1996 -- different disability pension schemes combined into one in 1996 with tightened eligibility conditions and the legal minimum sick pay was reduced to 80 per cent, both reforms were reversed in 1999.

## **Industrial relation and wage setting**

**Wage determination:** over the 1990s -- social partners have increasingly used existing possibilities to negotiate at the plant-level.

**Use of "opt-out" clauses:** over the 1990s -- social partners have increasingly exploited existing possibilities to make use of opt-out clauses.

## **Working time flexibility, part-time work**

**Flexibility of working-time arrangements:** from mid-1990s -- working time accounts have increasingly been adopted by social partners; 2004 -- in some selected branches the trend to reduce working-time is being reversed.

**Flexibility of part-time work:** 2001 -- employees obtain the right to transform a full-time job into a part-time job unilaterally.

Table A2.17. Germany: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	39.7	--	38.0	--	37.5	--	36.7	--	38.4	--	39.8	--	--
All periods	27.1	--	26.5	--	25.2	--	24.6	--	25.8	--	26.7	--	--
1 year	37.3	--	36.0	--	35.0	--	34.1	--	35.1	--	36.2	--	--
All periods	25.3	--	25.3	--	23.5	--	22.9	--	23.6	--	24.3	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	75.8	--	73.0	--	70.8	--	73.8	74.3	--
Average long-term	--	--	--	--	86.5	--	75.3	--	66.5	--	86.5	86.0	--
Average initial	--	--	--	--	74.0	--	66.1	--	64.3	--	68.8	69.0	--
Average long-term	--	--	--	--	66.5	--	57.1	--	58.5	--	66.0	67.3	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	12	--	12	--	12	--	--	12	--
<b>Direct tax wedge average<sup>1,2</sup></b>													
Single No child	--	--	--	--	--	37.6	38.7	38.9	38.1	37.6	37.1	37.4	38.4
Single 2 children	--	--	--	--	--	16.3	16.1	16.5	14.0	12.5	12.9	11.0	12.7
Single 2 children	--	--	--	--	33.3	31.9	32.3	32.7	30.9	29.6	29.2	28.8	30.1
Couple No child	--	--	--	--	--	42.4	43.6	43.5	42.8	42.3	41.6	42.0	43.0
Couple 2 children	34.2	--	33.6	35.7	37.3	35.0	35.6	35.9	34.4	33.3	32.7	32.2	33.5
Couple No child	--	--	--	--	--	37.6	38.7	38.9	38.1	37.6	37.1	37.4	38.4
Couple 2 children	--	--	--	--	--	29.0	29.4	29.7	27.9	26.8	26.5	25.8	27.1
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	3846.4	10407.1	8577.1	6865.7	7225.9	7270.5	5720.6	6403.1	7623.4	8090.2	7774.0	7107.6	--
<b>Employment Protection Legislation</b>													
Temporary	3.8	3.8	3.8	3.5	3.5	3.5	2.3	2.3	2.3	2.3	2.3	2.0	2.0
Permanent	2.6	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
<b>Early retirement - Implicit tax on continued work</b>													
55 y. --> 60 y. early retirement	53.1	52.2	51.1	49.8	48.4	48.7	49.0	48.8	48.5	--	--	--	32.3 <sup>3</sup>
60 y. --> 65 y. early retirement	56.6	55.1	53.2	51.9	50.6	51.0	51.5	51.1	50.8	--	--	--	39.0 <sup>3</sup>
60 y. --> 65 y. old-age pension	27.0	25.9	24.4	24.1	23.7	24.4	25.1	24.7	24.3	--	--	--	17.7 <sup>3</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	11.0	13.4	12.8	13.5	14.2	14.9	15.8	16.6	17.1	17.6	18.3	18.8	19.6
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	--	--	--	--	--
Coordination	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	--
Centralisation	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	--
Union density	34.7	31.2	31.8	30.4	29.2	27.8	27.0	25.9	25.6	25.0	23.5	23.2	--
Union coverage	--	80+	--	--	--	--	--	--	--	68.0	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Decrease in the tax wedge in 2000 is due to changes in methodology (see OECD, *Taxing Wages*, 1999-2000).

3. Currently legislated systems.



Table A2.18. Germany : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X	+	-1	+	1	0
Overall payroll taxes	X	[+,-] = -				0
<b>Taxes on low income</b>						
Labour taxes on low incomes		+	1	+	1	1
Payroll taxes on low incomes	X	-		+		0
<b>Total</b>			<b>0</b>		<b>2</b>	<b>1</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X					0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals	X	[+,-] = ~		+	1	0.5
Others						0
<b>Temporary contracts</b>	X		3		1	2
Fixed-term contracts	X	+		+		0
Temporary work agencies		+		+		0
Guidelines for courts	X					0
<b>Total</b>			<b>3</b>		<b>2</b>	<b>2.5</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates	X	[+,-] = ~		[+,-] = +	1	0.5
Benefit duration	X	+	1	+	1	1
Work availability requirements	X	+	1	+	1	1
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0
Work disincentives						0
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>2</b>		<b>3</b>	<b>2.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X	+	1	+	1	1
Extent of ALMPs		+	2	+	4	3
Targeting of ALMPs	X	+	1	+	1	1
Re-qualification via ALMPs	X	+	1	+	1	1
Integration and restructuring of ALMP activities						0
Contestability of PES				+	1	0.5
Integration of job counselling, ALMPs and various benefit agencies				+	2	1
Others						0
<b>Total</b>			<b>5</b>		<b>10</b>	<b>7.5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X	+	1	+	2	1.5
Invalidity or sick pay schemes	X	[+,-] = ~				0
Others						0
<b>Total</b>			<b>1</b>		<b>2</b>	<b>1.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination	X	+	1			0.5
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity	X					0
Administrative extension						0
Use of "opt-out" clauses	X	+	1			0.5
Minimum wages						0
Others						0
<b>Total</b>			<b>2</b>		<b>0</b>	<b>1</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements	X	+	1			0.5
Flexibility of part-time work	X			+	0	0
Others						0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>

<b>Germany : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	0	2	1
Employment Protection Legislation	3	2	2.5
Unemployment benefits	2	3	2.5
Active Labour Market Policies	5	10	7.5
Early retirement, invalidity schemes and old-age pensions	1	2	1.5
Industrial relations and wage setting	2	0	1
Working time flexibility, part-time work	1	0	0.5
<b>Total</b>	<b>14</b>	<b>19</b>	<b>16.5</b>

## GREECE

### Labour Taxes

**Overall labour taxes:** 2000 -- reduction of the highest marginal tax rate (from 45 to 42.5 per cent) and an increase in the exemption threshold (by 4.5 per cent); 2002 -- increase in the tax free threshold for all taxpayers; 2003 -- abolition of most of the existing reductions, exemptions, allowances and special treatments of incomes from different activities; reduction of the number of brackets; larger personal allowance, reduction of the top marginal tax rate.

**Labour taxes on low incomes:** 2002 -- abolition of the income bracket corresponding to the 5 per cent marginal tax rate for wage earners; 2003 -- increase of the lowest tax rate.

**Payroll taxes on low incomes:** 2000 -- reduction (by 2 percentage points) of employers' social security contributions; payment by the government of part of employees' contributions to the social security system for minimum wage workers, abolition of pension contributions for those earning the minimum wage.

### Employment Protection Legislation (EPL)

**Severance pay:** 2003 -- severance pay is increased.

**Dismissals:** 2000 -- upper limit for the number lay-offs per month is raised slightly for firms employing between 50 and 150 persons, while it is lowered for firms with less than 50 employees.

**Fixed-term contracts:** 2003 -- rules for fixed-term contracts and temporary work agencies are liberalised.

### Unemployment benefits

**Work disincentives:** 2000 -- introduction of possibilities to combine unemployment benefits and part-time work for a while.

**Establishment or strengthening of UI schemes:** 1996 -- increase of unemployment benefits by 10 per cent; 2002 -- an increase in standard unemployment benefits by 5 per cent.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** 1999 -- new evaluation methodology developed by the National Observatory for Employment (EPA) in order to assess the effectiveness of alternative active policies.

**Extent of ALMPs:** 1996 -- introduction of multi-purpose voucher (for training, wage subsidy or unemployment benefits); 2000 -- introduction of Employment Promotion Centres providing individualised services to the unemployed; 2001 -- individual action plan for young and older job seekers including assessments of the individual's competences and appropriate activation measures if necessary; training and wage subsidy measures for the unemployed aged 45-64.

**Targeting of ALMPs:** 1998 -- early activation for the unemployed aged 20-27 before six months of unemployment through wage subsidy programmes; 1999 -- reduction of prior qualifying work period for early activation for the young and extension of age groups (from 20-27 to 18-29), introduction of subsidised work experience programmes and training for long-term unemployed irrespective of age; 2002 -- reduction by 50 per cent of employers' contribution recruiting young or older unemployed; 2003 -- new package of measures providing employment subsidies targeted at unemployed women, youth and elderly workers.

**Integration and restructuring of ALMP activities:** 2001 -- administrative restructuring of the Greek Public Employment Service.

**Contestability of PES:** 1998 -- private job placement agencies are allowed, temporary employment agencies can operate legally.

### **Early retirement, invalidity schemes and old-age pensions**

*Early-retirement schemes and old-age pensions:* 1996 -- introduction of early retirement for older unemployed workers; 2003 -- pensions now based on the average pay of the last five years rather than the average salary of the best five of the last ten years.

### **Industrial relations and wage setting**

*Use of “opt-out” clauses:* 1998 -- introduction of employment contracts based on the national minimum wage in pre-determined geographical areas of high unemployment introduced to avoid the cascading wage effect of sectoral and enterprise level negotiations by effectively opting out from these agreements.

### **Working time flexibility, part-time work**

*Flexibility of working-time arrangements:* 1998 -- scope for allowable overtime without premia extended if after six months the working time is reduced accordingly; 2000 -- reduction of maximum allowable overtime which is at the employers' discretion and a substantive increase in overtime premia, collectively agreed working time annualisation together with a voluntary reduction of the agreed workweek from 40 to 38 hours.

*Flexibility of part-time work:* 2000 -- provision of incentives for part-time work under the 2000 labour market legislation; 2003 -- introduction of part-time opportunities in the public sector.

Table A2.19. Greece: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	25.5	--	33.3	--	38.6	--	45.2	--	41.3	--	41.9	--	--
All periods	5.1	--	11.5	--	13.4	--	10.4	--	12.3	--	9.8	--	--
1 year	17.3	--	22.8	--	26.2	--	42.7	--	41.3	--	29.1	--	--
All periods	3.5	--	8.0	--	9.0	--	9.9	--	12.3	--	7.3	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	--	--	51.5	--	48.0	--	68.3	69.8	--
Average long-term	--	--	--	--	--	--	2.8	--	9.9	--	26.8	2.0	--
Average initial	--	--	--	--	--	--	47.3	--	46.3	--	47.0	48.0	--
Average long-term	--	--	--	--	--	--	1.9	--	9.3	--	21.3	1.5	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	12	--	12	--	12	--	--	12	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	34.3	34.3	34.3	34.3	34.3	34.3	34.3	34.3
Single 2 children	--	--	--	--	--	34.3	34.3	34.3	34.3	34.3	34.3	34.3	34.3
Single 2 children	--	--	--	--	34.3	34.3	34.3	34.3	34.3	34.3	34.3	34.3	34.3
Couple No child	--	--	--	--	--	36.2	36.4	36.9	36.5	36.7	36.4	35.5	35.2
Couple 2 children	22.9	--	34.3	34.4	34.9	35.9	36.2	36.5	35.8	36.1	35.9	35.0	34.3
Couple No child	--	--	--	--	--	34.3	34.3	34.3	34.3	34.3	34.3	34.3	34.3
Couple 2 children	--	--	--	--	--	34.3	34.3	34.3	34.3	34.3	34.3	34.3	34.3
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Employment Protection Legislation</b>													
Temporary	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	3.3
Permanent	2.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.4
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ----> 60 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ----> 65 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ----> 65 y. old-age pension	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Working time flexibility</b>													
Percentage of part-time workers	5.9	6.7	7.1	7.8	7.8	8.0	8.3	9.1	8.0	5.5	4.9	5.6	5.6
<b>Wage setting</b>													
Ratio of minimum to median wage	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	--	--	--
Coordination	--	--	--	--	--	--	--	--	--	--	--	--	--
Centralisation	--	--	--	--	--	--	--	--	--	--	--	--	--
Union density	37.5	32.4	31.1	30.3	29.6	28.9	28.6	26.7	26.1	26.0	25.4	--	--
Union coverage	--	--	--	--	--	--	--	--	--	--	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

Table A2.20. Greece : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes				[+, -] = +	1	0.5
Overall payroll taxes						0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X			[+, -] = +	1	0.5
Payroll taxes on low incomes				+		0
<b>Total</b>			<b>0</b>		<b>2</b>	<b>1</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance					-1	-0.5
Prior authorisation						0
Notice periods						0
Severance pay	X			-		0
Dismissals	X			+		0
Others						0
<b>Temporary contracts</b>						
Fixed-term contracts				+	3	1.5
Temporary work agencies				+		0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>2</b>	<b>1</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates						0
Benefit duration						0
Work availability requirements						0
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0.5
Work disincentives				+	1	0.5
Establishment or strengthening of UI schemes	X	+	1	+	1	1
Others						0
<b>Total</b>			<b>1</b>		<b>2</b>	<b>1.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort			+	1		0.5
Extent of ALMPs	X		+	3	+	3
Targeting of ALMPs	X		+	1	+	1
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities					+	1
Contestability of PES	X		+	1		0.5
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>6</b>		<b>5</b>	<b>5.5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions			-	-1	~	-0.5
Invalidity or sick pay schemes						0
Others	X					0
<b>Total</b>				<b>-1</b>	<b>0</b>	<b>-0.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination	X					0
Wage distribution or indexation	X					0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses	X		+	1		0.5
Minimum wages	X					0
Others						0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements	X		+	1	[+, -] = -	-1
Flexibility of part-time work					+	1
Others						0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>

<b>Greece : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	0	2	1
Employment Protection Legislation	0	2	1
Unemployment benefits	1	2	1.5
Active Labour Market Policies	6	5	5.5
Early retirement, invalidity schemes and old-age pensions	-1	0	-0.5
Industrial relations and wage setting	1	0	0.5
Working time flexibility, part-time work	1	0	0.5
<b>Total</b>	<b>8</b>	<b>11</b>	<b>9.5</b>

## HUNGARY

### Labour Taxes

**Overall labour taxes:** 1997 -- reduction in the top personal income tax rate from 48 to 42 per cent; 1999 -- further reduction to 40 per cent and reduction of tax rate bands from six to three, introduction of family tax credits; 2000 -- 30 per cent increase in family allowance; 2002 -- further increase by 20 per cent; 2003 -- increase in tax brackets; 2004 -- reductions in marginal taxes to 18, 26 and 38 per cent are planned and the brackets are to be increased significantly above expected household income increases.

**Overall payroll taxes:** 1997 -- reduction of the health-care contribution and introduction of a minimum lump-sum contribution, contribution subsidies available for firms whose workers' average earnings are low, social security contribution base extended to entrepreneurial income; 1998 -- modest payroll tax reductions; 1999 -- employers' rate down by 7 percentage points, partially offset by a 66 per cent increase in the employers' minimum health contribution, increase of employees' social security contributions by 1 percentage point;<sup>9</sup> 2003 -- employers' lump-sum health contribution reduced by almost 25 per cent; 2004 -- employers' lump-sum health contribution eliminated for some vulnerable groups, health care social security contributions for employees increased by one percentage point; 2005 -- further reductions of the employers' lump-sum health contribution, to be completely eliminated in 2006.

**Labour taxes on low incomes:** 1999 -- reduction of general tax credits from 20 per cent of wages and salaries to 10 per cent, decrease of maximum earnings subject to tax credit; 2002 -- employees' tax credits increased significantly with complete tax exemption of income up to the minimum wage and gradual phasing out for higher incomes.

### Employment Protection Legislation (EPL)

**Fixed-term contracts:** 2003 -- stricter regulations on renewal of fixed-term contracts.

### Unemployment benefits

**Benefit replacement rates:** 1998 -- two-phase system with higher replacement rates in the initial phase replaced with a one-phase system at an intermediate replacement rate; 2000 -- unemployment assistance benefits reduced by about 10 per cent.

**Benefit duration:** 1999 -- reduction of maximum unemployment insurance benefit duration from 12 to 9 months, can be extended to a total of 18 months through enrolment in training.

**Work availability requirements:** 2000 -- refusal of a public-works job results in loss of eligibility for the new unemployment assistance scheme.

**Work disincentives:** 2003 -- introduction of the "job-search allowance" after 180 days of unemployment insurance benefit receipt, whereby upon finding a job (including part-time) recipients can retain half of the subsidy remaining to the end of the disbursement period as a lump sum.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** 1998 -- evaluations of training, public-sector job creation and wage subsidies, as well as self-employment programmes, and the effectiveness of the public employment service.

**Targeting of ALMPs:** 1997 -- new programme targeting long-term unemployed including interviews, career counselling and subsidised employment; 2000 -- wage subsidies for the long-term unemployed, wage subsidies and training facilities for unemployed school leavers, separate scheme for the most disadvantaged regions.

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9. The apparent increase of tax wedges in 2002 is due to the inclusion of the lump-sum health contribution in the tax wedge for the first time (OECD, *Taxing Wages*, 2004, p. 307).

**Re-qualification via ALMPs:** 1997 -- if unemployment insurance benefit expires while on training, benefit now reduced to the level of unemployment assistance (before training participants continued to receive their benefit), as is the benefit for new entrants in training programmes.

**Contestability of PES:** 1998 -- non-profit organisations can now run programmes for disadvantaged groups.

### **Early retirement, invalidity schemes and old-age pensions**

**Early-retirement schemes and old-age pensions:** 1996 -- gradual rise in minimum pension age to a uniform 62 years by 2009; 1998 -- major reform of the old-age retirement income system, a gradual phasing out of the pre-existing Pay-As-You-Go system and its replacement with a two-pillar pension that has Pay-As-You-Go and private mandatory components, tax advantages for households to make additional voluntary private pension contributions that were introduced in 1994 have been maintained, 2003 -- a 13<sup>th</sup> month to the first-pillar pension added.

**Invalidity and sick pay schemes:** 1996 -- introduction of rehabilitation programmes; 1997 -- disability benefits made temporary and more frequent medical evaluations required, although re-certification remained relatively easy; 1998 -- measures that move workers already certified as permanently disabled to the temporary disability pension; 2000 -- right to repeated episodes of three days of sick leave at the employer's expense is abolished; 2004 -- comprehensive reforms of the disability schemes envisaged, aiming to focus on remaining capability.

**Others:** 1998 -- new vocational rehabilitation programmes for the disabled and a pilot programme of tele-working, tax allowances for small firms who employ disabled workers, and larger firms are required to have a minimum percentage of disabled workers in their workforce to avoid fines; 2000 -- national programme requires firms to hire a specific share of disabled workers.

### **Industrial relations and wage setting**

**Minimum wages:** 2000-2003 -- large increases in statutory minimum wages contributing to raising private sector wage inflation above productivity and to a significant increase in the number of workers subject to a minimum-wage; 2004 -- a 6 per cent increase in statutory minimum wages.

### **Working time flexibility, part-time work**

No action.

Table A2.2.1. Hungary: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	--	--	--	--	--	--	--	--	--	--	46.3	--	--
All periods	--	--	--	--	--	--	--	--	--	--	9.3	--	--
1 year	--	--	--	--	--	--	--	--	--	--	31.0	--	--
All periods	--	--	--	--	--	--	--	--	--	--	6.2	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	88.3	--	85.1	--	70.3	--	69.0	65.8	--
Average long-term	--	--	--	--	69.3	--	65.8	--	34.2	--	39.0	36.5	--
Average initial	--	--	--	--	70.8	--	65.6	--	54.3	--	52.3	49.3	--
Average long-term	--	--	--	--	53.3	--	50.3	--	33.5	--	29.0	27.3	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	12	--	12	--	12	--	--	9	--
<b>Direct tax wedge average<sup>1,2</sup></b>													
Single No child	--	--	--	--	--	41.0	42.5	42.1	47.3	41.5	41.1	44.5	38.5
Single 2 children	--	--	--	--	--	7.6	11.6	10.8	12.5	7.2	9.4	16.4	13.1
Single 2 children	--	--	--	--	22.0	26.8	28.8	28.1	24.0	22.1	19.5	23.2	21.3
Couple No child	--	--	--	--	--	52.0	52.0	51.6	50.7	49.6	49.0	45.7	45.7
Couple 2 children	--	--	--	--	37.4	40.4	40.8	40.3	35.9	35.0	32.8	33.9	30.5
Couple No child	--	--	--	--	--	41.0	42.5	42.1	47.3	41.5	41.1	44.5	38.5
Couple 2 children	--	--	--	--	--	26.6	29.0	28.5	31.8	26.2	26.9	29.8	27.6
<b>Active Labour Market Policies</b>													
ALMP's spending per unemployed person, constant US\$ PPP	--	--	3113.5	2939.8	1818.3	1427.6	1747.3	1610.8	1765.9	1781.7	2479.1	2545.2	--
<b>Employment Protection Legislation</b>													
Temporary	--	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	1.1
Permanent	--	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ---> 65 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ---> 65 y. old-age pension	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Working time flexibility</b>													
Percentage of part-time workers	--	--	--	--	3.2	3.1	3.3	3.4	3.5	3.2	2.8	2.9	3.5
<b>Wage setting</b>													
Ratio of minimum to median wage	--	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	--	--
Coordination	--	--	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--	--
Centralisation	--	--	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--	--
Union density	--	--	--	--	63.4	--	--	32.8	--	--	19.9	--	--
Union coverage	--	--	--	--	--	--	--	--	--	--	--	30+	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. The increase of the tax wedge in 2002 is due to methodological changes (see OECD, *Taxing Wages*, 2004).



Table A2.22. Hungary : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X	+	1	+	3	2
Overall payroll taxes	X	[+,-]		+		0
<b>Taxes on low income</b>						
Labour taxes on low incomes		-	-1	+	1	0
Payroll taxes on low incomes						0
<b>Total</b>			<b>0</b>		<b>4</b>	<b>2</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X					0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals						0
Others						0
<b>Temporary contracts</b>						
Fixed-term contracts				-	-2	-1
Temporary work agencies						0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>-2</b>	<b>-1</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates		~		+	2	1
Benefit duration		+	1			0.5
Work availability requirements				+	1	0.5
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0
Work disincentives	X			+	1	0.5
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>1</b>		<b>4</b>	<b>2.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X	+	1			0.5
Extent of ALMPs	X	+	2	+	1	1.5
Targeting of ALMPs		+	1	+	1	1
Re-qualification via ALMPs		+	1			0.5
Integration and restructuring of ALMP activities						0
Contestability of PES		+	1			0.5
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>6</b>		<b>2</b>	<b>4</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X	+	2			1
Invalidity or sick pay schemes	X	+	1	+	1	1
Others	X					0
<b>Total</b>			<b>3</b>		<b>1</b>	<b>2</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages	X			-	-2	-1
Others						0
<b>Total</b>			<b>0</b>		<b>-2</b>	<b>-1</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements						0
Flexibility of part-time work						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>

<b>Hungary : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	0	4	2
Employment Protection Legislation	0	-2	-1
Unemployment benefits	1	4	2.5
Active Labour Market Policies	6	2	4
Early retirement, invalidity schemes and old-age pensions	3	1	2
Industrial relations and wage setting	0	-2	-1
Working time flexibility, part-time work	0	0	0
<b>Total</b>	<b>10</b>	<b>7</b>	<b>8.5</b>

## ICELAND

### Labour Taxes

**Overall labour taxes:** 1997 -- income tax rates reduced by 4 percentage points in three annual steps, although this was partly offset by a freezing of tax thresholds and benefits; 1998 -- tax wedges for single parents increase again significantly as a result of the revision of the child benefit system;<sup>10</sup> 2000 -- further revisions to the child transfer system pushes up tax wedges significantly; 2002 -- personal income tax was reduced by 0.33 percentage point in 2002 to offset an increase in local government income tax; tax-free threshold of the personal income surtax increased by 15 per cent on income earned in 2001.

**Overall payroll taxes:** 1996 -- social security tax increased, but employees' pension contributions were made tax deductible; 1997 -- uniform social security tax of 5.5 per cent phased in over three years, which is an increase from 3.55 per cent for some industries and a decrease from 6.85 per cent for all others; 2003 -- small increase (0.5 percentage points) of the social security tax.

### Employment Protection Legislation (EPL)

No action.

### Unemployment benefits

**Benefit duration:** 1997 -- maximum duration reduced from indefinite to five years.

**Work availability requirements:** 1997 -- benefit receipt made dependent on the willingness to accept job offers, failure to sign a re-insertion contract after ten weeks of unemployment with the employment agency or to comply with its requirements after further four weeks entails benefit losses.

**Eligibility:** 1997 -- work requirements increased from 1 700 hours to 52 weeks of full-time work.

**Work disincentives:** 1998 -- the flat-rate and the means-tested components of child benefits merged and together become subject to a means-test with a lower withdrawal rate than before; 2001 -- means-testing removed for individuals with children under seven; 2003 -- withdrawal rate for child benefits lowered (from 5 to 11 to 3 to 9 per cent) and reduction of the benefit as net wealth increases abolished.

### Active Labour Market Policies (ALMPs)

**Extent of ALMPs:** 1997 -- mandatory re-insertion contracts introduced spelling out the job seekers' job search and training plans as well as services to be provided by the employment agency, re-evaluation after four weeks if the unemployed meet the agreement; 1999 -- exemptions from social security contributions for newly hired employees who were formerly unemployed.

**Targeting of ALMPs:** 1997 -- for the longer-term unemployed (four to six months), counsellors provide additional guidance, including courses, re-training and psychological help if needed.

**Integration of job counselling, ALMPs and various benefit agencies:** 1998 -- 56 local employment offices replaced with eight regional ones that are electronically linked, creating a national job-bank, the job placement agency is linked to the unemployment benefit administration to be able to condition the receipt of unemployment benefits.

### Early retirement, invalidity schemes and old-age pensions

**Early-retirement schemes and old-age pensions:** 1997 -- new funded public employee pension system (before Pay-As-You-Go arrangements) with higher contributions, based on life-time earnings (before last earnings) and some (but not full) actuarial adjustment for early or late retirement.

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10. Some of the increase in tax wedges apparent in A2.23 is a result of a change in methodology, as the earnings of the average production worker were revised upwards (OECD, *Taxing Wages*, 2002-2003).

**Industrial relations and wage setting**

*Wage determination:* 1997 -- new rules for wage negotiations introduced, obliging social partners to agree to a schedule for negotiations and introducing a conciliation and mediation officer who can submit compromise proposals, especially for negotiations with multiple unions or federations; mandate of committees when representing several unions clarified, union leadership required to submit formal strike votes to a secret ballot.

**Working time flexibility, part-time work**

No action.

Table A2.23. Iceland: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	--	--	--	--	--	--	--	--	--	--	48.8	--	--
All periods	--	--	--	--	--	--	--	--	--	--	48.8	--	--
1 year	--	--	--	--	--	--	--	--	--	--	32.7	--	--
All periods	--	--	--	--	--	--	--	--	--	--	32.7	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	76.5	--	80.7	--	76.0	--	65.8	68.3	--
Average long-term	--	--	--	--	87.8	--	89.1	--	87.4	--	78.5	81.3	--
Average initial	--	--	--	--	57.3	--	59.9	--	59.8	--	51.8	53.8	--
Average long-term	--	--	--	--	65.5	--	71.3	--	69.0	--	62.0	64.3	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	12	--	60	--	60	--	--	60	--
<b>Direct tax wedge average<sup>1,2</sup></b>													
Single No child	--	--	--	--	--	-4.0	3.7	4.6	6.7	8.4	10.5	11.8	12.6
Single 2 children	--	--	--	--	--	-68.8	-52.9	-43.1	-37.2	-32.0	-30.8	-30.7	-27.5
Single 2 children	--	--	--	--	-24.5	-19.1	-14.2	-7.0	-3.8	-0.7	-0.1	0.1	2.1
Couple No child	--	--	--	--	--	9.4	10.6	14.4	15.5	16.2	17.1	17.8	18.0
Couple 2 children	-3.0	--	-11.2	-9.8	-10.9	-6.6	-2.8	3.1	5.8	7.6	7.8	8.0	8.9
Couple No child	--	--	--	--	--	-3.3	3.7	4.6	6.7	8.4	10.5	11.8	12.6
Couple 2 children	--	--	--	--	--	-26.0	-15.3	-11.2	-7.4	-4.2	-3.0	-2.1	-0.3
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Employment Protection Legislation</b>													
Temporary	--	--	--	--	--	--	--	--	--	--	--	--	--
Permanent	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	--	--	--	--	5.2	5.2	5.1	5.1	5.1	--	--	--	8.3 <sup>3</sup>
60 y. ---> 65 y. early retirement	--	--	--	--	4.9	4.8	4.8	4.8	4.8	--	--	--	1.9 <sup>3</sup>
60 y. ---> 65 y. old-age pension	--	--	--	--	4.9	4.8	4.8	4.8	4.8	--	--	--	1.9 <sup>3</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	--	--	22.4	22.6	22.5	20.9	22.4	23.2	21.2	20.4	20.4	20.1	--
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	--	--	--	--	--
Coordination	--	--	--	--	--	--	--	--	--	--	--	--	--
Centralisation	--	--	--	--	--	--	--	--	--	--	--	--	--
Union density	78.5	--	--	88.0	86.3	85.9	84.1	85.5	83.8	83.9	85.1	--	--
Union coverage	--	--	--	--	--	--	--	--	--	--	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. The increase of the tax wedge in 1998 is due to methodological changes (see OECD, *Taxing Wages*, 2002-2003)

3. Currently legislated systems.

Table A2.24. Iceland : Recommendation and actions since 1994

Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
	Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>					
<b>Overall taxes on labour income</b>					
Overall labour taxes	+	-4	[+,-]=	-2	-3
Overall payroll taxes	[+,-]=		-		0
<b>Taxes on low income</b>					
Labour taxes on low incomes					0
Payroll taxes on low incomes					0
<b>Total</b>		<b>-4</b>		<b>-2</b>	<b>-3</b>
<b>Panel B. Employment Protection Legislation</b>					
<b>Regular contracts</b>					
General stance					0
Prior authorisation					0
Notice periods					0
Severance pay					0
Dismissals					0
Others					0
<b>Temporary contracts</b>					
Fixed-term contracts					0
Temporary work agencies					0
Guidelines for courts					0
<b>Total</b>		<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel C. Unemployment benefits</b>					
Benefit replacement rates	X				0
Benefit duration	X	+	1		0.5
Work availability requirements		+	1		0.5
Eligibility	X	+	1		0.5
Re-qualification possibilities					0
Benefit conditionality					0
Waiting periods					0
Work disincentives		+	1	+	1
Establishment or strengthening of UI schemes					0
Others					0
<b>Total</b>		<b>4</b>		<b>1</b>	<b>2.5</b>
<b>Panel D. Active Labour Market Policies</b>					
Evaluation effort					0
Extent of ALMPs	X	+	3		1.5
Targeting of ALMPs		+	1		0.5
Re-qualification via ALMPs					0
Integration and restructuring of ALMP activities					0
Contestability of PES					0
Integration of job counselling, ALMPs and various benefit agencies	X	+	1		0.5
Others					0
<b>Total</b>		<b>5</b>		<b>0</b>	<b>2.5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>					
Early-retirement schemes and old-age pensions		+	1		0.5
Invalidity or sick pay schemes					0
Others					0
<b>Total</b>		<b>1</b>		<b>0</b>	<b>0.5</b>
<b>Panel F. Industrial relations and wage setting</b>					
Wage determination	X	~			0
Wage distribution or indexation					0
Wage setting with regard to skill level, experience and productivity					0
Administrative extension					0
Use of "opt-out" clauses					0
Minimum wages					0
Others					0
<b>Total</b>		<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel G. Working time flexibility, part-time work</b>					
Flexibility of working-time arrangements	X				0
Flexibility of part-time work					0
Others					0
<b>Total</b>		<b>0</b>		<b>0</b>	<b>0</b>

Iceland : Summary table of scores			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	-4	-2	-3
Employment Protection Legislation	0	0	0
Unemployment benefits	4	1	2.5
Active Labour Market Policies	5	0	2.5
Early retirement, invalidity schemes and old-age pensions	1	0	0.5
Industrial relations and wage setting	0	0	0
Working time flexibility, part-time work	0	0	0
<b>Total</b>	<b>6</b>	<b>-1</b>	<b>2.5</b>

## IRELAND

### Labour Taxes

**Overall labour taxes:** 1994-2004 -- tax rates and social security contributions decreased and allowances and child benefits increased in several steps; 2000 -- partial move towards individualisation of tax bands to improve incentives for spouses to work, which was weakened by subsequent introduction of home carer allowance for single income families.

**Overall payroll taxes:** 1996 -- social security contributions decreased (0.2 percentage points); 1997 -- further decrease (1 percentage point); 2001 -- further decrease.

**Labour taxes on low incomes:** 1999 -- first 100 pounds of weekly earnings were made tax-free and the lowest tax rate band widened; 2001 -- conversion of most tax allowances to tax credits with an increase in the earnings ceiling for paying taxes by around 80 per cent.

### Employment Protection Legislation (EPL)

**Severance pay:** 2003 -- severance pay entitlements raised.

**Fixed-term contracts:** 2003 -- regulation on valid cases for fixed-term contracts tightened and their maximum overall duration limited to 4 years.

### Unemployment benefits

**Benefit replacement rates:** 1994 -- by sharply raising unemployment assistance and eliminating the pay-related component of unemployment benefits, government equalised payments under the two systems; 1990s - benefits raised well above inflation rates several times.

**Work availability requirements:** 1998 -- specific job-search activity and a commitment to availability imposed.

**Work disincentives:** 1995-1996 -- a freeze of child-dependent allowance paid to the unemployed, while universal child benefits were raised a number of times over the 1990s to reduce high net replacement rates, possibility to retain the child dependent benefits for 3 months after entering employment introduced for the long-term unemployed, entitlement to the Family Income Supplement -- an in-work benefit -- turned from a gross to a net basis and its income threshold was raised.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** since 1990s -- regular evaluations of ALMPs.

**Extent of ALMPs:** 1998 -- mandatory job interviews with PES officers after six months of unemployment for the young introduced to assess whether they are apt for a job vacancy or in need of training; 2002 -- extended to those over 25 after nine months of unemployment; 1999 -- young people receive activation offers before 6 months; 2000 -- activation offers for older people after nine months; 1994-1999 -- introduction or extension of several different schemes of wage subsidies and tax allowances, as well as possibilities to retain benefits for a while after finding employment.

**Targeting of ALMPs:** 1990s -- many of the ALMP measures targeted on the long-term unemployed; 1997 -- local employment services assist the long-term unemployed in areas designated as disadvantaged by the government by providing intensive guidance, counselling and job preparation assistance.

**Integration and restructuring of ALMP activities:** 1999 -- job creation programmes that evaluations had revealed to be relatively ineffective scaled down in favour of training and more intensive counselling; expenditures on active labour market policies per unemployed person increased steadily until 2001, when they began to stabilise.

***Integration of job counselling, ALMPs and various benefit agencies:*** 2000 -- local employment services combined with the national employment and training services (FAS) as contractors, FAS refocused from training and employment experience programmes towards guidance and placement functions.

**Early retirement, invalidity schemes and old-age pensions**

No action.

**Industrial relations and wage setting**

***Wage determination:*** 1997 -- national wage agreements between the social partners and the government included a “local bargaining” clause, which allows unions to negotiate an additional 2 per cent wage increase depending on the circumstances of the particular firm.

***Minimum wages:*** 2000 -- national minimum wage introduced at a comparatively high level of 56 per cent of the median wage with lower rates for inexperienced young people; increased several times thereafter.

**Working time flexibility, part-time work**

No action.

Table A2.25. Ireland: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year 67% APW	50.8	--	51.7	--	38.0	--	41.4	--	41.7	--	42.9	--	--
All periods 67% APW	28.6	--	33.3	--	30.3	--	33.2	--	33.2	--	34.1	--	--
1 year 100% APW	40.9	--	37.3	--	25.3	--	28.1	--	28.3	--	28.8	--	--
All periods 100% APW	21.0	--	22.9	--	20.1	--	22.6	--	22.6	--	22.8	--	--
<b>Net replacement rate</b>													
Average initial 67% APW	--	--	--	--	63.0	--	63.6	--	56.8	--	56.5	57.5	--
Average long-term 67% APW	--	--	--	--	64.0	--	63.6	--	57.5	--	125.5	128.3	--
Average initial 100% APW	--	--	--	--	51.3	--	51.3	--	46.0	--	45.3	45.8	--
Average long-term 100% APW	--	--	--	--	52.0	--	51.3	--	46.5	--	98.8	100.5	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	15	--	15	--	15	--	--	15	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child 40% APW	--	--	--	--	--	18.9	17.6	16.3	13.0	--	--	7.8	7.8
Single 2 children 40% APW	--	--	--	--	--	-55.8	-59.4	-56.9	-57.8	--	--	-65.0	-69.1
Single 2 children 67% APW	--	--	--	--	6.0	2.6	-1.2	-5.5	-5.2	-0.9	--	-12.8	-15.3
Couple No child 100% APW, 0% APW	--	--	--	--	--	29.9	28.2	26.8	24.2	--	--	19.1	19.4
Couple 2 children 100% APW, 0% APW	30.0	--	29.9	28.4	26.8	25.6	23.8	22.5	20.1	15.5	12.8	9.1	7.4
Couple No child 40% APW, 40% APW	--	--	--	--	--	18.9	17.6	16.3	13.0	--	--	7.8	7.8
Couple 2 children 40% APW, 40% APW	--	--	--	--	--	12.2	9.6	6.4	5.8	--	--	-1.5	-4.2
<b>Active Labour Market Policies</b>													
ALMP's spending per unemployed person, constant US\$ PPP	2773.0	4200.5	4044.6	4361.6	5894.4	6110.9	7989.2	9867.5	11745.8	13624.1	15502.4	15502.4	--
<b>Employment Protection Legislation</b>													
Temporary	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.6
Permanent	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
<b>Early retirement - Implicit tax on continued work</b>													
55 y. --> 60 y. early retirement	19.4	22.8	38.4	37.2	36.0	35.9	35.8	36.6	37.4	--	--	--	37.5 <sup>2</sup>
60 y. --> 65 y. early retirement	19.6	22.8	37.9	36.7	35.6	35.5	35.4	36.3	37.1	--	--	--	37.3 <sup>2</sup>
60 y. --> 65 y. old-age pension	19.6	17.6	16.9	15.9	14.8	14.6	14.4	15.5	16.6	--	--	--	15.3 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	8.1	10.0	13.1	13.5	14.3	14.2	15.0	17.6	17.9	18.1	17.9	18.1	18.1
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	--	0.6	--	--	--
Coordination	2.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	--
Centralisation	2.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	--
Union density	54.2	51.1	50.0	48.6	47.1	45.4	44.4	42.4	40.6	37.8	35.9	--	--
Union coverage	--	--	--	--	--	--	--	--	--	--	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.



Table A2.26. Ireland : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X	+	3	+	4	3.5
Overall payroll taxes		+		+		0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X	+	3	+	4	3.5
Payroll taxes on low incomes		+				0
<b>Total</b>			<b>6</b>		<b>8</b>	<b>7</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						0
General stance						0
Prior authorisation						0
Notice periods						0
Severance pay				-	-1	-0.5
Dismissals						0
Others						0
<b>Temporary contracts</b>						-1
Fixed-term contracts				-	-2	0
Temporary work agencies						0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>-3</b>	<b>-1.5</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates	X	[+,-]=+	2			1
Benefit duration						0
Work availability requirements	X	+	1			0.5
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0
Work disincentives	X	+	1			0.5
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>4</b>		<b>0</b>	<b>2</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort		+	1			0.5
Extent of ALMPs	X	+	4	+	4	4
Targeting of ALMPs	X	+	1			0.5
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities	X			+	1	0.5
Contestability of PES						0
Integration of job counselling, ALMPs and various benefit agencies	X			+	1	0.5
Others						0
<b>Total</b>			<b>6</b>		<b>6</b>	<b>6</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions						0
Invalidity or sick pay schemes						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination		~				0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages	X			-	-3	-1.5
Others						0
<b>Total</b>			<b>0</b>		<b>-3</b>	<b>-1.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements						0
Flexibility of part-time work						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>

<b>Ireland : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	6	8	7
Employment Protection Legislation	0	-3	-1.5
Unemployment benefits	4	0	2
Active Labour Market Policies	6	6	6
Early retirement, invalidity schemes and old-age pensions	0	0	0
Industrial relations and wage setting	0	-3	-1.5
Working time flexibility, part-time work	0	0	0
<b>Total</b>	<b>16</b>	<b>8</b>	<b>12</b>

## ITALY

### Labour Taxes

**Overall labour taxes:** 1997-98 -- tax reform including reduction of the number of tax brackets, a decrease of the highest tax rate and larger tax credits; 2000 -- tax rate of the second bracket reduced by one percentage point and child tax credits increased; 2002 -- increased tax credits for families; 2003 -- new tax reform to be phased in gradually with higher tax exemption thresholds and a reduction of the number of tax brackets to two by 2006.<sup>11</sup>

**Overall payroll taxes:** 1997-98 -- new regional tax on business activity replaces previous taxes and contributions; 2003 -- cut in contribution rates.

**Labour taxes on low incomes:** 1997-98 -- structure of the tax credits revised to lower the tax burden on medium- and low-income earners and large families, although the lowest tax rate increased by 9 percentage points as a result of the reduction in the number of tax brackets; 2000 -- tax credit for low-income workers increased; 2003-2006 -- “Pact for Italy” to introduce tax cuts especially targeted at low-income families.

### Employment Protection Legislation (EPL)

**Fixed-term contracts:** 1997 -- no longer automatic transformation of fixed-term contracts into indefinite work contracts; 2000 -- simplification of the use of interim contracts for unskilled jobs; 2001 -- extension of valid cases for fixed-term contracts.

**Temporary work agencies:** 1998 -- establishment of private-employment and temporary work agencies allowed; 2000 -- extended possibilities and terms for use of temporary contracts; 2003 -- temporary work agencies allowed to offer any type of job placement and employment services, including training.

**Others:** 2002 -- easing of administrative obligations for firms when hiring.

### Unemployment benefits

**Benefit replacement rates:** 2000 -- an increase of ordinary unemployment benefits (there are a number of “special” benefits in certain sectors depending on the form of dismissal, e.g. collective or individual) from 30 per cent to 40 per cent of the average gross earnings received over the past three months; 2003 -- replacement rate of the ordinary unemployment benefits increased to 60 per cent (from 40) of the past wage in the first six months after dismissal and to 40 and 30 per cent in the following two quarters (from zero).

**Benefit duration:** 2000 -- increase in the benefit duration from 6 to 9 months for the unemployed over 50 years of age; 2003 -- maximum duration of ordinary unemployment benefits extended from 6 months to 1 year.

**Work availability requirements:** 2002 -- conditions specified, under which the unemployed have to accept a job or a training offer; 2003 -- transfer is made conditional on accepting job offers if available.

**Benefit conditionality:** 2003 -- unemployment benefits made conditional on participation in training.

### Active Labour Market Policies (ALMPs)

**Extent of ALMPs:** 2000 -- social security contribution reductions for hiring unemployed workers; 2002 -- reform of the functioning of PES including deadlines in assisting and training dismissed people on a personal basis, obligation for the PES to monitor conditions under which unemployed can take advantage

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11. Decrease in the tax wedges in 1998 reported in Table A2.27 is due to changes in methodology (OECD, *Taxing Wages*, 1998-1999).

of active and passive measures (including the obligation of accepting a training programme or a “fair” job offer if available); 2003 -- social security rebates for new hires in southern Italy.

**Targeting of ALMPs:** 1996 -- reduction of non-wage labour-costs for newly-hired youth; 1997 -- reduction of employers’ social security contribution rates for some categories of “atypical” workers by around two thirds, increased opportunities for training and apprenticeship contracts for young persons with special provisions for the southern regions, including personalised and targeted counselling for young unemployed people.

**Integration and restructuring of ALMP activities:** 1997 -- regionalisation of employment, training and re-training services.

**Contestability of PES:** 1998 -- establishment of private-employment and temporary work agencies is allowed.

### **Early retirement, invalidity schemes and old-age pensions**

**Early-retirement schemes and old-age pensions:** 1995 -- shift from a pension system related to earnings to a system related to life-time contributions, residual life expectancy and to GDP growth, although transition period lasts until 2035, possibility to retire early on account of long years of service regardless of age to be abolished by 2013; 1997 -- Prodi agreement stipulates acceleration of the increase in the early retirement age, the gradual harmonisation of public and private pension regimes and increases in pension contributions paid by self-employed; 2001 -- increased retirement age for seniority pensions following the 1997 decision, unemployment benefits for workers over 50 increased; use of early retirement schemes reduced; 2003 -- extension of the possibility to combine pension and labour income; 2005 -- until 2008, in order to raise the average retirement age, people will be offered incentives to stay at work even when they could legally retire; 2008 – minimum retirement age raised from 57 to 60, required contribution period for retirement before 60 lengthened to 40 years; 2010 -- minimum retirement age will rise to 61.

**Invalidity and sick pay schemes:** 1995 -- tightened conditions for entitlement to disability and survivor’s pensions and contribution base broadened, although these changes are to be phased in only gradually.

### **Industrial relations and wage setting**

**Use of “opt-out” clauses:** 1996 -- in economically-depressed regions, employers agree to stimulate investment and employment at the local level in return for a temporary derogation from national wage agreements and more flexible working arrangements.

### **Working time flexibility, part-time work**

**Flexibility of part-time work:** 1997 -- social security contributions and pension provisions adjustments changed to stimulate part-time work; 2003 -- further flexibility in the use of part-time contracts and introduction of new types of contracts (“job on call” and “staff leasing”).

Table A2.27. Italy: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1,2</sup></b>													
<b>Gross replacement rate</b>													
1 year	1.3	--	10.2	--	15.2	--	24.1	--	66.0	--	--	--	--
All periods	0.3	--	2.0	--	3.0	--	4.8	--	32.4	--	--	--	--
1 year	1.0	--	10.2	--	15.1	--	19.3	--	53.0	--	52.4	--	--
All periods	0.2	--	2.0	--	3.0	--	3.9	--	26.5	--	26.2	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	41.8	--	44.3	--	43.8	--	52.8	52.5	--
Average long-term	--	--	--	--	7.8	--	58.2	--	10.8	--	0.0	0.0	--
Average initial	--	--	--	--	42.5	--	45.1	--	47.3	--	57.5	57.0	--
Average long-term	--	--	--	--	5.8	--	44.9	--	9.0	--	0.0	0.0	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	6	--	6	--	6	--	--	6	--
<b>Direct tax wedge average<sup>1,3</sup></b>													
Single No child	--	--	--	--	--	42.9	44.7	38.3	38.0	36.5	36.2	36.7	33.7
Single 2 children	--	--	--	--	--	25.8	22.9	13.5	12.0	12.8	13.0	12.9	13.5
Single 2 children	--	--	--	--	39.4	37.1	35.7	28.7	27.7	27.1	26.3	26.6	25.8
Couple No child	--	--	--	--	--	48.5	49.3	45.2	44.8	44.9	44.3	44.2	43.6
Couple 2 children	43.9	--	42.4	43.5	44.9	43.8	43.3	37.5	37.0	36.5	35.4	35.9	35.5
Couple No child	--	--	--	--	--	41.5	43.4	36.9	36.5	36.5	36.2	36.5	33.5
Couple 2 children	--	--	--	--	--	35.3	35.1	26.4	25.7	24.3	23.3	22.9	22.4
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	--	--	--	--	--	--	--	2557.2	2658.5	2974.2	3485.2	3485.2	--
<b>Employment Protection Legislation</b>													
Temporary	5.4	5.4	5.4	5.4	5.4	5.4	4.8	3.6	3.6	3.4	2.5	2.5	2.1
Permanent	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
<b>Early retirement - Implicit tax on continued work</b>													
55 y. --> 60 y. early retirement	67.8	68.9	70.0	70.6	71.2	56.7	42.3	44.1	46.0	--	--	--	2.7 <sup>4</sup>
60 y. --> 65 y. early retirement	96.4	98.6	100.4	101.2	102.0	101.5	100.9	103.0	105.1	--	--	--	20.6 <sup>4</sup>
60 y. --> 65 y. old-age pension	96.4	98.6	100.4	101.2	102.0	101.5	100.9	103.0	105.1	--	--	--	20.6 <sup>4</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	7.9	8.9	10.0	10.0	10.5	10.5	11.3	11.2	11.8	12.2	12.2	11.9	12.0
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	--	--	--	--	--
Coordination	2.0	3.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0	--	--	--
Centralisation	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	--	--	--
Union density	42.5	38.8	39.2	38.7	38.1	37.4	36.2	35.7	36.1	34.9	34.8	34.0	--
Union coverage	--	(80+)	--	--	--	--	--	--	--	(80+)	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. The jump in 1999 occurs because the OCED uses a different benefit as the basis for its calculation in 1999 than in other years. The higher benefits rates in 2001 reflects a policy change.

3. Decrease in the tax wedge in 1998 is due to changes in methodology (see OECD, *Taxing Wages*, 1998-1999).

4. Currently legislated systems.

Table A2.28. Italy : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X	+	3	+	1	2
Overall payroll taxes	X	+		+		0
<b>Taxes on low income</b>						
Labour taxes on low incomes		+	4		1	2.5
Payroll taxes on low incomes				+		0
<b>Total</b>			<b>7</b>		<b>2</b>	<b>4.5</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X					0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals				+	1	0.5
Others						0
<b>Temporary contracts</b>			<b>3</b>		<b>3</b>	<b>3</b>
Fixed-term contracts	X	+		+		0
Temporary work agencies		+		+		0
Guidelines for courts						0
<b>Total</b>			<b>3</b>		<b>4</b>	<b>3.5</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates				-	-4	-2
Benefit duration				-	-1	-0.5
Work availability requirements	X			+	1	0.5
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality				+	1	0.5
Waiting periods						0
Work disincentives						0
Establishment or strengthening of UI schemes						0
Others	X					0
<b>Total</b>			<b>0</b>		<b>-3</b>	<b>-1.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X					0
Extent of ALMPs		+	2	+	2	2
Targeting of ALMPs		+	1	+	1	1
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities		+	1			0.5
Contestability of PES	X	+	1			0.5
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>5</b>		<b>3</b>	<b>4</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions		[+,] = +	1	+	4	2.5
Invalidity or sick pay schemes	X	+	1			0.5
Others						0
<b>Total</b>			<b>2</b>		<b>4</b>	<b>3</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity	X					0
Administrative extension						0
Use of "opt-out" clauses		+	1			0.5
Minimum wages						0
Others						0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements						0
Flexibility of part-time work	X	+	1	+	1	1
Others						0
<b>Total</b>			<b>1</b>		<b>1</b>	<b>1</b>

<b>Italy : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	7	2	4.5
Employment Protection Legislation	3	4	3.5
Unemployment benefits	0	-3	-1.5
Active Labour Market Policies	5	3	4
Early retirement, invalidity schemes and old-age pensions	2	4	3
Industrial relations and wage setting	1	0	0.5
Working time flexibility, part-time work	1	1	1
<b>Total</b>	<b>19</b>	<b>11</b>	<b>15</b>

## JAPAN

### Labour taxes

**Overall labour taxes:** 1994 -- substantial increase in personal tax allowances and expansion of personal income tax brackets; 1998 -- temporary income tax cuts, in particular a temporary increase in personal allowances (from 3.6 million yen to almost 5 million yen for a one-earner family with two children) results in rise of the share of employees exempted from income tax from 13 per cent to an estimated 30 per cent; 1999 -- decrease in the top personal income tax rate from 65 per cent to 50 per cent; 2002 -- broadening of the base for income tax; 2004 -- further tax base broadening scheduled.<sup>12</sup>

**Overall payroll taxes:** 1994 -- pension contributions increased by 2 percentage points; 1999 -- social security contribution increases contributing to a marked increase of tax wedges.

### Employment Protection Legislation (EPL)

**Dismissals:** 2003 -- Labour Standards Law reformed to establish clear and general rules governing dismissals for economic and other reasons.

**Temporary work agencies:** 1996 -- number of categories for which temporary work agencies can provide workers was extended from 13 to 26; 1998 -- extended to nearly all categories, 2002 -- maximum employment period allowed through temporary work agencies for dispatched workers increased to three years for middle-aged and elderly workers as a temporary measure during 2002-2005; 2003 -- maximum employment period extended to three years for everybody and to five years in the case of workers over 60.

### Unemployment benefits

**Benefit duration:** 2001 -- reduction of benefit duration for those leaving their jobs for retirement but duration increased to 90-330 days for those who become involuntarily unemployed after bankruptcy or dismissal, therefore raising the entitlement period for the age group between 45-59.

**Work disincentives:** 2001 -- incentives to find a job quickly increased through a change of the method for calculating re-employment allowances for those who have found a job quickly and by raising the subsidies for educational training.

### Active Labour Market Policies (ALMPs)

**Extent of ALMPs:** 1999 -- public job creation programmes by central and local governments introduced along with new employment and training subsidies; 2000 -- introduction of “career counsellors” at the Public Employment Service to enhance placement, existing placement subsidies extended to people from private placement agencies.

**Targeting of ALMPs:** 1999 -- introduction of subsidies for employers to hire middle-aged or elderly workers in regions of high unemployment; 2000 -- existing employment subsidies extended to the unemployed under the age of 30.

**Contestability of PES:** 2003 -- government approval is no longer required to establish certain categories of private job-placement agencies.

**Integration of job counselling, ALMPs and various benefit agencies:** 2002 -- introduction of a one-stop service at the public employment service, including job placement and training.

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12. However, the 2002 increases in the tax wedges displayed in Table A2.29 are due to a change in the reporting method for social security contributions in Japan (OECD *Taxing Wages*, 2001-2002).

### **Early retirement, invalidity schemes and old-age pensions**

*Early-retirement schemes and old-age pensions:* 1996 – earnings-testing relaxed so that pensioners can earn more while receiving a pension; 1998 -- law prevents employers from imposing a mandatory retirement age of less than 60 years and persons receiving unemployment benefits will not be eligible for public pensions any longer.

### **Industrial relations and wage setting**

No action.

### **Working time flexibility, part-time work**

*Flexibility of working-time arrangements:* 1997 -- maximum allowable working time per day and per week increased; 1999 -- laws restricting overtime and night-time work for women abolished.

*Flexibility of part-time work:* 2001 -- Coverage expanded so as to include more temporary and part-time workers by abolishing the minimum requirement for annual income and monthly work days.

Table A2.29. Japan: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	32.3	--	30.5	--	32.3	--	34.8	--	40.5	--	29.5	--	--
All periods	6.5	--	6.1	--	6.5	--	7.0	--	8.1	--	5.9	--	--
1 year	29.5	--	29.0	--	29.0	--	30.0	--	32.5	--	25.3	--	--
All periods	5.9	--	5.8	--	5.8	--	6.0	--	6.5	--	5.1	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	70.8	--	67.2	--	80.0	--	74.0	73.5	--
Average long-term	--	--	--	--	74.0	--	72.2	--	72.2	--	75.0	75.0	--
Average initial	--	--	--	--	62.5	--	58.8	--	66.5	--	65.3	64.8	--
Average long-term	--	--	--	--	54.5	--	50.2	--	52.3	--	56.8	56.8	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	7	--	10	--	10	--	--	12	--
<b>Direct tax wedge average<sup>1,2</sup></b>													
Single No child	--	--	--	--	--	17.0	17.7	14.9	21.8	21.9	22.0	27.8	24.9
Single 2 children	--	--	--	--	--	13.4	13.4	13.5	18.6	18.6	18.8	25.2	22.0
Single 2 children	--	--	--	--	15.2	15.1	15.6	14.1	19.7	20.3	20.4	26.3	23.3
Couple No child	--	--	--	--	--	17.2	18.1	16.4	22.0	22.1	22.2	28.0	25.1
Couple 2 children	16.0	--	16.0	16.3	15.1	15.1	15.6	14.0	19.8	20.2	20.4	26.2	23.2
Couple No child	--	--	--	--	--	17.0	17.7	14.9	21.8	21.9	22.0	27.8	24.9
Couple 2 children	--	--	--	--	--	15.2	15.6	14.2	20.2	20.2	20.4	26.5	23.4
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	--	5699.2	4540.3	4485.9	4195.0	4174.3	4052.6	2871.0	2928.4	3033.5	2952.2	2952.2	--
<b>Employment Protection Legislation</b>													
Temporary	1.8	1.8	1.8	1.8	1.8	1.6	1.6	1.6	1.3	1.3	1.3	1.3	1.3
Permanent	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
<b>Early retirement - Implicit tax on continued work</b>													
55 y. --> 60 y. early retirement	--	--	6.6	6.7	6.7	6.7	6.8	6.7	6.6	--	--	--	6.6 <sup>3</sup>
60 y. --> 65 y. early retirement	--	--	43.1	41.2	39.3	39.3	39.2	39.5	39.7	--	--	--	40.0 <sup>3</sup>
60 y. --> 65 y. old-age pension	--	--	43.1	41.2	39.3	39.3	39.2	39.5	39.7	--	--	--	40.0 <sup>3</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	16.6	19.2	21.1	21.4	20.1	21.8	23.3	23.6	24.1	22.6	24.9	25.1	26.0
<b>Wage setting</b>													
Ratio of minimum to median wage	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	--	--	--
Coordination	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	--	--	--
Centralisation	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--	--
Union density	28.8	25.4	24.3	24.3	24.0	23.4	22.8	22.5	22.2	21.5	20.9	20.3	--
Union coverage	--	20+	--	--	--	--	--	--	--	15+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Decrease in the tax wedge in 2002 is due to changes in methodology (see OECD, *Taxing Wages*, 2001-2002).

3. Currently legislated systems.



Table A2.30. Japan : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes		+	-2	~		-1
Overall payroll taxes		-				0
<b>Taxes on low income</b>						
Labour taxes on low incomes						0
Payroll taxes on low incomes						0
<b>Total</b>			<b>-2</b>		<b>0</b>	<b>-1</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						0
General stance						0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals				+	1	0.5
Others						0
<b>Temporary contracts</b>	X		2			1
Fixed-term contracts						0
Temporary work agencies	X	+		+	1	0.5
Guidelines for courts						0
<b>Total</b>			<b>2</b>		<b>2</b>	<b>2</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates	X					0
Benefit duration				[+,.] = ~		0
Work availability requirements						0
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0
Work disincentives				+	1	0.5
Establishment or strengthening of UI schemes	X					0
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X					0
Extent of ALMPs		+	1	+	2	1.5
Targeting of ALMPs		+	1	+	1	1
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities						0
Contestability of PES	X					0
Integration of job counselling, ALMPs and various benefit agencies				+	1	0.5
Others						0
<b>Total</b>			<b>2</b>		<b>4</b>	<b>3</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X	+	1			0.5
Invalidity or sick pay schemes						0
Others						0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements		+	1			0.5
Flexibility of part-time work				+	1	0.5
Others						0
<b>Total</b>			<b>1</b>		<b>1</b>	<b>1</b>

<b>Japan : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	-2	0	-1
Employment Protection Legislation	2	2	2
Unemployment benefits	0	1	0.5
Active Labour Market Policies	2	4	3
Early retirement, invalidity schemes and old-age pensions	1	0	0.5
Industrial relations and wage setting	0	0	0
Working time flexibility, part-time work	1	1	1
<b>Total</b>	<b>4</b>	<b>8</b>	<b>6</b>

## KOREA

### Labour Taxes

**Overall labour taxes:** 2001 -- personal income tax rates lowered from 10, 20, 30 and 40 per cent to 9, 18, 27 and 36 per cent, upper cap of employment income deduction abolished.

**Overall payroll taxes:** 1995 -- unemployment insurance contributions introduced; 1998 -- increased to 1 per cent along with the introduction of an employers' payroll tax of 0.2 per cent of the wage bill to finance a newly introduced wage claim fund to secure wages of workers of bankrupt firms for some months; 1999 -- levy increased to 0.3 per cent of the wage bill, 2001 -- pension contributions made deductible.<sup>13</sup>

**Labour taxes on low incomes:** 2003 -- employment income deduction and tax credit applicable to low incomes increased.

### Employment Protection Legislation (EPL)

**Dismissals:** 1998 -- dismissals for managerial reasons allowed.

**Temporary work agencies:** 1998 -- temporary work agencies allowed.

### Unemployment benefits

**Establishment or strengthening of UI schemes:** 1995 -- introduction of unemployment insurance covering workers with firms with more than 30 employees; 1998 -- coverage extended to firms with at least 5 employees, minimum duration lengthened from 30 to 60 days; 2004 -- extension to daily workers and part-time employees as well as newly hired persons over age 60.

### Active Labour Market Policies (ALMPs)

**Extent of ALMPs:** 1998 -- public training and work creation expanded, and wage subsidies introduced for firms retaining redundant workers; 1999 -- public work programmes extended further and language training programmes launched to help workers find employment after the crisis, the number of Public Employment Service (PES) offices almost tripled from 52 in 1997 to 142, while the number of staff rose by almost four times, 2004 -- in the Social Pact for Job Creation, the government commits to increasing public works jobs and vocational training to improve job-placement services and to use employment subsidies to create jobs.

**Increase contestability of PES:** 1998 -- the limitations on job categories where private job placement firms could operate removed, the approval system for new agencies was changed to simple registration and firms will no longer have to renew their business permits every three years.

**Integration of job counselling, ALMPs and various benefit agencies:** 1998 -- Public Employment Service (PES) integrated with vocational training, employment insurance and other services to create a one-stop service.

### Early retirement, invalidity schemes and old-age pensions

**Early-retirement schemes and old-age pensions:** 2000 -- to slow the rise in the number of pension recipients, the retirement age is scheduled to be raised from 60 to 65 years of age over the period 2013 to 2033.

### Industrial relations and wage setting

No action.

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13. Increase in the tax wedges in 1997 reported in Table A2.31 is due to changes in methodology (OECD, *Taxing Wages*, 2001-2002).

**Working time flexibility, part-time work**

*Flexibility of part-time work:* 1999 -- unemployment benefit eligibility extended to part-time workers;  
2004 -- threshold for part-time workers decreased from 18 to 15 hours a week.

Table A2.31. Korea: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	--	--	--	--	--	--	--	--	--	--	29.2	--	--
All periods	--	--	--	--	--	--	--	--	--	--	5.8	--	--
1 year	--	--	--	--	--	--	--	--	--	--	29.2	--	--
All periods	--	--	--	--	--	--	--	--	--	--	5.8	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	53.5	--	52.1	--	54.0	--	54.3	53.0	--
Average long-term	--	--	--	--	15.0	--	43.0	--	18.8	--	54.0	49.3	--
Average initial	--	--	--	--	54.5	--	52.8	--	54.8	--	55.3	53.8	--
Average long-term	--	--	--	--	10.0	--	29.0	--	12.8	--	37.0	33.3	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	6	--	7	--	7	--	--	7	--
<b>Direct tax wedge average<sup>1,2</sup></b>													
Single No child	--	--	--	--	--	4.5	10.9	13.3	14.2	14.3	14.2	12.1	12.0
Single 2 children	--	--	--	--	--	4.5	10.9	13.3	14.2	14.3	14.2	12.1	12.0
Single 2 children	--	--	--	--	--	4.5	10.9	13.3	14.4	14.8	14.7	12.4	12.4
Couple No child	--	--	--	--	--	6.1	12.4	14.7	16.1	16.5	16.4	14.0	14.0
Couple 2 children	--	--	--	--	6.0	5.3	11.6	13.9	15.4	15.8	15.9	13.6	13.6
Couple No child	--	--	--	--	--	4.5	10.9	13.3	14.2	14.3	14.2	12.1	12.0
Couple 2 children	--	--	--	--	--	4.5	10.9	13.3	14.2	14.3	14.2	12.1	12.0
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	--	337.3	472.3	376.3	535.0	559.6	835.2	1400.8	2952.9	3503.1	2467.5	2741.7	--
<b>Employment Protection Legislation</b>													
Temporary	--	2.3	2.3	2.3	2.3	2.3	2.3	1.7	1.7	1.7	1.7	1.7	1.7
Permanent	--	3.2	3.2	3.2	3.2	3.2	3.2	2.4	2.4	2.4	2.4	2.4	2.4
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ----> 60 y. early retirement	--	-0.4	-0.7	-0.7	-0.8	-0.9	-0.9	-1.0	-1.0	--	--	--	3.8 <sup>3</sup>
60 y. ----> 65 y. early retirement	--	3.6	3.1	3.0	2.8	2.7	2.7	2.6	2.5	--	--	--	41.2 <sup>3</sup>
60 y. ----> 65 y. old-age pension	--	3.6	3.1	3.0	2.8	2.7	2.7	2.6	2.5	--	--	--	41.2 <sup>3</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	--	4.5	4.5	4.5	4.3	4.3	5.0	6.7	7.7	7.0	7.3	7.6	7.7
<b>Wage setting</b>													
Ratio of minimum to median wage	--	0.3	0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.3	--	--	--
Coordination	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--
Centralisation	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--
Union density	12.4	17.2	14.0	13.3	12.5	12.1	11.1	11.4	11.7	11.4	11.5	11.3	--
Union coverage	--	20+	--	--	--	--	--	--	--	--	--	10+	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Increase in the tax wedge in 1997 is due to changes in methodology (see OECD, *Taxing Wages*, 2001-2002).

3. Currently legislated systems. The 2003 figures report what would be the steady-state implicit tax when the old-age pension system will reach maturity.

Table A2.32. Korea : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes			-2	+	1	-0.5
Overall payroll taxes		-		+		0
<b>Taxes on low income</b>						
Labour taxes on low incomes				+	1	0.5
Payroll taxes on low incomes						0
<b>Total</b>			<b>-2</b>		<b>2</b>	<b>0</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X					0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals	X	+	3			1.5
Others						0
<b>Temporary contracts</b>						
Fixed-term contracts		+	3			1.5
Temporary work agencies	X					0
Guidelines for courts						0
<b>Total</b>			<b>6</b>		<b>0</b>	<b>3</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates						0
Benefit duration						0
Work availability requirements						0
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0
Work disincentives	X					0
Establishment or strengthening of UI schemes	X	+	1	+	1	1
Others						0
<b>Total</b>			<b>1</b>		<b>1</b>	<b>1</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort						0
Extent of ALMPs	X	+	2	+	2	2
Targeting of ALMPs						0
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities	X					0
Contestability of PES	X	+	1			0.5
Integration of job counselling, ALMPs and various benefit agencies		+	2			1
Others						0
<b>Total</b>			<b>5</b>		<b>2</b>	<b>3.5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X			+	1	0.5
Invalidity or sick pay schemes						0
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages	X					0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements						0
Flexibility of part-time work	X			+	1	0.5
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>

<b>Korea : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	-2	2	0
Employment Protection Legislation	6	0	3
Unemployment benefits	1	1	1
Active Labour Market Policies	5	2	3.5
Early retirement, invalidity schemes and old-age pensions	0	1	0.5
Industrial relations and wage setting	0	0	0
Working time flexibility, part-time work	0	1	0.5
<b>Total</b>	<b>10</b>	<b>7</b>	<b>8.5</b>

## LUXEMBOURG

### Labour Taxes

**Overall labour taxes:** 1997 -- tax rates reduced by 4 percentage points; 2001 -- tax rates reduced by 2 percentage points and the highest rate by 4 percentage points; 2002 -- tax rates reduced by 4 percentage points.

**Overall payroll taxes:** 1994 -- employers' contributions to the child benefit scheme abolished and replaced by a government transfer to the scheme, reducing total compensation by around 1.7 per cent; 1998 -- social security contributions for blue-collar workers increased temporarily.

**Labour taxes on low incomes:** 1995-2001 -- minimum income free of personal income tax raised; 2002 -- lowest tax rate reduced by 6 percentage points.

### Employment Protection Legislation (EPL)

No action.

### Unemployment benefits

**Work availability requirements:** 1998 -- sanctions applied more often to those unwilling to take up work; 1999 -- surveillance of work availability and sanctions for non-compliance intensified.

### Active Labour Market Policies (ALMPs)

**Extent of ALMPs:** 1994 -- reorganisation of the PES to increase its efficiency and stepped up efforts in the area of active programmes, such as training, counselling and job placement and measures to curb abuses and black market activity; 1995 -- new preparatory in-company traineeship for the unemployed; 1998 -- early activation for young people after 3 months of unemployment and for older unemployed after 6 months; 2000 -- firms become closely involved in organising training and recruitment workshops.

**Targeting of ALMPs:** 1997 -- traineeship contract for young unemployed persons; 1999 -- new training scheme for older and long-term unemployed, and increased wage subsidies for training contracts for the young, while their duration was cut from two to one year; 2000 -- introduction of individual re-integration plans for vulnerable groups with skill-mapping and individual follow-up.

**Contestability of PES:** 1997 -- start of co-operation between PES and temporary work agencies.

### Early retirement, invalidity schemes and old-age pensions

**Early-retirement schemes and old-age pensions:** 1997 -- part-time early retirement scheme introduced for older workers who are replaced by an unemployed person; 1999 -- progressive early retirement and progressive part-time retirement introduced if the retiree is replaced by an unemployed person; 2001 -- introduction of a "supplementary" accrual rate for deferred retirement (the "93 rule").

**Invalidity and sick pay schemes:** 1999 -- invalidity scheme extended to persons with mental disabilities; 2002 -- eligibility criteria to invalidity pension tightened, access to disability pension restricted by requiring an additional independent medical assessment.

**Others:** 1999 -- subsidies for employing disabled workers introduced; 2002 -- persons with residual capacity to work to be re-deployed within their company or with another employer, helped by the placement agency.

### Industrial relations and wage setting

**Minimum wages:** 1997 -- Prime Minister announces that the practice to adjust the legal minimum (which is around 50 per cent of average wages) automatically -- with a lag -- to average wage growth will be maintained.

## **Working time flexibility, part-time work**

***Flexibility of working-time arrangements:*** 1999 -- reference period for the calculation of working time becomes one year (formerly one week) subject to the constraint that the average working week over a four-week period does not exceed the standard working time (presently 40 hours).

***Flexibility of part-time work:*** 1999 -- relaxation of rules on part-time work; working hours to be calculated on the basis of the minimum reference period of four weeks.

Table A2.33. Luxembourg: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	--	--	--	--	--	--	--	--	--	--	80.0	--	--
All periods	--	--	--	--	--	--	--	--	--	--	16.0	--	--
1 year	--	--	--	--	--	--	--	--	--	--	80.0	--	--
All periods	--	--	--	--	--	--	--	--	--	--	16.0	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	88.0	--	84.3	--	84.5	--	86.8	86.5	--
Average long-term	--	--	--	--	84.8	--	83.0	--	84.3	--	89.8	90.0	--
Average initial	--	--	--	--	88.0	--	84.5	--	84.5	--	86.8	86.8	--
Average long-term	--	--	--	--	64.3	--	61.3	--	62.8	--	63.3	64.0	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	12	--	12	--	12	--	--	12	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	23.7	24.1	23.7	24.0	24.4	24.4	24.1	24.1
Single 2 children	--	--	--	--	--	-1.9	-2.0	-5.4	-9.1	-8.1	-7.8	-12.8	-11.8
Single 4 children	--	--	--	--	7.7	8.0	8.0	6.2	4.1	4.9	5.1	1.9	2.5
Couple No child	--	--	--	--	--	26.9	27.5	26.8	27.5	28.2	26.6	25.5	25.6
Couple 2 children	18.1	--	12.5	12.6	12.7	12.9	13.0	12.0	10.7	11.4	11.5	9.2	9.6
Couple No child	--	--	--	--	--	22.7	23.0	23.7	24.0	24.4	24.4	24.1	24.1
Couple 2 children	--	--	--	--	--	10.4	10.5	9.1	7.4	8.1	8.3	5.7	6.1
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Employment Protection Legislation</b>													
Temporary	--	--	--	--	--	--	--	--	--	--	--	--	--
Permanent	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	--	--	83.9	84.0	84.2	84.2	84.2	84.1	84.1	--	--	--	86.9 <sup>2</sup>
60 y. ---> 65 y. early retirement	--	--	78.9	79.0	79.1	79.1	79.0	78.9	78.8	--	--	--	75.3 <sup>2</sup>
60 y. ---> 65 y. old-age pension	--	--	78.9	79.0	79.1	79.1	79.0	78.9	78.8	--	--	--	75.3 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	7.2	7.6	9.8	10.7	11.3	10.4	11.0	12.6	12.1	12.4	13.3	12.6	--
<b>Wage setting</b>													
Ratio of minimum to median wage	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	--	--	--
Coordination	--	--	--	--	--	--	--	--	--	--	--	--	--
Centralisation	--	--	--	--	--	--	--	--	--	--	--	--	--
Union density	52.3	44.7	40.7	39.6	38.6	38.4	38.0	37.4	35.7	34.9	33.6	--	--
Union coverage	--	--	--	--	--	--	--	--	--	60+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.



Table A2.34. Luxembourg : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes		+	1	+	1	1
Overall payroll taxes		[+,-]=+				0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X	+	3	+	1	2
Payroll taxes on low incomes	X					0
<b>Total</b>			<b>4</b>		<b>2</b>	<b>3</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X					0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals	X					0
Others						0
<b>Temporary contracts</b>						
Fixed-term contracts	X					0
Temporary work agencies	X					0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates	X					0
Benefit duration						0
Work availability requirements	X	+	1			0.5
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0
Work disincentives	X					0
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort						0
Extent of ALMPs	X	+	3	+	3	3
Targeting of ALMPs		+	1	+	1	1
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities						0
Contestability of PES		+	0.5			0.25
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>4.5</b>		<b>4</b>	<b>4.25</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X			+	1	0.5
Invalidity or sick pay schemes	X			+	1	0.5
Others		+	1	+	1	1
<b>Total</b>			<b>1</b>		<b>3</b>	<b>2</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation	X					0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension	X					0
Use of "opt-out" clauses	X					0
Minimum wages	X			-	-1	-0.5
Others						0
<b>Total</b>			<b>0</b>		<b>-1</b>	<b>-0.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements		+	1			0.5
Flexibility of part-time work		+	1			0.5
Others						0
<b>Total</b>			<b>2</b>		<b>0</b>	<b>1</b>

<b>Luxembourg : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	4	2	3
Employment Protection Legislation	0	0	0
Unemployment benefits	1	0	0.5
Active Labour Market Policies	4.5	4	4.25
Early retirement, invalidity schemes and old-age pensions	1	3	2
Industrial relations and wage setting	0	-1	-0.5
Working time flexibility, part-time work	2	0	1
<b>Total</b>	<b>12.5</b>	<b>8</b>	<b>10.25</b>

## MEXICO

### Labour Taxes

**Overall labour taxes:** since the mid-1990s, when statutory tax rates, the tax credit and the tax subsidy were combined, the progressivity of the tax system has been reduced, except at the low end of the income scale;<sup>14</sup> 2000 -- top rates of 37.5 and 40 per cent introduced; 2002 -- top marginal tax rate reduced from 40 to 35 per cent, to come gradually down to 32 per cent by 2005.

**Overall payroll taxes:** 1997 -- financing formula for Health and Maternity Insurance significantly modified, increasing the share from general taxation, while reducing the share from payroll taxes; over the 1997-2007 period the employers' fixed fee increases gradually, while the proportional employer-employee contribution, to be paid for income above three times the minimum wage, decreases, bringing it down to 1.5 per cent (from 12.5 per cent); 2002 -- 3 per cent federal payroll tax introduced, suppressed in 2003.<sup>15</sup>

**Labour taxes on low incomes:** 1995 -- tax credit increased for lower income brackets; 1997 -- increased exemptions and tax credits for low-income earners.

**Payroll taxes on low incomes:** 1997 -- the social security reform creates a regressive structure of health and maternity contributions rates, so that hiring low-productivity workers in the formal market becomes relatively costly.

### Employment Protection Legislation (EPL)

No action.

### Unemployment benefits

No action.

### Active Labour Market Policies (ALMPs)

**Extent of ALMPs:** 1995-96 -- increased use of training grants as income support, job creation programmes to improve infrastructure introduced in rural areas.

**Integration and restructuring of ALMP activities:** 1997 -- job creation and training programmes re-focused on skill formation and work adaptability, temporary employment programme for poverty alleviation maintained, providing temporary jobs in remote areas where job opportunities are scarce and often seasonal.

### Early retirement, invalidity schemes and old-age pensions

**Early retirement schemes and old-age pensions:** 1997 -- pension scheme for private sector workers transformed from a Pay-As-You-Go into a fully-funded system, the benefits of which are fully portable; the state guarantees a minimum pension, equivalent to the minimum wage at constant prices, after 24 years of contributions, instead of ten years under the old system; workers, who stop contributing to the pension scheme before age 60-65, will be able to get back what they accumulated in individual accounts (they had no rights to pensions under the old system).

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14. Tax wedges (as measured with OECD tax data) decrease in 1999, because Mexico no longer reports employers' contributions to privatised social security (OECD, *Taxing Wages*, 2002-2003).

15. The OECD tax wedges in Table A2.35 reflect the introduction of the tax in 2002 and a subsequent increase in 2003, which was originally planned, but was suppressed, which is not reflected in the data.

**Industrial relations and wage setting**

**Decentralisation:** as from 1996 -- after allowing for a productivity bonus decided at the plant level, the tripartite “Pacto” agreement no longer determines private wage settlements, as only minimum wage increases are included in the agreement; the *Nueva Cultura Laboral* agreements set principles for more flexible arrangements at the sector and firm level.

**Working time flexibility, part-time work**

No action.

Table A2.35. Mexico: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	--	--	--	--	--	--	--	--	--	--	--	--	--
All periods	--	--	--	--	--	--	--	--	--	--	--	--	--
1 year	--	--	--	--	--	--	--	--	--	--	--	--	--
All periods	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	--	--	--	--	--	--	--	--	--
Average long-term	--	--	--	--	--	--	--	--	--	--	--	--	--
Average initial	--	--	--	--	--	--	--	--	--	--	--	--	--
Average long-term	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Direct tax wedge average<sup>1,2,3</sup></b>													
Single No child	--	--	--	--	--	13.3	12.7	13.1	4.8	5.6	5.5	7.4	8.5
Single 2 children	--	--	--	--	--	13.3	12.7	13.1	4.8	5.6	5.5	7.4	8.5
Single 2 children	--	--	--	--	20.4	20.5	17.3	17.6	9.3	9.9	9.2	11.3	12.4
Couple No child	--	--	--	--	--	25.4	20.8	21.9	14.1	15.4	14.4	16.1	17.3
Couple 2 children	--	--	26.6	26.5	27.2	25.4	20.8	21.9	14.1	15.4	14.4	16.1	17.3
Couple No child	--	--	--	--	--	13.3	12.7	13.1	4.8	5.6	5.5	7.4	8.5
Couple 2 children	--	--	--	--	--	13.3	12.7	13.1	4.8	5.6	5.5	7.4	8.5
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	--	--	39.6	90.2	157.0	186.2	203.0	189.2	274.8	192.7	169.2	169.2	--
<b>Employment Protection Legislation</b>													
Temporary	--	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Permanent	--	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ---> 65 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ---> 65 y. old-age pension	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Working time flexibility</b>													
Percentage of part-time workers	--	--	--	--	16.6	14.9	15.5	15.0	13.7	13.5	13.7	13.5	13.4
<b>Wage setting</b>													
Ratio of minimum to median wage	0.5	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	--	--	--
Coordination	--	--	--	--	--	--	--	--	--	--	--	--	--
Centralisation	--	--	--	--	--	--	--	--	--	--	--	--	--
Union density	--	--	--	--	--	--	18.4	--	--	--	--	--	--
Union coverage	--	--	--	--	--	--	--	--	--	--	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Decrease in the tax wedge in 1999 is due to changes in methodology (see OECD, *Taxing Wages*, 2002:2003).

3. Tax wedges reflect the introduction and a planned increase of a federal payroll tax in 2002/03, but not the suppression of the tax, which actually occurred in 2003

Table A2.36. Mexico : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes		+	2	[+,-]	-1	0.5
Overall payroll taxes	X	+		[+,-]		0
<b>Taxes on low income</b>						
Labour taxes on low incomes		+	-1			-0.5
Payroll taxes on low incomes		-				0
<b>Total</b>			<b>1</b>		<b>-1</b>	<b>0</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X					0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals						0
Others	X					0
<b>Temporary contracts</b>						
Fixed-term contracts	X					0
Temporary work agencies						0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates						0
Benefit duration						0
Work availability requirements						0
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0
Work disincentives						0
Establishment or strengthening of UI schemes	X					0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort						0
Extent of ALMPs		+	1			0.5
Targeting of ALMPs						0
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities		+	1			0.5
Contestability of PES						0
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>2</b>		<b>0</b>	<b>1</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions		~				0
Invalidity or sick pay schemes						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination	X	+	2			1
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity	X	+	1			0.5
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages						0
Others						0
<b>Total</b>			<b>3</b>		<b>0</b>	<b>1.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements	X			+	1	0.5
Flexibility of part-time work	X					0
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>

Mexico : Summary table of scores			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	1	-1	0
Employment Protection Legislation	0	0	0
Unemployment benefits	0	0	0
Active Labour Market Policies	2	0	1
Early retirement, invalidity schemes and old-age pensions	0	0	0
Industrial relations and wage setting	3	0	1.5
Working time flexibility, part-time work	0	1	0.5
<b>Total</b>	<b>6</b>	<b>0</b>	<b>3</b>

## NETHERLANDS

### Labour Taxes

**Overall labour taxes:** since late 1990s -- labour income taxes lowered by moving towards higher indirect taxes, most significantly with the tax reform 2001, which also entailed a broadening of the tax base.

**Overall payroll taxes:** 1998 -- social security contributions decreased substantially; 1999 -- health contributions raised; 2002-2004 -- pension fund contributions raised.

**Labour taxes on low incomes:** 2001-- general tax credit for working persons introduced; increased in 2003 and again in 2004 along with the working parents' tax credit; 2004 -- marginal tax rates were slightly lowered at the low end of the income distribution and the tax base was expanded further.

**Payroll taxes on low incomes:** 1996 -- reduction of employers' social security contributions for low-paid workers (SPAK) with wages up to 115 per cent of minimum wage; cut doubled in 1998, and employers who raised wages above 115 per cent but stayed below 130 per cent of the minimum wage could claim half of this cut for 2 years, although this was abolished in 2001; 2003 -- SPAK started to be phased out.

### Employment Protection Legislation (EPL)

**Dismissals:** 1998 -- consenting employees can be dismissed with a shortened procedure and the prohibition to dismiss workers, who fall ill after the start of the procedure, was abolished.

**Fixed-term contracts:** 1999 -- restrictions on the renewal of fixed-term contracts were eased, with the maximum number of three (before two) renewals in three years.

**Temporary work agencies:** 1999 -- market access for temporary work agencies liberalised and the maximum duration of contracts with them was increased; 2001 -- implementation of an EU Directive decreased this maximum duration from 3.5 to 3 years.

### Unemployment benefits

**Benefit duration:** 2004 -- the follow-up benefit without means-testing is scrapped, reducing the maximum duration of total unemployment benefits from 7½ years to 5 years.

**Work availability requirements:** 1996 -- social assistance benefit recipients are required to search for a job and refusal to accept training will normally result in a cutback of benefits; 1997 -- PES and unemployment benefit administration started to co-operate more closely to ensure better surveillance of job search, refusal of a suitable job entails a complete and permanent loss of benefits.

**Eligibility:** 1996 -- benefits no longer paid in cases of voluntary unemployment.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** 2001 -- monitoring tools were upgraded or implemented in all bodies delivering reintegration services; 2004 -- a performance benchmark based on job searcher characteristics is currently developed to evaluate private placement services.

**Extent of ALMPs:** 1998 -- jobseekers are profiled according to their employability and contacted rapidly to avoid long-term unemployment; 2000 -- tailor-made action plans introduced.

**Targeting of ALMPs:** 1995 -- wide-ranging wage subsidy programme for the long-term unemployed introduced; 1998 -- integration plans designed for the long-term unemployed and unemployed young people up to the age of 23 to find the appropriate mix of education, training, work experience, social activation and financial incentives, young people are offered subsidised employment after 12 months; 2001 -- bonus for long-term unemployed people leaving benefits introduced.

**Integration and restructuring of ALMP activities:** 1998 -- programmes for subsidised work were consolidated, but municipalities may finance subsidised jobs from their re-integration budget; 2004 -- municipalities became fully financial responsible for their re-integration budget and can retain unused

social assistance funds, but must return unused labour market funds to the central government as an incentive for them to emphasise reintegration rather than welfare payment.

**Contestability of PES:** 2002 -- introduction of competitive tenders for the placement of lots of around 100 people sorted by target group, sector and region with payment partly depending on placement success; 2004 -- municipalities have to tender out at least 70 per cent of their activation budget.

**Integration of job counselling, ALMPs and various benefit agencies:** 1996 -- unemployment benefit and social assistance agencies implemented a common intake-procedure for benefit recipients and enhanced information sharing; 2002 -- several existing benefit agencies were combined into one, but social assistance remains with the municipalities.

### **Early retirement, invalidity schemes and old-age pensions**

**Early-retirement schemes and old-age pensions:** since 2002 -- the social partners gradually transform sectoral early retirement schemes (VUT) into actuarially neutral pre-pension schemes; 2004 -- government re-instated job-search requirements for the older unemployed; 2005 -- the preferential fiscal treatment from which early retirement schemes benefit will be abolished.

**Invalidity and sick pay schemes:** 1994 -- obligation for enterprises to continue wage payment during the first weeks of sickness introduced and extended to one year in 1996; 1996 -- sickness insurance almost fully privatised, employers pay premiums based on past incidence of sickness in their firm; 2004 -- maximum duration of sickness benefits increased from one to two years; 1995 -- mali of the bonus-malus system (introduced in 1992 to discourage employers from using the disability scheme) were abolished; 1998 -- experience rating of employers' premiums to the disability scheme introduced along with possibilities to partially opt out of the system to seek private insurance; 2002 -- stricter obligations on re-integration efforts for employees on long-term sickness benefits and for their employers introduced to prevent entry into the disability scheme; 2006 -- stricter definition of disability will be introduced, only the permanently disabled can gain access to a full pension and the minimum loss in earning capacity to qualify for partial disability benefits will be raised from 15 per cent to 35 per cent.

**Others:** 1998 -- stepped-up re-integration programme was introduced for the disabled, including measures like trial employment, subsidies to employers hiring disabled employees and various provisions enabling handicapped persons to be employed.

### **Industrial relations and wage setting**

**Wage setting with regard to skill level, experience and productivity:** over the 1990s -- social partners reduced the gap between legal and negotiated minimum wages by creating new, lower wage scales or by extending downwards existing ones, as a consequence, the gap came down from 11.8 per cent on average at end-1994, to 8.3 per cent at end-1996 and 5 per cent in 2000.

**Use of "opt-out" clauses:** over the 1990s -- social partners made extended use over the 1990s of opening clauses.

### **Working time flexibility, part-time work**

**Flexibility of part-time work:** 1996 -- law to ensure equal treatment of full-time and part-time workers; 2000 -- a law came into force making the switch between part- and full-time easier for employees.

Table A2.37. Netherlands: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	70.0	--	70.0	--	70.0	--	70.0	--	70.3	--	72.5	--	--
67% APW	53.7	--	53.6	--	52.8	--	52.6	--	52.7	--	53.8	--	--
All periods	70.0	--	70.0	--	70.0	--	70.0	--	70.0	--	70.0	--	--
1 year	47.5	--	45.1	--	44.6	--	44.5	--	44.5	--	44.6	--	--
100% APW	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	87.0	--	89.2	--	84.3	--	85.8	85.3	--
67% APW	--	--	--	--	92.5	--	88.7	--	79.6	--	84.5	83.3	--
Average long-term	--	--	--	--	78.3	--	81.2	--	85.3	--	74.3	75.3	--
100% APW	--	--	--	--	71.0	--	71.5	--	65.3	--	65.5	65.8	--
Average long-term	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	54	--	60	--	60	--	60	--	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	33.1	27.6	31.3	32.8	32.8	28.8	29.0	30.5
40% APW	--	--	--	--	--	5.9	-0.3	2.2	4.4	7.5	3.7	4.0	5.4
Single 2 children	--	--	--	--	24.0	22.3	22.4	20.5	21.5	23.1	18.7	17.8	18.0
67% APW	--	--	--	--	--	39.9	39.2	39.4	40.3	40.8	38.2	38.4	39.1
Couple No child	--	--	--	--	34.9	33.5	33.0	33.2	34.1	35.5	33.0	33.1	33.7
100% APW, 0% APW	41.2	--	35.7	35.9	--	33.1	27.6	31.3	32.8	32.8	28.8	29.0	30.5
Couple 2 children	--	--	--	--	--	25.0	19.3	23.4	25.0	26.1	21.0	20.1	21.2
40% APW, 40% APW	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	3735.1	7694.4	11453.8	9990.2	9003.3	10627.6	13638.8	18502.7	23477.5	24819.3	31198.7	28095.2	--
<b>Employment Protection Legislation</b>													
Temporary	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	1.2	1.2	1.2	1.2	1.2
Permanent	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
<b>Early retirement - implicit tax on continued work</b>													
55 y. --> 60 y. early retirement	58.5	56.6	58.8	59.0	59.2	59.5	59.9	61.0	62.2	--	--	--	62.2 <sup>2</sup>
60 y. --> 65 y. early retirement	82.9	86.8	89.4	89.8	90.1	90.7	91.2	92.5	93.7	--	--	--	94.0 <sup>2</sup>
60 y. --> 65 y. old-age pension	69.1	86.8	89.4	89.8	90.1	90.7	91.2	92.5	93.7	--	--	--	94.0 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	19.5	28.2	27.9	28.9	29.4	29.3	29.1	30.0	30.4	32.1	33.0	33.9	34.5
<b>Wage setting</b>													
Ratio of minimum to median wage	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	--	--	--
Coordination	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	--	--	--
Centralisation	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	--	--	--
Union density	28.7	25.5	25.9	25.6	25.7	25.1	25.1	24.5	24.6	23.1	22.5	22.1	--
Union coverage	--	70+	--	--	--	--	--	--	--	80+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.



Table A2.38. Netherlands : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes		+	1	+	1	1
Overall payroll taxes		[+,-]		-		0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X		1	+	1	1
Payroll taxes on low incomes		+		-		0
<b>Total</b>			<b>2</b>		<b>2</b>	<b>2</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						0
General stance						0
Prior authorisation						0
Notice periods						0
Severance pay	X					0
Dismissals	X	+	1			0.5
Others						0
<b>Temporary contracts</b>			3			1.5
Fixed-term contracts	X	+				0
Temporary work agencies	X	+				0
Guidelines for courts						0
<b>Total</b>			<b>4</b>		<b>0</b>	<b>2</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates	X					0
Benefit duration	X			+	1	0.5
Work availability requirements	X	+	1			0.5
Eligibility	X	+	1			0.5
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0
Work disincentives						0
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>2</b>		<b>1</b>	<b>1.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X			+	1	0.5
Extent of ALMPs	X	+	3	+	4	3.5
Targeting of ALMPs		+	1	+	1	1
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities		+	1	+	1	1
Contestability of PES	X			+	1	0.5
Integration of job counselling, ALMPs and various benefit agencies	X	+	0.5	+	1	0.75
Others						0
<b>Total</b>			<b>5.5</b>		<b>9</b>	<b>7.25</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X			+	2	1
Invalidity or sick pay schemes	X	+	1	+	1	1
Others		+	1			0.5
<b>Total</b>			<b>2</b>		<b>3</b>	<b>2.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation	X	+	1	+	1	1
Wage setting with regard to skill level, experience and productivity						0
Administrative extension	X					0
Use of "opt-out" clauses	X	+	1			0.5
Minimum wages	X					0
Others						0
<b>Total</b>			<b>2</b>		<b>1</b>	<b>1.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements						0
Flexibility of part-time work		+	1	+	1	1
Others						0
<b>Total</b>			<b>1</b>		<b>1</b>	<b>1</b>

<b>Netherlands : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	2	2	2
Employment Protection Legislation	4	0	2
Unemployment benefits	2	1	1.5
Active Labour Market Policies	5.5	9	7.25
Early retirement, invalidity schemes and old-age pensions	2	3	2.5
Industrial relations and wage setting	2	1	1.5
Working time flexibility, part-time work	1	1	1
<b>Total</b>	<b>18.5</b>	<b>17</b>	<b>17.75</b>

## NEW ZEALAND

### Labour Taxes

**Overall labour taxes:** 1996 -- reduction of the main marginal rate of income tax from 28 to 21 per cent; 2000 -- increase of the top personal income tax rate from 33 to 39 per cent.

**Labour taxes on low incomes:** 1998 -- further reductions of effective personal tax rates on low and middle incomes, new family tax credit for families that do not rely strongly on state assistance; 1999 -- new tax credit for low and middle income families with children.

**Payroll taxes on low incomes:** 2003 -- reduction of the rate of employers' contributions to pension funds for low incomes (from 33 to 21 per cent).

### Employment Protection Legislation (EPL)

**Dismissals:** 2000 -- mediation becomes a mandatory first step in resolving disputes, tightening the legislation on individual and collective dismissals.

**Fixed-term contracts:** 2000 -- employer must now give genuine reasons to employ the worker under a fixed term contract and advise the employee at the beginning of the contract when and how the contract will end.

**Temporary work agencies:** 2000 -- tighter regulations for fixed-term contracts also concern contracts signed through temporary work agencies.

### Unemployment benefits

**Work availability requirements:** 1997 -- single parents with the youngest child aged 14 or over will be required to accept a part-time work offer or take part in some activity which will enhance their employability; 1998 -- unemployment and sickness benefits replaced with an equivalent "community wage", in return for which unemployed job seekers must actively seek work and in some cases engage in community work and training; 2000 -- voluntary work becomes a recognised activity for work-tested beneficiaries, community work is no longer mandatory; 2001 -- community wage replaced with separate unemployment and sickness benefits, only the former is subject to a work-test; 2003 -- work test abolished for sole parents who will be required to develop a re-insertion plan with a case manager instead, increase of the age limit for work tests from 55 to 60 years.

**Work disincentives:** 1996 -- beneficiaries can earn NZ\$ 80 rather than NZ\$ 50 before benefit is reduced; 1996-1998 -- lowering of withdrawal rates for beneficiaries of a number of welfare programmes (such as the domestic purpose, widows' and invalids' benefits); 1999 -- new housing benefit system which overall increases marginal effective tax rates; 2001 -- abatement rates reduced for benefit recipients whose youngest child is over 14 years old.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** 1996 -- evaluation of individualised assistance for the long-term unemployed; 2000 -- new employment evaluation strategy and inter-agency work plan to co-ordinate the assessment of existing ALMPs.

**Extent of ALMPs:** 1998 -- more emphasis on case management based on needs-based assistance assessment which focuses on identifying an individual's employability and work availability; 2003 -- number of case managers increased and concentration on groups who are more likely to respond.

**Targeting of ALMPs:** 1996-1998 -- extension of Youth Action (individualised assistance for those aged 16-20) and Job Action (individualised assistance for those job seekers registered as unemployed for two or more years), extension of several job and training programmes targeting Maori and Pacific Island job seekers.

***Contestability of PES:*** 2000 -- some contracting out of case management and work support functions used in programmes aimed at Maori and Pacific Island job seekers.

***Integration of job counselling, ALMPs and various benefit agencies:*** 1998 -- creation of a one-stop shop for employment services, where job seekers can go to have their benefit, employment and training needs addressed.

### **Early retirement, invalidity schemes and old-age pensions**

***Early-retirement schemes and old-age pensions:*** 1990s -- gradual increase of the statutory retirement age from 60 to 65 at the end of the 1990s.

***Invalidity and sick pay schemes:*** 1995 -- tightened eligibility to sickness and invalidity benefit schemes; 1996 -- work capacity tests for accident compensation scheme introduced; 1998 -- sickness benefits aligned with lower unemployment benefits, experiments with work-capacity tests for invalidity and sickness beneficiaries, ended in 2000; 2001 -- increase of the income thresholds for the disability allowance.

### **Industrial relations and wage setting**

***Wage determination:*** 2000 -- strikes in support of multi-employer bargains made legal.

***Minimum wages:*** 1994-2003 -- regular increases of adult and youth minimum wages; 2002 -- youth minimum wage raised from 70 to 80 per cent of the adult minimum wage and the adult age threshold falls to 18 from 20.

### **Working time flexibility, part-time work**

No action.

Table A2.39. New Zealand: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	36.5	--	34.8	--	31.7	--	--	--	34.3	--	32.9	--	--
All periods	37.9	--	36.0	--	32.7	--	--	--	34.3	--	32.9	--	--
1 year	24.6	--	23.1	--	21.2	--	--	--	23.0	--	22.1	--	--
All periods	25.5	--	23.8	--	21.8	--	--	--	23.0	--	22.1	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	68.5	--	--	--	75.5	--	74.0	73.0	--
Average long-term	--	--	--	--	68.5	--	--	--	75.5	--	74.0	73.0	--
Average initial	--	--	--	--	50.3	--	--	--	56.0	--	55.3	55.0	--
Average long-term	--	--	--	--	50.3	--	--	--	56.0	--	55.3	55.0	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	17.9	17.8	17.2	17.0	17.1	17.3	17.4	17.6
Single 2 children	--	--	--	--	-42.2	-47.5	-46.0	-46.0	-46.2	-40.9	-36.2	-30.0	-25.1
Single 2 children	--	--	--	--	7.2	3.1	-0.8	-2.1	-2.6	-1.1	0.2	2.0	3.7
Couple No child	--	--	--	--	--	22.3	21.6	20.0	19.4	19.5	19.5	20.1	20.6
Couple 2 children	15.5	--	22.2	24.3	22.4	18.8	16.2	14.8	14.1	15.5	16.7	18.8	20.4
Couple No child	--	--	--	--	--	17.9	17.8	17.2	17.0	17.1	17.3	17.4	17.6
Couple 2 children	--	--	--	--	6.2	6.2	3.6	3.2	2.9	4.7	6.2	8.3	9.8
<b>Active Labour Market Policies</b>													
ALMP's spending per unemployed person, constant US\$ PPP	--	3751.3	2887.2	3258.5	4234.2	4316.8	3953.2	2938.7	3476.6	3697.4	3859.9	3859.9	--
<b>Employment Protection Legislation</b>													
Temporary	--	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.3	1.3	1.3	1.3
Permanent	--	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.7	1.7	1.7	1.7
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	1.3	1.1	1.1	1.0	0.9	0.9	0.8	0.8	0.7	--	--	--	0.7 <sup>2</sup>
60 y. ---> 65 y. early retirement	27.9	28.4	23.8	20.6	17.5	14.6	11.8	8.9	6.0	--	--	--	1.3 <sup>2</sup>
60 y. ---> 65 y. old-age pension	27.9	28.4	23.8	20.6	17.5	14.6	11.8	8.9	6.0	--	--	--	1.3 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	--	19.6	20.6	21.0	21.0	21.9	22.4	22.8	23.0	22.3	22.4	22.6	22.3
<b>Wage setting</b>													
Ratio of minimum to median wage	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	--	--	--
Coordination	4.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--	--
Centralisation	3.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--	--
Union density	56.0	51.0	34.5	30.2	27.6	24.9	23.6	22.3	21.9	22.7	22.6	22.1	--
Union coverage	--	60+	--	--	--	--	--	--	--	25+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.

Table A2.40. New Zealand : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes		+	3	-	-3	0
Overall payroll taxes						0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X	+	3	+		1.5
Payroll taxes on low incomes				+		0
<b>Total</b>			<b>6</b>		<b>-3</b>	<b>1.5</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X				-1	-0.5
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals				-		0
Others						0
<b>Temporary contracts</b>						
Fixed-term contracts					-3	-1.5
Temporary work agencies				-		0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>-4</b>	<b>-2</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates						0
Benefit duration						0
Work availability requirements	X	+	1	[+, -] = +	1	1
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality	X					0
Waiting periods						0
Work disincentives	X	[+, -] = +	1	+	1	1
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>2</b>		<b>2</b>	<b>2</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort		+	1	+	1	1
Extent of ALMPs	X	+	3	+	2	2.5
Targeting of ALMPs		+	1			0.5
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities						0
Contestability of PES				+	1	0.5
Integration of job counselling, ALMPs and various benefit agencies		+	2			1
Others						0
<b>Total</b>			<b>7</b>		<b>4</b>	<b>5.5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions		+	2			1
Invalidity or sick pay schemes	X	+	1	[+, -] = -	1	1
Others						0
<b>Total</b>			<b>3</b>		<b>1</b>	<b>2</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages	X				-1	-0.5
Others						0
<b>Total</b>			<b>0</b>		<b>-1</b>	<b>-0.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements						0
Flexibility of part-time work						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>

<b>New Zealand : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	6	-3	1.5
Employment Protection Legislation	0	-4	-2
Unemployment benefits	2	2	2
Active Labour Market Policies	7	4	5.5
Early retirement, invalidity schemes and old-age pensions	3	1	2
Industrial relations and wage setting	0	-1	-0.5
Working time flexibility, part-time work	0	0	0
<b>Total</b>	<b>18</b>	<b>-1</b>	<b>8.5</b>

## NORWAY

### Labour Taxes

**Overall labour taxes:** 1997 -- special tax rebate for families with small children increased, although partly compensated by freezing of standard child tax deduction at 1996 level; 2000 -- increase of the top personal tax rate by 6 percentage points; 2001 -- additional tax increases.

**Overall payroll taxes:** 1998 -- increase in social security contributions.

**Labour taxes on low incomes:** 1997 -- income ceiling for tax exemption raised by somewhat more than the estimated nominal earnings growth; 2000 -- standard tax deduction raised by 1 percentage point, low-wage earners may convert this into a standard personal deduction, which lowers average, but increases marginal tax rates for them; 2002 -- threshold for the income surtax increased.

### Employment Protection Legislation (EPL)

**Temporary work agencies:** 1995 -- restrictions on temporary work agencies eased; 2000 -- private employment agencies allowed to carry out placement and recruitment services, temporary work agencies allowed to hire out all staff categories to all sectors.

### Unemployment benefits

**Benefit replacement rates:** 1997 -- earlier practice of reducing the benefit rate by 10 per cent after 93 weeks of unemployment discontinued; 2003 -- replacement rate effectively reduced for people receiving benefits beyond 8 weeks; reduced benefits for part-time workers.

**Benefit duration:** 1997 -- maximum duration shortened from 3.7 to 3 years for persons previously earning more than Nkr 82 000, and to 1.5 years for those earning less; 2002 -- maximum duration for temporarily laid-off workers is reduced from 52 to 26 weeks; 2003 -- maximum benefit duration further reduced from 3 to 2 years for higher income earners; reduced duration for part-time workers; 2004 -- duration reduced to 1 year for people earning below a certain threshold.

**Work availability requirements:** 1997 -- open-ended continuation of income support after unemployment insurance entitlements are exhausted is made contingent on participation in labour market programmes, which acts as a work availability test.

**Eligibility:** 1997 -- previous earnings requirement for benefit eligibility raised; 2003 -- previous earnings requirement increased further, tightening of the eligibility requirement concerning the loss of working hours for part-time workers (increased from 40 per cent to 50 per cent).

**Re-qualification possibilities:** 2000 -- re-qualification after benefit exhaustion only possible through regular employment.

**Waiting periods:** 1997 -- waiting period of three working days replaces three calendar days; 2003 -- increased to 5 days.

**Work disincentives:** 1998 -- introduction of cash benefit for parents of 2-year-old children who do not use subsidised child care facilities; 1999 -- broadened to parents with 3-year-old children.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** 1998 -- evaluation of the impact of ALMPs on job finding probabilities; 2000 -- effectiveness of ALMPs to be assessed annually; 2002 -- performance objectives introduced for PES as well as bonuses linked to a number of objectives.

**Extent of ALMPs:** 1995 -- introduction of individual action plans; 2003 -- staff increases at PES and increased spending on ALMPs, qualified workers receive job-search assistance rather than participation in labour market programmes, such as wage subsidies or training; PES allowed to require job search documentation from unemployment benefit recipients.

**Targeting of ALMPs:** 1998 -- social assistance recipients younger than 25 required to participate in four days of “workfare” and one day of training per week at a reduced benefit level.

**Integration and restructuring of ALMP activities:** 1997 -- ALMPs more focused on skill enhancement and used as a test on availability for work; 2003 -- concentration on jobseekers with low skills.

**Contestability of PES:** 2000 -- job placement monopoly of PES abolished, which was given the permission to introduce fee-based employment services; 2002 -- fee-based activities of PES discontinued, labour market training, job seeking courses and, more recently, follow-up and placement services increasingly outsourced by the PES, introduction of bonuses for private providers linked to the share of participants finding a job, private providers allowed to assist people losing their job in state-owned enterprises.

### **Early retirement, invalidity schemes and old-age pensions**

**Early-retirement schemes and old-age pensions:** 1997 -- early retirement system expanded to persons aged 63; 1998 -- to those aged 62, while average benefit replacement rate is reduced (from 100 per cent to 70 per cent before tax); 2003 – entitlement to unemployment benefits for older workers starts from age 62 instead of 61.<sup>16</sup>

**Invalidity and sick pay schemes:** 2000 -- rehabilitation must be tried before an invalidity pension can be granted; 2001 -- mandatory interviews to assess the remaining working capacity of disability benefit claimants, benefit sanctions if interview is missed; 2003 -- ceilings for vocational rehabilitation benefits covering educational fees introduced; 2004 -- mandatory assessment for vocational rehabilitation which is now offered earlier for workers on sickness benefits, period after vocational rehabilitation during which a worker can continue to receive benefits halved from 12 to 6 months, maximum period of three years introduced for benefits related to education under the vocational rehabilitation scheme and minimum age for eligibility increased, permanent disability pensions granted only to persons who have no potential working capacity left, all other claimants receive temporary pension for one to four years which can be extended, benefits reduced if claimants fail to participate in rehabilitation programme.

**Others:** 2001 -- increased wage subsidies for disabled persons; 2002 -- reduction in employers’ social security contributions for workers aged 62 years or older.

### **Industrial relations and wage setting**

No action.

### **Working time flexibility, part-time work**

**Flexibility of working-time arrangements:** 2003 -- allowed overtime expanded from 200 hours to 400 hours each year.

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16. This does not translate into a change of the implicit tax on continuing work as this tax is calculated on the basis of the specific early-retirement scheme.

Table A2.41. Norway: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	61.5	--	61.5	--	61.5	--	61.5	--	62.0	--	67.0	--	--
All periods	34.3	--	34.3	--	34.3	--	34.3	--	37.2	--	40.2	--	--
1 year	61.5	--	61.5	--	61.5	--	62.0	--	62.0	--	62.4	--	--
All periods	34.3	--	34.3	--	34.3	--	33.6	--	37.2	--	37.4	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	71.0	--	72.3	--	76.0	--	77.8	76.5	--
Average long-term	--	--	--	--	79.0	--	73.7	--	69.6	--	74.0	73.8	--
Average initial	--	--	--	--	70.0	--	69.9	--	72.5	--	73.0	71.8	--
Average long-term	--	--	--	--	59.0	--	54.0	--	53.8	--	56.3	55.3	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	43	--	36	--	36	--	--	36	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	31.7	31.7	31.9	31.6	29.7	29.6	29.9	30.3
Single 2 children	--	--	--	--	--	-12.4	-12.6	-9.0	-7.1	-4.8	-4.8	-3.0	-1.3
Single 2 children	--	--	--	--	6.8	7.9	7.7	10.0	11.2	13.5	13.2	14.0	14.7
Couple No child	--	--	--	--	--	34.7	34.7	34.9	34.8	34.7	34.3	34.3	34.3
Couple 2 children	28.0	--	23.0	23.6	24.4	25.0	24.9	25.6	26.2	26.9	26.9	27.2	27.6
Couple No child	--	--	--	--	--	31.7	31.7	31.9	31.6	29.7	29.6	29.9	30.3
Couple 2 children	--	--	--	--	--	18.9	18.8	20.3	20.8	20.1	20.3	21.1	21.9
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	11511.1	8640.4	11040.8	15265.6	16969.8	15478.3	15974.1	17829.6	16522.1	14696.2	15570.9	14998.8	--
<b>Employment Protection Legislation</b>													
Temporary	3.5	3.5	3.5	3.5	3.1	3.1	3.1	3.1	3.1	2.9	2.9	2.9	2.9
Permanent	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	15.1	17.6	17.8	16.7	15.5	14.1	12.7	12.6	12.5	--	--	--	12.5 <sup>2</sup>
60 y. ---> 65 y. early retirement	12.4	15.5	16.0	15.0	13.9	20.7	27.5	27.8	28.0	--	--	--	39.6 <sup>2</sup>
60 y. ---> 65 y. old-age pension	12.4	15.5	16.0	15.0	13.9	14.1	14.2	14.3	14.3	--	--	--	21.3 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	--	21.8	22.0	21.5	21.4	21.6	21.0	20.8	20.7	20.2	20.1	20.6	21.0
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	--	--	--	--	--
Coordination	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	--
Centralisation	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	--
Union density	57.5	58.5	58.0	57.8	57.3	56.3	55.5	55.5	54.8	54.3	53.6	53.6	--
Union coverage	--	70+	--	--	--	--	--	--	--	70+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.



Table A2.42. Norway : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X	[+, -]=-	-2	-	-1	-1.5
Overall payroll taxes			-			0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X	+		+		0
Payroll taxes on low incomes						0
<b>Total</b>			<b>-2</b>		<b>-1</b>	<b>-1.5</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X					0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals						0
Others						0
<b>Temporary contracts</b>			2		1	1.5
Fixed-term contracts	X					0
Temporary work agencies		+		+		0
Guidelines for courts						0
<b>Total</b>			<b>2</b>		<b>1</b>	<b>1.5</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates		-	-1	+	1	0
Benefit duration	X	+	1	+	1	1
Work availability requirements		+	1			0.5
Eligibility	X	+	1	+	1	1
Re-qualification possibilities				+	1	0.5
Benefit conditionality						0
Waiting periods	X	+	1	+	1	1
Work disincentives	X	-	-1			-0.5
Establishment or strengthening of UI schemes						0
Others	X					0
<b>Total</b>			<b>2</b>		<b>5</b>	<b>3.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X	+	1	+	1	1
Extent of ALMPs		+	4	+	2	3
Targeting of ALMPs	X	+	1			0.5
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities		+	1	+	1	1
Contestability of PES	X			+	1	0.5
Integration of job counselling, ALMPs and various benefit agencies		+				0
Others						0
<b>Total</b>			<b>7</b>		<b>5</b>	<b>6</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X	-	-1	+	1	0
Invalidity or sick pay schemes	X			+	1	0.5
Others						0
<b>Total</b>			<b>-1</b>		<b>2</b>	<b>0.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination	X					0
Wage distribution or indexation	X					0
Wage setting with regard to skill level, experience and productivity	X					0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements	X			+	1	0.5
Flexibility of part-time work						0
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>

<b>Norway : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	-2	-1	-1.5
Employment Protection Legislation	2	1	1.5
Unemployment benefits	2	5	3.5
Active Labour Market Policies	7	5	6
Early retirement, invalidity schemes and old-age pensions	-1	2	0.5
Industrial relations and wage setting	0	0	0
Working time flexibility, part-time work	0	1	0.5
<b>Total</b>	<b>8</b>	<b>13</b>	<b>10.5</b>

## POLAND

### Labour Taxes

**Overall labour taxes:** 1994 -- marginal personal income tax rates are raised from 20, 30 and 40 per cent to respectively 21, 33 and 45 per cent and brackets are adjusted for wage inflation; 1997 -- rates lowered to 20, 32 and 44 per cent; 1998 -- to 19, 30 and 40 per cent respectively.

**Overall payroll taxes:** 1997 -- basis for social contributions broadened to encompass most types of bonuses and payments in kind.

### Employment Protection Legislation (EPL)

**Dismissals:** 2003-2004 -- reporting requirements relaxed as well as requirements to consult with trade unions before dismissals.

**Fixed-term contracts:** 2002 -- employees on absence can now be replaced by people on fixed-term contracts, provision temporarily suspended (until EU accession in 2004) which transforms fixed-term contracts automatically into a permanent one upon renewal.

**Temporary work agencies:** 2003 -- cases when TWA contracts are allowed are limited and their maximum total duration reduced.

### Unemployment benefits

**Benefit replacement rates:** 1996 -- move from wage to consumer price indexation.

**Benefit duration:** 1997 -- maximum duration cut to 6 months (from 12 months) in regions with below average unemployment and extended to 18 months in regions where unemployment is more than twice the average.

**Work availability requirements:** 1997 -- refusal of a suitable job or ALMP offer entails benefit ineligibility, more frequent visits at the labour offices required.

**Eligibility:** 1997 -- conditions for benefit receipt tightened considerably.

**Benefit conditionality:** 1996 -- school leavers no longer receive unemployment benefits, but a stipend that is conditional on participation in ALMPs.

### Active Labour Market Programmes (ALMPs)

**Evaluation effort:** 1999-2004 -- limited progress in evaluating ALMPs, but computerisation of the National Labour Office Network, which could help produce a comprehensive evaluation of policies, phased in.

**Extent of ALMPs:** 1995-96 -- 2000 new placement officers trained and job brokering function of the PES enhanced; 1999 -- electronic database on the unemployed and on job offers available through the internet.

**Targeting of ALMPs:** 1998 -- introduction of professional counselling, vocational training, and subsidised or non-subsidised jobs for high-school graduates; 1999 -- subsidies to small and medium-sized enterprises in rural areas creating jobs, reduced social security contributions and allowances for commuting and housing costs to target the long-term unemployed; 2002 -- new school-to-work transition programme providing targeted advice for graduates, and low interest loans for enterprises hiring and maintaining them for at least 2 years.

**Integration and restructuring of ALMP activities:** 1999 -- reorientation of active spending towards more cost effective measures, important reduction of public works scheme.

### Early retirement, invalidity schemes and old-age pensions

**Early-retirement schemes and old-age pensions:** 1999 -- Pay-As-You-Go pension system replaced with a three-pillar system including a pillar based on notional accounts that links contributions to future pensions,

thus providing incentives to stay in the workforce, a second pillar that capitalises individual contributions and is mandatory for the younger generations and a voluntary third pillar based on company plans and other savings vehicles.

***Invalidity and sick pay schemes:*** 1997 -- eligibility criteria for disability pensions tightened as they can only be authorised by a doctor and are awarded on the basis of an individual's incapacity to work; 1999 -- eligibility criteria for sickness benefits tightened, mainly by reinforcing medical considerations and tightening controls for the extension of the sickness benefit period.

***Others:*** 2004 -- introduction of special activation programmes aimed at re-integration of older workers into the labour market.

### **Industrial relations and wage setting**

***Minimum wages:*** 2003 -- enterprises are allowed to pay new entrants 80 per cent of the minimum wage in the first year of a new job and 90 per cent during the second year.

### **Working time flexibility, part-time work**

***Flexibility of working-time arrangements:*** 2002 -- increase from 2 to 4 the number of daily overtime hours that can be paid at the lower 50 per cent wage premium, increase of the period over which allowable working-time can be averaged; 2002 -- possibility for the employer to interrupt daily working time with a break that is not calculated as working time.

Table A2.43. Poland: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	--	--	--	--	--	--	--	--	--	--	41.2	--	--
67% APW	--	--	--	--	--	--	--	--	--	--	8.2	--	--
67% APW	--	--	--	--	--	--	--	--	--	--	27.6	--	--
100% APW	--	--	--	--	--	--	--	--	--	--	5.5	--	--
100% APW	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>All periods</b>													
67% APW	--	--	--	--	55.0	--	58.3	--	60.0	--	67.3	64.5	--
67% APW	--	--	--	--	46.5	--	54.4	--	73.5	--	71.8	67.8	--
100% APW	--	--	--	--	38.3	--	40.4	--	43.0	--	48.8	47.8	--
100% APW	--	--	--	--	32.5	--	37.7	--	53.3	--	52.3	51.0	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	18	--	18	--	18	--	--	--	18
Average long-term	--	--	--	--	--	--	--	--	--	--	--	--	--
Average initial	--	--	--	--	--	--	--	--	--	--	--	--	--
Average long-term	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	18	--	18	--	18	--	--	--	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	41.6	40.8	39.9	39.6	39.6	38.8	39.1	39.2
Single 2 children	--	--	--	--	--	32.0	31.9	29.2	31.3	31.6	30.7	31.1	31.4
Single 2 children	--	--	--	--	37.7	37.9	37.5	35.7	36.9	37.1	36.5	36.8	37.0
Couple No child	--	--	--	--	--	43.3	42.5	41.6	41.4	41.4	41.0	41.2	41.3
Couple 2 children	--	--	36.8	--	39.3	39.5	38.9	37.4	38.1	38.2	37.8	41.2	41.3
Couple No child	--	--	--	--	--	41.6	40.8	39.9	39.6	39.6	38.8	39.1	39.2
Couple 2 children	--	--	--	--	--	36.8	36.3	34.6	35.4	35.6	34.7	35.1	35.3
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	--	--	977.5	622.0	491.0	576.6	576.6	576.6	576.6	576.6	576.6	576.6	--
<b>Employment Protection Legislation</b>													
Temporary	--	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	1.3
Permanent	--	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ---> 65 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ---> 65 y. old-age pension	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Working time flexibility</b>													
Percentage of part-time workers	--	--	--	--	--	--	11.9	11.8	14.0	12.8	11.6	11.7	11.5
<b>Wage setting</b>													
Ratio of minimum to median wage	--	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.4	--	--	--	--
Coordination	--	--	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--	--
Centralisation	--	--	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--	--
Union density	--	--	--	--	--	--	--	24.2	--	--	--	14.7	--
Union coverage	--	--	--	--	--	--	--	--	--	40+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

Table A2.44. Poland : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X	[+,-]=~	-1			-0.5
Overall payroll taxes		-				0
<b>Taxes on low income</b>						
Labour taxes on low incomes		[+,-]=+	1			0.5
Payroll taxes on low incomes	X					0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X					0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals	X			+	1	0.5
Others						0
<b>Temporary contracts</b>						
Fixed-term contracts	X			[+,-]=~	-2	-1
Temporary work agencies				-		0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>-1</b>	<b>-0.5</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates		+	1			0.5
Benefit duration		[+,-]=~				0
Work availability requirements		+	1			0.5
Eligibility		+	1			0.5
Re-qualification possibilities						0
Benefit conditionality		+	1			0.5
Waiting periods						0
Work disincentives						0
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>4</b>		<b>0</b>	<b>2</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X	+	0.5			0.25
Extent of ALMPs	X	+	2	+	2	2
Targeting of ALMPs	X	+	1	+	1	1
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities		+	1			0.5
Contestability of PES						0
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>4.5</b>		<b>3</b>	<b>3.75</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X	+	1			0.5
Invalidity or sick pay schemes	X	+	1			0.5
Others				+	1	0.5
<b>Total</b>			<b>2</b>		<b>1</b>	<b>1.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination	X					0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity	X					0
Administrative extension	X					0
Use of "opt-out" clauses						0
Minimum wages	X			+	1	0.5
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements	X			+	1	0.5
Flexibility of part-time work						0
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>

<b>Poland : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	0	0	0
Employment Protection Legislation	0	-1	-0.5
Unemployment benefits	4	0	2
Active Labour Market Policies	4.5	3	3.75
Early retirement, invalidity schemes and old-age pensions	2	1	1.5
Industrial relations and wage setting	0	1	0.5
Working time flexibility, part-time work	0	1	0.5
<b>Total</b>	<b>10.5</b>	<b>5</b>	<b>7.75</b>

## PORTUGAL

### Labour Taxes

**Overall labour taxes:** 2001 -- increases in the tax credit for each dependent child and in the education tax credit, reduction of tax rates.

**Overall payroll taxes:** 1996-97 -- increases in contributions for public pensions; 1998-2000 -- alignment of contribution rates for wage-earners and the self-employed.

**Labour taxes on low incomes:** 1998 -- new family allowance replaces several types of family transfers with the aim to reduce the opportunity cost of school attendance of children from low-income families; 1999 -- reduction of marginal tax rates on lower incomes through the creation of a new lower tax rate; 2001 -- reduction in tax rates, mainly for the lowest brackets.

### Employment Protection Legislation (EPL)

**Severance pay:** 1999 -- reduction of severance pay.

**Dismissals:** 2003 -- reform gives more leeway to introduce flexibility in collective agreements at the firm level regarding rules for dismissals.

**Fixed-term contracts:** 1996 -- social partners agreed to widen the use of fixed-term contracts; 2001 -- maximum legal length of general fixed-term contracts in the private sector restricted to 3 years, after which the fixed-term contract is automatically changed into a standard (open-ended) contract; 2003 -- maximum allowable period for fixed-term contracts increased, rules clarified, more flexibility in collective agreements at the firm level regarding rules for fixed-term contracts.

**Temporary work agencies:** 1996 -- social partners agreed to widen the use of temporary work agencies.

### Unemployment benefits

**Benefit conditionality:** 1997 -- recipients of new minimum income benefits are required to accept job offers or engage in training.

**Work disincentives:** 1997 -- special provisions allow newly-employed persons to retain a larger share of their transfer income in the first year of employment; 1998 -- unemployed persons who accept part-time jobs will lose only part of their benefit.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** 1998 -- first attempts at designing evaluation programmes; 1999 -- impact studies to evaluate ALMP measures which involve independent experts in some cases, development of performance measures for individualised tracking (evaluations are not yet systematic).

**Extent of ALMPs:** 1997 -- acceleration of the intake and diffusion of information about new job offers; 1998 -- individual tracking until re-employment introduced, early activation (job offers or training) for young people after six months of unemployment and for older people after twelve months and personalised follow-up of each jobseeker.

**Targeting of ALMPs:** 1997 -- individual career guidance for the long-term unemployed enhanced and training programmes more closely tailored to the needs of young persons, the unemployed and potential job losers; 1998 -- individualised programme combining guidance, training and job entry introduced for persons already experiencing long-term unemployment.

**Contestability of PES:** 2000 -- enhanced partnership with private agents at the regional level.

### Early retirement, invalidity schemes and old-age pensions

**Early-retirement schemes and old-age pensions:** 1999 -- reductions of employers' contributions for older workers; 1999-2000 -- move to a flexible retirement system (with retirement possible between ages 55 and

70) based on actuarial adjustments for early and deferred retirement, older workers can now combine work with the receipt of an old-age pension; 2002 -- following a transition period (2002-2017), pension benefits will be calculated on lifetime earnings, instead of the best 10 years out of the last 15 years previously; 2004 -- introduction of a penalty (reduction of pension benefits) for civil servants retiring before age 60, even if it is after 36 years of service, applicable to those who entered the system before 1993, since the others are already under a regime similar to that of the private sector (*i.e.* subject to a penalty).

### **Industrial relations and wage setting**

***Wage setting with regard to skill level, experience and productivity:*** 2003 -- changes in the collective bargaining procedure are expected to enhance the responsiveness of wage settlements to productivity and skill differentials across sectors.

### **Working time flexibility, part-time work**

***Flexibility of working-time arrangements:*** 1996 -- reduction of the standard working week to 40 hours and more flexible organisation of working time; 2003 -- enhanced flexibility of working hours.

***Flexibility of part-time work:*** 1999 -- more frequent use of part-time work in the public sector, labour legislation was updated to allow for more part-time work.

Table A2.45. Portugal: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	60.0	--	65.0	--	65.0	--	65.0	--	65.0	--	75.0	--	--
All periods	14.0	--	30.9	--	30.9	--	30.1	--	42.8	--	39.0	--	--
1 year	60.0	--	65.0	--	65.0	--	65.0	--	65.0	--	65.0	--	--
All periods	14.0	--	28.1	--	28.1	--	26.9	--	38.0	--	32.0	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	87.8	--	86.0	--	87.0	--	85.5	84.5	--
Average long-term	--	--	--	--	4.0	--	75.7	--	82.5	--	55.3	55.3	--
Average initial	--	--	--	--	78.0	--	78.3	--	79.0	--	76.5	76.8	--
Average long-term	--	--	--	--	3.0	--	53.5	--	59.0	--	45.0	45.3	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	21	--	30	--	30	--	--	24	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1
Single 2 children	--	--	--	--	--	18.0	18.6	17.9	17.9	17.9	13.1	13.0	13.1
Single 2 children	--	--	--	--	21.9	22.0	22.4	22.0	22.0	22.0	19.1	19.0	19.1
Couple No child	--	--	--	--	--	33.2	32.8	32.8	32.3	32.4	30.9	31.0	31.0
Couple 2 children	31.4	--	25.3	27.0	26.6	26.9	26.8	26.5	26.0	26.2	24.1	23.6	23.7
Couple No child	--	--	--	--	--	28.4	28.1	28.1	28.1	28.1	28.1	28.1	28.1
Couple 2 children	--	--	--	--	--	23.0	23.3	23.0	23.0	23.0	20.6	20.5	20.6
<b>Active Labour Market Policies</b>													
ALMP's spending per unemployed person, constant US\$ PPP	--	4160.9	4144.1	2586.6	2968.3	3123.5	3064.3	4256.0	5200.0	4396.9	4396.9	4396.9	--
<b>Employment Protection Legislation</b>													
Temporary	3.4	3.4	3.4	3.4	3.4	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Permanent	5.0	4.8	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	42.4	49.8	65.6	58.0	50.4	50.1	49.8	50.8	51.9	--	--	--	57.3 <sup>2</sup>
60 y. ---> 65 y. early retirement	74.3	76.4	75.6	74.9	74.2	74.2	74.2	75.2	76.2	--	--	--	76.5 <sup>2</sup>
60 y. ---> 65 y. old-age pension	13.3	15.5	15.5	15.4	15.3	15.3	15.2	16.2	17.1	--	--	--	14.4 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	--	7.6	8.8	9.5	8.6	9.2	10.2	10.0	9.4	9.4	9.2	9.6	10.0
<b>Wage setting</b>													
Ratio of minimum to median wage	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	--	--	--
Coordination	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	--	--	--
Centralisation	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	--	--	--
Union density	54.6	31.7	28.6	27.3	25.4	24.8	24.3	23.3	23.5	23.5	23.4	--	--
Union coverage	--	70+	--	--	--	--	--	--	--	--	--	--	80+

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.



Table A2.46. Portugal : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X			+		0
Overall payroll taxes	X	[+,-]= ~	0	+	1	0.5
<b>Taxes on low income</b>						
Labour taxes on low incomes		+	1	+	2	1.5
Payroll taxes on low incomes						0
<b>Total</b>			<b>1</b>		<b>3</b>	<b>2</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X					0
Prior authorisation						0
Notice periods						0
Severance pay		+	1			0.5
Dismissals		+	1			0.5
Others						0
<b>Temporary contracts</b>			2		1	1.5
Fixed-term contracts	X	+		[+,-]=+		0
Temporary work agencies		+				0
Guidelines for courts						0
<b>Total</b>			<b>4</b>		<b>1</b>	<b>2.5</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates						0
Benefit duration						0
Work availability requirements						0
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality		+	1			0.5
Waiting periods						0
Work disincentives		+	1			0.5
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>2</b>		<b>0</b>	<b>1</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X	+	1			0.5
Extent of ALMPs	X	+	3			1.5
Targeting of ALMPs	X	+	1			0.5
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities	X					0
Contestability of PES				+	1	0.5
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>5</b>		<b>1</b>	<b>3</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions		+	1	+	1	1
Invalidity or sick pay schemes						0
Others						0
<b>Total</b>			<b>1</b>		<b>1</b>	<b>1</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity				+	1	0.5
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages	X					0
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements		[+,-]=~	0	+	1	0.5
Flexibility of part-time work	X	+	1			0.5
Others						0
<b>Total</b>			<b>1</b>		<b>1</b>	<b>1</b>

Portugal : Summary table of scores			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	1	3	2
Employment Protection Legislation	4	1	2.5
Unemployment benefits	2	0	1
Active Labour Market Policies	5	1	3
Early retirement, invalidity schemes and old-age pensions	1	1	1
Industrial relations and wage setting	0	1	0.5
Working time flexibility, part-time work	1	1	1
<b>Total</b>	<b>14</b>	<b>8</b>	<b>11</b>

## SLOVAK REPUBLIC

### Labour Taxes

**Overall labour taxes:** 2002 -- highest personal income tax rate cut to 38 per cent, child benefit system changed so that part of it is not subject to the means-test any longer; 2004 -- introduction of a flat marginal rate of 19 per cent for personal and corporate income taxes.<sup>17</sup>

**Overall payroll taxes:** 2004 -- contributions paid by employers decline by 3.6 percentage points while those paid by employees rise by 0.6 percentage points.

**Labour taxes on low incomes:** 2000 -- lowest personal income tax rate cut to 12 per cent (from 15 per cent); 2002 -- cut to 10 per cent with large increases in tax allowances; 2004 -- while the deductible allowances for low-income earners up to 160 per cent of poverty-line incomes are increased, virtually all other exceptions, exemptions and special regimes are eliminated.

### Employment Protection Legislation (EPL)

**Dismissals:** 2003 -- valid reasons to terminate a working contract and regulations for collective dismissals relaxed.

**Fixed-term contracts:** 2003 -- valid cases for fixed-term contracts, the number of possible renewals and the maximum overall duration increased.

### Unemployment benefits

**Benefit replacement rates:** 2000 -- the maximum replacement rate of 60 per cent for the first three months and 50 per cent for the remaining entitlement period (of between 3 and 6 months) was cut to 50 per cent during the first three months and 45 per cent for following months.

**Work availability requirements:** 1999 -- concept of material distress for subjective reasons (including voluntarily leaving a job, refusing to co-operate with the National Labour Office in job-search and failing to participate in public work programmes) introduced, benefits for persons classified in this category are cut by half; 2001 -- the criteria for falling into the category of financial distress due to subjective reasons widened.

**Reduce work disincentives:** 2004 -- additional benefits will be available for families living on earned income or demonstrating a willingness to work by participating in ALMPs, part of child benefits will be granted in the form of tax bonuses, and welfare and housing benefits will be granted to successful jobseekers during the first 6 months of gainful employment.

### Active Labour Market Policies (ALMPs)

**Targeting of ALMPs:** 2000 -- public work programmes are mainly concentrated on young workers and the long-term unemployed.

**Integration and restructuring of ALMP activities:** 2000 -- wage subsidies and training programmes scaled down, while public work programmes remained.

### Early retirement, invalidity schemes and old-age pensions

**Early-retirement schemes and old-age pensions:** 2000 -- early retirement phased out; 2002 -- gradual lifting of retirement age for women to 60 (from 53 to 57 years depending on the number of children); 2003 -- further increase of the retirement age for both sexes to 62 to be phased in beginning in 2004; a stronger link of pension entitlements to contributions by retirement income becoming dependent on

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17. The increase in the tax wedge for families with children is due to changes in the child benefit system.

contributions throughout working life, effectively introducing a form of “notional defined contribution” system; ceiling above which earnings are not taken into account for determining pension entitlements raised from 78 per cent of the average wage to 125 per cent, pensions indexed to the average of consumer price inflation and wage inflation instead of the previous practice of indexing pensions to the higher of the two.

### **Industrial relations and wage setting**

*Administrative extension:* 2003 -- ministerial stipulation that extension of sectoral wage settlements to firms that did not participate in the bargaining process are conditional upon written consent of the non-participating firm.

*Minimum wages:* 2002 -- increase from 35.6 per cent of the average wage in early 2001 to 41.2 per cent in the last quarter of 2002; 2003 -- increase to 45 per cent.

### **Working time flexibility, part-time work**

*Flexibility of working-time arrangements:* 2003 -- yearly overtime limit raised from 150 to 400 hours, 150 of which can be requested by the employer alone, while the rest is allowed if employer and employee agree mutually.

Table A2.47. Slovak Republic: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	--	--	--	--	--	--	--	--	--	--	35.0	--	--
All periods	--	--	--	--	--	--	--	--	--	--	7.0	--	--
1 year	--	--	--	--	--	--	--	--	--	--	35.0	--	--
All periods	--	--	--	--	--	--	--	--	--	--	7.0	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	--	--	--	--	77.0	--	75.0	73.5	--
Average long-term	--	--	--	--	--	--	--	--	86.2	--	89.5	88.3	--
Average initial	--	--	--	--	--	--	--	--	78.5	--	69.8	67.0	--
Average long-term	--	--	--	--	--	--	--	--	60.0	--	71.8	68.0	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	--	--	--	--	9	--	--	9	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	--	--	--	--	36.8	37.7	38.0	38.4
Single 2 children	--	--	--	--	--	--	--	--	--	4.3	9.9	10.5	19.9
Single 2 children	--	--	--	--	--	--	--	--	--	17.3	21.8	21.6	27.8
Couple No child	--	--	--	--	--	--	--	--	--	40.2	40.9	40.5	40.7
Couple 2 children	--	--	--	--	--	--	--	--	--	25.2	28.5	28.2	32.3
Couple No child	--	--	--	--	--	--	--	--	--	36.8	37.7	38.0	38.4
Couple 2 children	--	--	--	--	--	--	--	--	--	20.5	23.8	24.3	29.2
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	--	--	--	673.3	1025.3	1214.2	941.6	565.7	220.5	286.7	318.2	425.4	--
<b>Employment Protection Legislation</b>													
Temporary	--	--	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	0.4
Permanent	--	--	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.5
<b>Early retirement - Implicit tax on continued work</b>													
55 y. --> 60 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. --> 65 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. --> 65 y. old-age pension	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Working time flexibility</b>													
Percentage of part-time workers	--	--	--	2.7	2.3	2.1	2.0	2.0	1.8	1.9	1.9	1.6	2.3
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	--	--	--	--	--
Coordination	--	--	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	--
Centralisation	--	--	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	--
Union density	--	78.7	--	--	57.3	--	--	--	--	--	--	36.1	--
Union coverage	--	--	--	--	--	--	--	--	--	--	--	50+	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

Table A2.48. Slovak Republic : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes				+	2	1
Overall payroll taxes	X			+		0
<b>Taxes on low income</b>						
Labour taxes on low incomes				[+,-]	2	1
Payroll taxes on low incomes						0
<b>Total</b>			<b>0</b>		<b>4</b>	<b>2</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X					0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals				+	1	0.5
Others						0
<b>Temporary contracts</b>						
Fixed-term contracts				+	3	1.5
Temporary work agencies						0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>4</b>	<b>2</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates				+	3	1.5
Benefit duration						0
Work availability requirements				+	1	0.5
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality						0
Waiting periods						0
Work disincentives	X			+	1	0.5
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>0</b>		<b>5</b>	<b>2.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X					0
Extent of ALMPs	X			+	1	0.5
Targeting of ALMPs				+	1	0.5
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities				+	1	0.5
Contestability of PES	X					0
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>0</b>		<b>3</b>	<b>1.5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions				+	1	0.5
Invalidity or sick pay schemes	X					0
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination	X					0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension	X			+	1	0.5
Use of "opt-out" clauses						0
Minimum wages				-	-1	-0.5
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements	X			+	1	0.5
Flexibility of part-time work						0
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>

<b>Slovak Republic : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	0	4	2
Employment Protection Legislation	0	4	2
Unemployment benefits	0	5	2.5
Active Labour Market Policies	0	3	1.5
Early retirement, invalidity schemes and old-age pensions	0	1	0.5
Industrial relations and wage setting	0	0	0
Working time flexibility, part-time work	0	1	0.5
<b>Total</b>	<b>0</b>	<b>18</b>	<b>9</b>

## SPAIN

### Labour Taxes

**Overall labour taxes:** 1999 -- reduction of the number of tax brackets and decrease of marginal tax rates; 2003 -- further reductions of the number of tax brackets and statutory tax rates and tax rebates for working mothers.

**Overall payroll taxes:** 1995 -- decrease of social contributions by 1 percentage point; 1997 -- temporary cuts in social security contributions for employers supporting a new type of permanent contract for older workers, women and long-term unemployed persons; 1999 -- increased social security contribution on earnings of temporary contracts; 2000 -- social security contribution cuts for new permanent contracts extended and increased for the long-term unemployed and older workers; 2003 -- tax-exemptions for private pension contributions extended.

**Labour taxes on low incomes:** 2003 -- increases of tax allowances for lower incomes.

### Employment Protection Legislation (EPL)

**Severance pay:** 1997 -- new permanent contracts with reduced severance payments for workers who worked on temporary contracts before and for groups at risk; 2001 -- extended to a larger circle of groups at risk; 2002 -- firms can now avoid paying wages during court litigation after a dismissal by paying a higher severance allowance immediately.

**Dismissals:** 1994 -- procedural requirements for dismissals for economic reasons were relaxed; 1997 -- clarification of conditions of fair dismissals. Both measures had a very marginal impact on the ability to dismiss workers for fair or economic reasons, as labour courts continue to declare most dismissals as “unfair”.

**Fixed-term contracts:** 1994 -- regulations for fixed-term contracts were tightened; 2001 -- law restricting the valid cases for temporary contracts, introduction of firing costs for temporary contracts; despite these changes, many temporary contracts continue to be used beyond the legal limit.

**Temporary work agencies:** 1994 -- temporary work agencies permitted; 1999 -- more restrictive regulation of temporary work agencies.

### Unemployment benefits

**Benefit replacement rates:** 1994 -- benefits made taxable and became subject to social security contributions.

**Benefit duration:** 2000 -- benefits extended for unemployed workers older than 45 years with children.

**Work availability requirements:** 2002 -- suitability of job offers defined by law; benefit suppression after three rejections of a suitable job, any ALMP offer has to be accepted after 100 days of unemployment.

**Work disincentives:** 2002 -- new possibilities to combine unemployment benefits with self-employment or with salaried work for those older than 52 and for the unemployed hired to temporarily substitute workers in training courses.

### Active Labour Market Policies (ALMPs)

**Extent of ALMPs:** 2003 -- personnel of the PES increased by 13 per cent in the 2003 budget.

### **Early retirement, invalidity schemes and old-age pensions**

**Early-retirement schemes and old-age pensions:** since 1997 -- gradual widening of the earnings base used for pension benefit calculation (from the last 8 to the last 15 years); 1999 -- shifts towards actuarial neutrality for deferred retirement, unification of contribution ceilings.<sup>18</sup>

**Invalidity and sick pay schemes:** 1997 -- clarification of eligibility to the different degrees of permanent invalidity benefits as well as the transformation of invalidity benefits into an old-age pension at age 65.

### **Industrial relations and wage setting**

**Wage determination:** 1994 -- option to introduce contract terms obtained by agreements reached in the context of collective bargaining rather than those from the *Ordenanzas laborales* (a series of rules and regulations which limit the responsibilities and tasks which members of different trades and guilds are allowed to perform).

**Use of “opt-out” clauses:** 1994 -- new clause permitting an opt-out of higher level wage negotiations in the event of an individual firm’s financial distress, although it has been little used as higher level agreements imposed heavy conditions on their application.

### **Working time flexibility, part-time work**

**Flexibility of working-time arrangements:** 1999 -- some regions grant subsidies to social security contributions for firms applying a 35-hour week.

**Flexibility of part-time work:** 1999 -- reduction of social security contributions on new part-time permanent contracts; maximum number of hours allowed for part-time contracts lowered to 77 per cent of standard working time, raised again to 99 per cent in 2001, together with a more flexible distribution of “complementary” hours (those beyond the normal working time, but paid at the same wage as normal hours).

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18. The implicit tax for the old age pension system increases nevertheless in Table A2.49, because the actuarial adjustment for anticipated retirement for workers with long contribution years (corresponding to the stylised worker for whom implicit taxes have been calculated) was reduced.

Table A2.49. Spain: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	75.0	--	65.0	--	65.0	--	64.0	--	62.5	--	65.0	--	--
All periods	27.4	--	25.0	--	25.0	--	25.4	--	24.5	--	25.5	--	--
1 year	70.5	--	65.0	--	65.0	--	62.5	--	0.0	--	62.8	--	--
All periods	26.1	--	25.0	--	25.0	--	24.5	--	0.0	--	24.2	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	72.3	--	74.7	--	75.3	--	79.0	78.8	--
Average long-term	--	--	--	--	51.0	--	48.8	--	44.9	--	48.8	48.5	--
Average initial	--	--	--	--	74.5	--	75.5	--	74.3	--	76.5	75.8	--
Average long-term	--	--	--	--	37.5	--	35.1	--	31.8	--	34.5	34.5	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	24	--	24	--	24	--	--	24	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	29.4	28.9	28.8	28.5	28.3	28.3	28.3	28.3
Single 2 children	--	--	--	--	--	29.4	28.9	28.7	28.5	28.3	28.3	28.3	28.3
Single 2 children	--	--	--	--	29.0	29.3	29.5	29.0	28.4	28.3	28.3	28.3	28.3
Couple No child	--	--	--	--	35.0	35.0	35.2	35.3	33.3	33.5	34.1	34.5	33.9
Couple 2 children	32.4	--	32.9	33.7	33.3	33.5	33.7	33.3	30.4	30.6	31.1	31.5	30.9
Couple No child	--	--	--	--	--	29.4	28.9	28.8	28.5	28.3	28.3	28.3	28.3
Couple 2 children	--	--	--	--	--	29.4	28.9	28.7	28.5	28.3	28.3	28.3	28.3
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	707.6	2172.3	849.0	756.3	841.0	789.5	942.6	1418.8	2090.1	2648.5	3220.8	2935.8	--
<b>Employment Protection Legislation</b>													
Temporary	2.1	2.1	2.1	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.8	1.8	1.8
Permanent	3.9	3.9	3.9	3.7	3.7	3.7	2.9	2.9	2.9	2.9	2.9	2.9	2.9
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	28.1	28.1	28.4	27.9	27.4	27.4	27.4	24.9	22.5	--	--	--	17.7 <sup>3</sup>
60 y. ---> 65 y. early retirement	13.2	12.3	11.5	10.7	10.0	9.9	9.7	15.7	21.7	--	--	--	33.6 <sup>3</sup>
60 y. ---> 65 y. old-age pension	13.2	12.3	11.5	10.7	10.0	9.9	9.7	15.7	21.7	--	--	--	33.6 <sup>3</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	--	4.6	6.0	6.4	7.0	7.5	7.9	7.7	7.8	7.7	7.8	7.6	7.8
<b>Wage setting</b>													
Ratio of minimum to median wage	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	--	--	--
Coordination	3.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	--	--	--
Centralisation	3.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	--	--	--
Union density	8.9	11.0	18.0	17.6	16.3	16.1	15.7	14.9	14.5	13.9	13.8	--	--
Union coverage	--	70+	--	--	--	--	--	--	--	80+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. The data for Spain are different from the ones reported in OECD, *Employment Outlook* (2004) due to a re-assessment of regulation in this area.

3. Currently legislated systems.



Table A2.50. Spain : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes		+	2	+		1
Overall payroll taxes		[+,-] = +		[+,-] = ~		0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X			+	1	0.5
Payroll taxes on low incomes	X					0
<b>Total</b>			<b>2</b>		<b>1</b>	<b>1.5</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>			3			1.5
General stance	X					0
Prior authorisation						0
Notice periods		+				0
Severance pay	X	+		+	1	0.5
Dismissals	X	+				0
Others						0
<b>Temporary contracts</b>			2		-1	0.5
Fixed-term contracts		-		-		0
Temporary work agencies		[+,-]				0
Guidelines for courts	X					0
<b>Total</b>			<b>5</b>		<b>0</b>	<b>2.5</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates	X	+	1			0.5
Benefit duration	X			-	-1	-0.5
Work availability requirements	X			+	1	0.5
Eligibility	X					0
Re-qualification possibilities						0
Benefit conditionality	X					0
Waiting periods						0
Work disincentives	X			+	1	0.5
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>1</b>		<b>1</b>	<b>1</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X					0
Extent of ALMPs	X			+	2	1
Targeting of ALMPs	X					0
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities						1
Contestability of PES	X					0
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>0</b>		<b>2</b>	<b>1</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions		+	0			0
Invalidity or sick pay schemes		+	1			0.5
Others						0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination	X	+	1			0.5
Wage distribution or indexation	X					0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses	X	+	0.5			0.25
Minimum wages						0
Others						0
<b>Total</b>			<b>1.5</b>		<b>0</b>	<b>0.75</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements		-	-1			-0.5
Flexibility of part-time work	X	[+,-] = ~		+	1	0.5
Others						0
<b>Total</b>			<b>-1</b>		<b>1</b>	<b>0</b>

<b>Spain : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	2	1	1.5
Employment Protection Legislation	5	0	2.5
Unemployment benefits	1	1	1
Active Labour Market Policies	0	2	1
Early retirement, invalidity schemes and old-age pensions	1	0	0.5
Industrial relations and wage setting	1.5	0	0.75
Working time flexibility, part-time work	-1	1	0
<b>Total</b>	<b>9.5</b>	<b>5</b>	<b>7.25</b>

## SWEDEN

### Labour Taxes

**Overall labour taxes:** 1994-1995 -- surcharge on high incomes for fiscal consolidation lifts highest marginal tax rate by 5 percentage points; 1999 -- surcharge to be kept with more limited coverage; 2000 -- tax credits to compensate employees' social security contributions to be phased in over 2000-2003; 2004 -- higher basic allowances and a reduction in income taxes to compensate for higher environmental taxes; 1994-2003 -- local government tax rates raised.

**Overall payroll taxes:** 1993-97 -- new social security contributions introduced and raised by 6 percentage points; compensation, in terms of individual tax discounts, for the employee pension contribution; 2004 -- lower social insurance contributions for employers to compensate for higher green taxes.

**Labour taxes on low incomes:** 2000 -- a gradual increase over 2000-2003 in the threshold for the state income tax; 2004 -- annual adjustment of the state tax threshold reduced.

### Employment Protection Legislation (EPL)

**Notice periods:** 1997 -- length of notice periods differentiated by seniority and not by age as before.

**Dismissals:** 1997 -- re-hiring obligation *vis-à-vis* former employees applies for nine rather than twelve months; 2001 -- employers can now exempt two employees from the principle that in the case of collective lay-offs they will have to dismiss first those employees who were hired last (last-in-first-out principle).

**Fixed-term contracts:** 1997 -- introduction of twelve-month fixed-term contracts without restrictions concerning the nature of the work.

### Unemployment benefits

**Benefit replacement rates:** 1996 -- replacement rates for median and low-wage earners reduced from 80 per cent to 75 per cent; 1997 -- replacement rate increased to 80 per cent; 2001-2002 -- ceiling on unemployment benefits raised in two steps.

**Work availability requirements:** 1996 -- benefit sanctions lengthened from 20 to 60 days if an unemployed person declines a job or training offer; 1997 -- social assistance recipients under the age of 25 can be required to undertake education or training.

**Eligibility:** 1996 -- minimum age increased to 20 years of age; 1998 -- qualifying period increased from 5 to 6 months.

**Benefit conditionality:** 2000 -- unemployment benefit and social assistance recipients required to participate in full-time activation after 27 months of unemployment; 2001 -- extended to the part-time unemployed.

**Waiting periods:** 1996 -- waiting periods of 6 days introduced.

### Active Labour Market Policies (ALMPs)

**Evaluation efforts:** since 1990s -- more efforts to evaluate ALMPs rigorously.

**Extent of ALMPs:** 1995 -- social security contribution subsidies for hiring an unemployed person; 1996 -- unemployed persons between the age of 25 and 55 may receive a one-year education grant; 1997 -- individual action plans for those at risk of long-term unemployment; 1998 -- activation of the unemployed under the age of 24 after 100 days and of the older unemployed after 12 months, most wage subsidy programmes converted to the work-for-benefit principle; 2000 -- profiling to determine whether it is useful to launch mandatory activation before 27 months of unemployment.

**Targeting of ALMPs:** 1995 -- introduction of a temporary 50 per cent wage subsidy (to be terminated by end-1997) for companies hiring long-term unemployed persons older than 60; 1996 -- intensified efforts in the sphere of formal education aimed at low-skilled workers, long-term unemployed persons older than 55

are offered public work at wage rates equal to unemployment benefits as an one-off measure; 1998 -- refunding of social security contributions for firms hiring the long-term unemployed.

**Re-qualification via ALMPs:** 1996 -- subsidised jobs no longer qualify for first-time benefits.

**Integration and restructuring of ALMP activities:** 1995 -- reduction of the number of ALMP schemes; 1998 -- quantitative targets for ALMP participation abolished allowing Employment Offices to adapt programme content better to the needs of the job seekers, adult education now targeted at those failing to complete education at upper secondary level; 2003 -- ALMPs involving employment training cut back.

**Contestability of PES:** 2000 -- private recruitment firms allowed to operate.

### **Early retirement, invalidity schemes and old-age pensions**

**Early-retirement schemes and old-age pensions:** 1996 -- minimum age for part-time pension raised, maximum number of hours worked and replacement rate reduced; 1997 -- temporary offer for the unemployed between the age of 60 and 64 to retire at the rate of the unemployment benefit; 1998 -- move from a Pay-As-You-Go system to a notional account system with a funded defined-contribution pillar (14 per cent of contributions are allocated to pension accounts yielding market returns, while the rest is allocated to notional accounts in which benefits are adjusted to life expectancy at the age of withdrawal and to economy-wide earnings growth), to be fully phased in by 2020;<sup>19</sup> temporary offer for older workers to retire if they are replaced by unemployed workers younger than 25; 2003 -- differential tax treatment for old-age pensioners abolished.

**Invalidity and sick pay schemes:** 1996 -- the sickness benefit replacement rate reduced from 80 per cent to 75 per cent; 1998 -- replacement rate increased to 80 per cent, sickness benefits have to be paid by employers for 14 days; 2003 -- replacement ratio for sickness lowered to 77.6 per cent, benefit levels for unemployed persons reporting sick aligned with unemployment benefits; employers' period for paying sickness benefits extended by one additional week, more controls on part-time sick leave, sick-leave certificates from doctors are to provide a better assessment of ability to work.

**Others:** 2003 -- introduction of subsidies for employers who employ persons that have been on long-term sick leave and of compulsory listing of sickness absence rates in companies' annual reports.

### **Industrial relations and wage setting**

**Wage determination:** 1998 -- legal framework made neutral with respect to (de-)centralisation;

### **Working time flexibility, part-time work**

**Flexibility of working-time arrangements:** 2004 -- pilot schemes for lower working hours and parental leave prolonged; 2005 -- a sabbatical year introduced for people who are replaced by a long-term unemployed worker.

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19. The implicit tax on continuing work will eventually increase (Table A2.51), because the new system is not actuarially neutral while there was no implicit tax on continued work beyond age 60 in the former system as people could fully combine work with the receipt of a pension.

Table A2.51. Sweden: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	90.3	--	90.0	--	90.0	--	90.0	--	80.0	--	80.0	--	--
All periods	21.3	--	20.8	--	20.8	--	21.0	--	18.5	--	17.3	--	--
1 year	80.5	--	82.0	--	73.0	--	70.0	--	68.0	--	69.0	--	--
All periods	18.9	--	19.0	--	16.8	--	17.6	--	15.7	--	14.9	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	82.0	--	84.7	--	86.8	--	89.0	88.8	--
Average long-term	--	--	--	--	102.3	--	95.9	--	90.3	--	83.5	82.8	--
Average initial	--	--	--	--	80.5	--	80.6	--	76.3	--	83.0	85.0	--
Average long-term	--	--	--	--	78.8	--	77.0	--	67.3	--	63.5	62.5	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	15	--	15	--	15	--	--	15	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	47.6	48.1	48.1	46.9	45.9	44.7	43.6	42.0
Single 2 children	--	--	--	--	--	33.5	34.3	32.5	31.5	28.8	26.1	25.5	24.2
Single 2 children	--	--	--	--	--	40.1	40.9	39.9	39.5	37.5	35.7	35.0	34.1
Couple No child	--	--	--	--	--	50.2	50.7	50.7	50.5	49.5	48.5	47.6	46.6
Couple 2 children	42.5	--	37.7	39.3	42.2	44.6	45.2	44.4	44.4	42.6	41.1	40.3	39.5
Couple No child	--	--	--	--	--	47.6	48.1	48.1	46.9	45.9	44.7	43.6	42.0
Couple 2 children	--	--	--	--	--	40.6	41.2	40.3	39.2	37.3	35.4	34.5	33.1
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	30459.9	37768.3	12071.6	12441.8	15595.7	12118.9	8642.0	10441.0	12081.8	11787.8	13592.6	13378.9	--
<b>Employment Protection Legislation</b>													
Temporary	4.1	4.1	2.1	2.1	2.1	2.1	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Permanent	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	46.4	43.0	23.7	23.5	23.3	22.5	21.7	21.5	21.2	--	--	--	8.1 <sup>2</sup>
60 y. ---> 65 y. early retirement	81.0	66.6	21.4	21.2	20.9	20.3	19.7	19.4	19.0	--	--	--	35.7 <sup>2</sup>
60 y. ---> 65 y. old-age pension	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	--	--	--	35.7 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	--	14.5	15.4	15.8	15.1	14.8	14.2	13.5	14.5	14.0	13.9	13.8	14.1
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	--	--	--	--	--
Coordination	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	--
Centralisation	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	--
Union density	81.3	80.0	83.9	83.7	83.1	82.7	82.2	81.3	80.6	79.1	78.0	78.0	--
Union coverage	--	80+	--	--	--	--	--	--	--	90+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.

Table A2.52. Sweden : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X	-	-3	[+,-]	2	-0.5
Overall payroll taxes		-		[+,-]		0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X			+	3	1.5
Payroll taxes on low incomes						0
<b>Total</b>			<b>-3</b>		<b>5</b>	<b>1</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance	X					0
Prior authorisation						0
Notice periods		~				0
Severance pay						0
Dismissals		+	1	+	1	1
Others						0
<b>Temporary contracts</b>			2			1
Fixed-term contracts		+				0
Temporary work agencies						0
Guidelines for courts						0
<b>Total</b>			<b>3</b>		<b>1</b>	<b>2</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates	X	[+,-]=~	0	-	-1	-0.5
Benefit duration	X					0
Work availability requirements	X	+	1			0.5
Eligibility		+	1			0.5
Re-qualification possibilities						0
Benefit conditionality				+	1	0.5
Waiting periods		+	1			0.5
Work disincentives						0
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>3</b>		<b>0</b>	<b>1.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X	+	1			0.5
Extent of ALMPs		+	4	+	3	3.5
Targeting of ALMPs	X	+	1			0.5
Re-qualification via ALMPs	X	+	1			0.5
Integration and restructuring of ALMP activities	X	+	1	+	1	1
Contestability of PES				+	1	0.5
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>8</b>		<b>5</b>	<b>6.5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions		[+,-]=+	1	-	-2	-0.5
Invalidity or sick pay schemes	X	[+,-]=~		+	1	0.5
Others				+	1	0.5
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination	X	+	1			0.5
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity	X					0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages						0
Others						0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements						0
Flexibility of part-time work				~		0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>

<b>Sweden : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	-3	5	1
Employment Protection Legislation	3	1	2
Unemployment benefits	3	0	1.5
Active Labour Market Policies	8	5	6.5
Early retirement, invalidity schemes and old-age pensions	1	0	0.5
Industrial relations and wage setting	1	0	0.5
Working time flexibility, part-time work	0	0	0
<b>Total</b>	<b>13</b>	<b>11</b>	<b>12</b>

## SWITZERLAND

### Labour Taxes

**Overall payroll taxes:** 1996 -- rise in health insurance contributions; 2003 -- unemployment insurance contributions reduced from 3 to 2 per cent.

### Employment Protection Legislation (EPL)

No action.

### Unemployment benefits

**Benefit duration:** 1996 -- temporary reduction (during two years) of the maximum duration of benefits compensating income losses due to partial unemployment (short-time work) from 24 to 12 months, duration of benefits compensating income losses due to bad-weather cut from 12 to 6 months; 1997 -- introduction of compulsory activation implies a prolongation of the duration of benefit eligibility from the previously 170, 250 or 400 workdays (depending on the unemployment contributions paid) to a uniform 520 workdays; 2003 -- maximum duration reduced from 520 to 400 days for workers below the age of 54, cantons with an unemployment rate above 5 per cent may also keep the current maximum duration if they bear 20 per cent of the additional cost.

**Work availability requirements:** 1996 -- introduction of a more stringent definition of “suitable work” concerning minimum earnings and commuting time, stricter penalties for uncooperative behaviour.

**Eligibility:** 2003 -- minimum work requirement extended from 6 to 12 months.

**Benefit conditionality:** 1997 -- introduction of compulsory activation after 7 months and somewhat later for people aged over the age of 50.

**Waiting periods:** 1996 -- introduction of a waiting period of five days and of 120 days for school-leavers.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** 2000 -- ALMPs evaluated regularly; 2000-2003 -- funding of regional employment offices related to performance measures.

**Extent of ALMPs:** 1997 -- emphasis shifted from passive income support to active labour market programmes by introducing compulsory activation, although ALMP slots are not sufficient given the rise in unemployment, creation of 150 regional placement offices and 1 850 posts of job counsellors; individual action plans for qualification and training are introduced.

**Re-qualification via ALMPs:** 1997 -- unlike employment programmes before, mandatory activation does not re-establish benefit rights.

### Early retirement, invalidity schemes and old-age pensions

**Early-retirement schemes and old-age pensions:** 1997 -- early retirement from age 63 made possible with an actuarial adjustment; bonus for deferred retirement beyond age 65 introduced; subsidies through the unemployment fund of benefit payments for workers retiring early if an unemployed person is hired instead; 2001 -- retirement age for women raised gradually from 62 to 64 over the 2001-2005 period.

### Industrial relations and wage setting

No action.

### Working time flexibility, part-time work

**Flexibility of working-time arrangements:** 2000 -- cancellation of the ban on night work for women, “normal” working hours for which no permit or higher wage rate is required extended from 8p.m. to 11p.m., making it easier for enterprises to schedule two-shifts, maximum number of overtime hours per employee per year reduced from 220 or 260 hours (depending on the enterprise category) to 140 or 170 hours.

Table A2.53. Switzerland: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	65.8	--	69.5	--	69.5	--	68.5	--	79.3	--	80.0	--	--
All periods	13.2	--	21.5	--	21.5	--	27.8	--	31.9	--	32.0	--	--
1 year	65.8	--	69.5	--	69.5	--	68.5	--	69.3	--	70.0	--	--
All periods	13.2	--	21.5	--	21.5	--	25.9	--	27.9	--	28.0	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	82.0	--	78.3	--	91.3	--	80.0	--	80.0
Average long-term	--	--	--	--	86.3	--	89.5	--	93.3	--	89.5	--	88.3
Average initial	--	--	--	--	74.8	--	78.5	--	86.0	--	76.5	--	76.8
Average long-term	--	--	--	--	60.8	--	73.0	--	66.5	--	64.0	--	62.5
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	18	--	5	--	7	--	--	--	24
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	25.0	24.6	24.6	24.5	24.4	24.3	24.5	24.1
Single 2 children	--	--	--	--	--	4.9	3.2	3.4	2.6	2.7	2.9	3.2	2.9
Single 2 children	--	--	--	--	--	14.6	12.9	13.0	12.0	12.0	12.4	12.4	12.1
Single 2 children	--	--	--	--	--	27.5	27.0	27.1	26.9	26.6	26.7	26.7	26.4
Couple No child	--	--	--	--	--	18.6	17.7	17.8	17.8	17.7	17.9	18.1	17.8
Couple 2 children	19.0	--	17.3	17.2	18.9	--	24.1	23.8	23.8	23.7	23.8	23.8	23.5
Couple No child	--	--	--	--	--	13.9	13.0	13.1	13.3	13.3	13.5	13.6	13.3
Couple 2 children	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Active Labour Market Policies</b>													
ALMP's spending per unemployed person, constant US\$ PPP	9045.8	20182.4	3749.2	4492.4	5570.1	5299.4	7586.0	9518.3	9599.0	8406.7	7683.9	8078.5	--
<b>Employment Protection Legislation</b>													
Temporary	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Permanent	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ----> 60 y. early retirement	--	19.2	19.0	19.0	19.0	18.7	18.4	18.3	18.2	--	--	--	18.0 <sup>2</sup>
60 y. ----> 65 y. early retirement	--	18.6	18.4	18.4	18.3	20.7	23.1	23.0	22.8	--	--	--	22.6 <sup>2</sup>
60 y. ----> 65 y. old-age pension	--	18.6	18.4	18.4	18.3	20.7	23.1	23.0	22.8	--	--	--	22.6 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	--	--	23.2	23.2	22.9	23.7	24.0	24.2	24.8	24.4	24.8	24.7	25.1
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	--	--	--	--	--
Coordination	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	--
Centralisation	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	--
Union density	27.6	24.3	22.9	23.3	22.8	22.9	22.6	21.7	21.0	19.4	17.8	--	--
Union coverage	--	50+	--	--	--	--	--	--	--	40+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.  
2. Currently legislated systems.

Table A2.54. Switzerland : Recommendation and actions since 1994

Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003	
	Reforms	Score	Reforms	Score		
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes					0	
Overall payroll taxes	-		+	1	0.5	
<b>Taxes on low income</b>						
Labour taxes on low incomes					0	
Payroll taxes on low incomes					0	
<b>Total</b>		<b>0</b>		<b>1</b>	<b>0.5</b>	
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>					0	
General stance					0	
Prior authorisation					0	
Notice periods					0	
Severance pay					0	
Dismissals					0	
Others					0	
<b>Temporary contracts</b>					0	
Fixed-term contracts					0	
Temporary work agencies					0	
Guidelines for courts					0	
<b>Total</b>		<b>0</b>		<b>0</b>	<b>0</b>	
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates					0	
Benefit duration	X	[+,-]=-	-1	+	1	0
Work availability requirements		+	1			0.5
Eligibility				+	1	0.5
Re-qualification possibilities						0
Benefit conditionality		+	1			0.5
Waiting periods		+	1			0.5
Work disincentives						0
Establishment or strengthening of UI schemes						0
Others						0
<b>Total</b>			<b>2</b>		<b>2</b>	<b>2</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X			+	1	0.5
Extent of ALMPs	X	+	4			2
Targeting of ALMPs						0
Re-qualification via ALMPs		+	1			0.5
Integration and restructuring of ALMP activities						0
Contestability of PES						0
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>5</b>		<b>1</b>	<b>3</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions	X	[+,-]=-	-1	+	1	0
Invalidity or sick pay schemes						0
Others						0
<b>Total</b>			<b>-1</b>		<b>1</b>	<b>0</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements	X	[+,-]=+	1			0.5
Flexibility of part-time work	X					0
Others						0
<b>Total</b>			<b>1</b>		<b>0</b>	<b>0.5</b>

<b>Switzerland : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	0	1	0.5
Employment Protection Legislation	0	0	0
Unemployment benefits	2	2	2
Active Labour Market Policies	5	1	3
Early retirement, invalidity schemes and old-age pensions	-1	1	0
Industrial relations and wage setting	0	0	0
Working time flexibility, part-time work	1	0	0.5
<b>Total</b>	<b>7</b>	<b>5</b>	<b>6</b>



## TURKEY

### Labour Taxes

**Overall labour taxes:** 1998 -- number of tax brackets limited to six and the top rate lowered to 45 per cent; 1999 -- top rate lowered to 40 per cent; 2002 -- new reform to be phased in to enlarge the tax base.

**Overall payroll taxes:** 1999-2001 -- increases in social security contributions, including 3 per cent employer and 2 per cent employee rates to finance the new unemployment insurance system; increase in the ceiling on pension premiums, increase in health insurance contribution rates for the self-employed and farmers.

**Labour taxes on low incomes:** 1998 -- lowest tax rate set by the central government declined from 25 to 20 per cent; 1999 -- further lowered to 15 per cent.

**Payroll taxes on low incomes:** 2001 -- minimum contribution base for social security payments increased by 40 per cent.

### Employment Protection Legislation (EPL)

**Severance pay:** 2003 -- minimum and maximum severance pay reduced; Severance Compensation Fund created, to be financed by employer contributions, which together with the Unemployment Insurance Fund will make employment adjustments less costly at the enterprise level.

**Dismissals:** 2003 -- enterprise size threshold for becoming subject to EPL increased from 10 to 30 workers and definition of collective dismissals narrowed.

**Fixed-term contracts:** 2003 -- fixed-term contracts authorised with no limit for the number of renewals.

### Unemployment benefits

**Benefit conditionality:** 2001 -- benefits made conditional on participation in re-training programmes.

**Establish or strengthen UI schemes:** 2000 -- unemployment insurance comes into effect; after 20 months of contributions, workers will become eligible for unemployment benefits equivalent to 50 per cent of the average of the last four months' insurable net wages for a period of six months, benefits cannot exceed the minimum wage.

### Active Labour Market Policies (ALMPs)

**Extent of ALMPs:** 2001 -- the activity of the Turkish Employment Organisation (ISKUR) expanded to implement active labour market programmes and job placement for both the public and the private sectors and to implement and administer the new unemployment insurance system, local offices are also being established to implement local training programmes.

### Early retirement, invalidity schemes and old-age pensions

**Early-retirement schemes and old-age pensions:** 2001 -- imposition of a minimum retirement age with a 10-year transition period, for new entrants: 58 for women and 60 for men, for current workers: 52 for women and 56 for men (from 50 and 55 respectively); increase in the minimum contribution period to 20-25 years for new entrants and 17 for current workers (from 14 years previously) with a 10 year transition period, reduction in benefit accrual rates in private sector schemes, averaging 3 per cent versus 4 per cent previously and declining steadily as the number of years worked increases, automatic indexing of pension benefits to the CPI, as opposed to the discretionary formula of the past, which normally indexed pensions to civil servants' wages.

### Industrial relations and wage setting

No action.

**Working time flexibility, part-time work**

*Flexibility of working-time arrangements:* 2003 -- working time became more flexible, as averaging-out periods for the calculation of average and maximum working times were lengthened.

*Flexibility of part-time work:* 2003 -- legal framework for part-time work introduced.

Table A2.55. Turkey: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	--	--	--	--	--	--	--	--	--	--	--	--	--
All periods	--	--	--	--	--	--	--	--	--	--	--	--	--
1 year	--	--	--	--	--	--	--	--	--	--	--	--	--
All periods	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	--	--	--	--	--	--	--	--	--
Average long-term	--	--	--	--	--	--	--	--	--	--	--	--	--
Average initial	--	--	--	--	--	--	--	--	--	--	--	--	--
Average long-term	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	44.2	44.4	43.1	37.7	38.1	41.2	39.9	39.7
Single 2 children	--	--	--	--	--	44.2	44.4	43.1	37.7	38.1	41.2	39.9	39.7
Single 2 children	--	--	--	--	35.3	42.1	45.0	44.4	34.5	39.1	42.6	41.3	40.9
Couple No child	--	--	--	--	--	38.3	40.7	40.3	30.3	40.4	43.6	42.4	42.1
Couple 2 children	37.0	--	40.0	36.1	35.3	38.3	39.6	39.8	30.3	40.4	43.6	42.4	42.1
Couple No child	--	--	--	--	--	44.2	44.4	43.1	37.7	38.1	41.2	39.9	39.7
Couple 2 children	--	--	--	--	--	44.2	44.4	43.1	37.7	38.1	41.2	39.9	39.7
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Employment Protection Legislation</b>													
Temporary	--	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Permanent	--	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
<b>Early retirement - Implicit tax on continued work</b>													
55 y. ---> 60 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ---> 65 y. early retirement	--	--	--	--	--	--	--	--	--	--	--	--	--
60 y. ---> 65 y. old-age pension	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Working time flexibility</b>													
Percentage of part-time workers	--	9.2	8.9	8.8	6.4	5.4	6.1	6.0	7.7	9.4	6.2	6.6	6.0
<b>Wage setting</b>													
Ratio of minimum to median wage	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4	--	--	--	--	--
Coordination	--	--	--	--	--	--	--	--	--	--	--	--	--
Centralisation	--	--	--	--	--	--	--	--	--	--	--	--	--
Union density	--	26.6	30.7	32.7	31.9	30.5	29.5	30.3	31.5	--	--	--	--
Union coverage	--	--	--	--	--	--	--	--	--	--	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

Table A2.56. Turkey : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes	X	+	3	-	-4	-0.5
Overall payroll taxes						0
<b>Taxes on low income</b>						
Labour taxes on low incomes		+	3	-	-2	0.5
Payroll taxes on low incomes						0
<b>Total</b>			<b>6</b>		<b>-6</b>	<b>0</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						
General stance						0
Prior authorisation						0
Notice periods	X					0
Severance pay	X			+	1	0.5
Dismissals				+	1	0.5
Others						0
<b>Temporary contracts</b>						
Fixed-term contracts				+	1	0.5
Temporary work agencies						0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>3</b>	<b>1.5</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates						0
Benefit duration						0
Work availability requirements						0
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality				+	1	0.5
Waiting periods						0
Work disincentives						0
Establishment or strengthening of UI schemes	X			+	1	0.5
Others						0
<b>Total</b>			<b>0</b>		<b>2</b>	<b>1</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort	X					0
Extent of ALMPs	X			+	1	0.5
Targeting of ALMPs	X					0
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities						0
Contestability of PES						0
Integration of job counselling, ALMPs and various benefit agencies						0
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions				+	1	0.5
Invalidity or sick pay schemes						0
Others						0
<b>Total</b>			<b>0</b>		<b>1</b>	<b>0.5</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements				+	1	0.5
Flexibility of part-time work				+	1	0.5
Others						0
<b>Total</b>			<b>0</b>		<b>2</b>	<b>1</b>

<b>Turkey : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	6	-6	0
Employment Protection Legislation	0	3	1.5
Unemployment benefits	0	2	1
Active Labour Market Policies	0	1	0.5
Early retirement, invalidity schemes and old-age pensions	0	1	0.5
Industrial relations and wage setting	0	0	0
Working time flexibility, part-time work	0	2	1
<b>Total</b>	<b>6</b>	<b>3</b>	<b>4.5</b>

## UNITED KINGDOM

### Labour Taxes

**Overall labour taxes:** mid-1990s onwards -- several rounds of tax rate cuts especially for low and middle incomes, sometimes accompanied by a broadening of the tax base.

**Overall payroll taxes:** 1999 -- “entry fee” for social security contributions abolished (a 2 per cent charge on labour income up to an earnings limit payable once the limit is reached).

**Labour taxes on low incomes:** 1999 -- Working family tax credit for families with children introduced with a 13 per cent higher earnings ceiling for benefit withdrawal and lower withdrawal rates (down from 70 per cent to 55 per cent) than former arrangements, generosity of child credits extended and guaranteed minimum income for working families introduced; 2001 -- tax credit increased significantly; 2003 -- tax credit extended to all working individuals regardless of marital status and the presence of children.

**Payroll taxes on low incomes:** 1999 -- earnings threshold for social security contributions raised.

### Employment Protection Legislation (EPL)

**Severance pay:** 1999 -- ceiling for unfair dismissal compensation more than quadrupled.

**Dismissals:** 2000 -- notification requirements for collective dismissals relaxed.

**Fixed-term contracts:** 1999 -- possibilities for employers to ask employees to give up the right to complain about unfair dismissal if the contract is not renewed is limited; 2002 -- maximum duration of fixed-term contracts reduced to 4 years (before unlimited).

**Others:** 2000 -- the trial period was halved.

### Unemployment benefits

**Benefit duration:** 1996 -- unemployment insurance and means-tested assistance combined into one single benefit with shorter maximum duration of its contribution-based component (6 as opposed to 12 months); 1999 -- maximum benefit duration for both components of the Jobseeker’s Allowance cut from 12 to 6 months for recipients with working spouses.

**Benefit conditionality:** 1998 -- unemployment benefits for younger people conditioned on participation in an activation measure after 6 months (New Deal for Young People); 2001 -- extended to the unemployed over 25 after 18 months.

### Active Labour Market Policies (ALMPs)

**Evaluation effort:** the New Deal programme is reviewed regularly within a comprehensive research project.

**Extent of ALMPs:** 1998 -- New Deal for Young People introduced with a period of intensive personal advice and training courses at the beginning and compulsory activation measures after six months, including training, subsidised work or employment with the voluntary sector, the design of a job search plan and fortnightly interviews with job counsellors became compulsory for all jobseekers.

**Targeting of ALMPs:** 1998-2000 -- New Deal arrangements introduced for several disadvantaged groups, such as the long-term and older unemployed and the disabled; 2000 -- introduction of intensified financial support for the long-term unemployed in employment black spots.

**Integration of job counselling, ALMPs and various benefit agencies:** 2000 -- Jobcentre Plus Programme gradually introduced, bringing together job search services and various benefits under one roof to ensure that all benefit recipients of working age receive work-focused service.

### Early retirement, invalidity schemes and old-age pensions

**Invalidity and sick pay schemes:** 2001 -- access to invalidity pension tightened and means test introduced.

**Others:** 1998 -- disabled people can move into work and return to benefits with the same rate they received before if the new job turns out to last less than a year; late 1990s -- New Deal for Disabled people gradually phased in with early access to various activation measures before 6 months of inactivity and job brokers' services tailored specifically to the needs of disabled jobseekers; since 2003 -- pilot programmes with mandatory work-focused interviews for new claimants of disability benefits, featuring also a test of a "return-to-work" credit to be paid for the first year.

### **Industrial relations and wage setting**

**Minimum wages :** 1999 -- minimum wage introduced with reduced rates for 18-21 year-old workers and for above 21 year-olds in training programmes; rates increased several times since then; 2004 -- minimum wage for 15-17 year-olds introduced.

### **Working time flexibility, part-time work**

No action.

Table A2.57. United Kingdom: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	30.8	--	27.4	--	25.8	--	28.0	--	20.9	--	22.2	--	--
All periods	23.8	--	21.2	--	20.4	--	20.8	--	19.7	--	19.3	--	--
1 year	20.3	--	18.3	--	17.4	--	18.8	--	14.0	--	14.9	--	--
All periods	15.8	--	14.1	--	13.6	--	13.9	--	13.2	--	13.0	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	76.5	--	78.2	--	59.8	--	56.3	55.3	--
Average long-term	--	--	--	--	83.5	--	84.1	--	78.8	--	70.8	71.3	--
Average initial	--	--	--	--	59.5	--	57.1	--	47.5	--	45.5	45.5	--
Average long-term	--	--	--	--	64.0	--	61.7	--	63.5	--	58.5	59.5	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	12	--	6	--	6	--	--	6	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	18.3	18.2	18.3	15.5	15.2	14.0	14.1	4.0
Single 2 children	--	--	--	--	--	-5.8	-5.0	-4.3	-5.8	-62.6	-69.8	-72.0	-70.9
Single 2 children	--	--	--	--	13.3	12.6	15.1	15.5	13.4	-6.3	-10.8	-12.1	-10.8
Couple No child	--	--	--	--	--	31.1	30.5	30.5	29.7	30.1	29.5	29.5	31.1
Couple 2 children	26.2	--	23.8	25.2	26.1	24.8	24.9	23.3	23.3	21.4	18.2	17.3	18.3
Couple No child	--	--	--	--	--	16.3	16.2	16.3	14.1	15.2	14.0	14.1	15.9
Couple 2 children	--	--	--	--	--	8.7	8.8	9.0	5.8	0.5	-3.6	-4.7	-9.5
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	2990.1	3831.1	2336.0	2452.6	2373.5	2307.0	2556.1	2687.2	2937.6	3346.7	3868.1	3868.1	--
<b>Employment Protection Legislation</b>													
Temporary	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Permanent	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.1	1.1	1.1	1.1
<b>Early retirement - Implicit tax on continued work</b>													
55 y. --> 60 y. early retirement	21.0	19.6	20.8	21.0	21.2	21.4	21.6	21.5	21.4	--	--	--	23.2 <sup>2</sup>
60 y. --> 65 y. early retirement	21.9	19.7	20.2	20.5	20.9	21.3	21.7	21.7	21.8	--	--	--	26.4 <sup>2</sup>
60 y. --> 65 y. old-age pension	6.5	6.2	5.9	6.3	6.7	7.3	7.9	8.1	8.2	--	--	--	13.9 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	19.7	20.1	22.1	22.4	22.3	22.9	22.9	23.0	22.9	23.0	22.7	23.0	23.3
<b>Wage setting</b>													
Ratio of minimum to median wage	--	--	--	--	--	--	--	--	0.4	0.4	--	--	--
Coordination	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--
Centralisation	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--
Union density	46.2	39.3	36.1	34.2	34.1	33.2	32.1	31.5	31.4	31.2	30.7	30.4	--
Union coverage	--	40+	--	--	--	--	--	--	--	30+	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.

Table A2.58. United Kingdom : Recommendation and actions since 1994

Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
	Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>					
<b>Overall taxes on labour income</b>					
Overall labour taxes	+	1	+	3	2
Overall payroll taxes	+				0
<b>Taxes on low income</b>					
Labour taxes on low incomes	+	1	+	4	2.5
Payroll taxes on low incomes	+				0
<b>Total</b>		<b>2</b>		<b>7</b>	<b>4.5</b>
<b>Panel B. Employment Protection Legislation</b>					
<b>Regular contracts</b>					
General stance				-1	-0.5
Prior authorisation					0
Notice periods					0
Severance pay	-	-1			-0.5
Dismissals			+		0
Others			-		0
<b>Temporary contracts</b>					
Fixed-term contracts	-	0	-	-1	-0.5
Temporary work agencies					0
Guidelines for courts					0
<b>Total</b>		<b>-1</b>		<b>-2</b>	<b>-1.5</b>
<b>Panel C. Unemployment benefits</b>					
Benefit replacement rates					0
Benefit duration		+	1		0.5
Work availability requirements	X				0
Eligibility					0
Re-qualification possibilities					0
Benefit conditionality	X	+	1	+	1
Waiting periods					0
Work disincentives					0
Establishment or strengthening of UI schemes					0
Others					0
<b>Total</b>		<b>2</b>		<b>1</b>	<b>1.5</b>
<b>Panel D. Active Labour Market Policies</b>					
Evaluation effort	X	+	1		0.5
Extent of ALMPs	X	+	4	+	4
Targeting of ALMPs	X	+	1	+	1
Re-qualification via ALMPs					0
Integration and restructuring of ALMP activities					0
Contestability of PES					0
Integration of job counselling, ALMPs and various benefit agencies				+	2
Others					1
<b>Total</b>		<b>6</b>		<b>7</b>	<b>6.5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>					
Early-retirement schemes and old-age pensions					0
Invalidity or sick pay schemes				+	1
Others		+	1	+	1
<b>Total</b>		<b>1</b>		<b>2</b>	<b>1.5</b>
<b>Panel F. Industrial relations and wage setting</b>					
Wage determination					0
Wage distribution or indexation					0
Wage setting with regard to skill level, experience and productivity					0
Administrative extension					0
Use of "opt-out" clauses					0
Minimum wages	X	-	-1	-	-1
Others	X				0
<b>Total</b>		<b>-1</b>		<b>-1</b>	<b>-1</b>
<b>Panel G. Working time flexibility, part-time work</b>					
Flexibility of working-time arrangements					0
Flexibility of part-time work					0
Others					0
<b>Total</b>		<b>0</b>		<b>0</b>	<b>0</b>

United Kingdom : Summary table of scores			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	2	7	4.5
Employment Protection Legislation	-1	-2	-1.5
Unemployment benefits	2	1	1.5
Active Labour Market Policies	6	7	6.5
Early retirement, invalidity schemes and old-age pensions	1	2	1.5
Industrial relations and wage setting	-1	-1	-1
Working time flexibility, part-time work	0	0	0
<b>Total</b>	<b>9</b>	<b>14</b>	<b>11.5</b>



## UNITED STATES

### Labour Taxes

**Overall labour taxes:** 1994-2001 -- 32 states cut income tax rates; 1999 -- income tax cuts; 2001 -- tax rebates for the majority of households, large cuts in federal tax rates, higher tax relieves for young dependents; 2003 -- tax cuts passed in 2001 brought forward.

**Labour taxes on low incomes:** 1997 -- increase in the child tax credit and the earned income tax credit; 2001 -- introduction of a new lower income tax rate of 10 per cent, child tax credit increased; 2003-04 -- income threshold for a new 10 per cent bracket temporarily raised from \$ 6 000 to \$ 7 000, 15 per cent bracket extended and an increase in the standard deduction for married couples; 2003-2004 -- child tax credit increased to \$ 1 000 for two years.

### Employment Protection Legislation (EPL)

No action.

### Unemployment benefits

**Benefit conditionality:** 1997 -- federal law requires states to ensure that 25 per cent of each states' adult welfare recipients are on work-related programmes; 2002 -- requirement increased to half of each states' adult welfare recipients.

**Work disincentives:** 1996 -- welfare benefits funded by federal government restricted to a maximum of five years (before open-ended) cumulated over life-time, a number of states cut the maximum duration of benefit receipt even further, many states also increased the earnings allowed outside the work programmes to encourage work effort.

### Active Labour Market Policies (ALMPs)

**Evaluation efforts:** 1998 -- Department of Labor defined performance indicators to evaluate services provided by the newly established one-stop shops.

**Extent of ALMPs:** 1990s -- legislation in 1993 required states to introduce a profiling system to identify jobseekers at risk of becoming long-term unemployed to provide them with enhanced re-employment services, typically job search assistance, this was implemented over the 1990s.

**Integration of job counselling, ALMPs and various benefit agencies:** 1994 -- Department of Labor provided initial financing for states to set up one-stop shops; 1998 -- legislation requires states to set up one-stop shops in each local area.

### Early retirement, invalidity schemes and old-age pensions

**Early-retirement schemes and old-age pensions:** 1999-2022 -- standard age of retirement will be gradually increased from 65 to 67, but there will be a slight move away from actuarial adjustments for anticipated retirement.

**Others:** 1997 -- Medicaid waiver programme created to allow the disabled to earn more while keeping benefits.

### Industrial relations and wage setting

No action taken.

### Working time flexibility, part-time work

No action taken.

Table A2.59. United States: Development of institutional variables since 1985

	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Unemployment benefits<sup>1</sup></b>													
<b>Gross replacement rate</b>													
1 year	37.2	--	27.5	--	27.3	--	30.5	--	30.0	--	30.2	--	--
All periods	12.2	--	9.5	--	9.5	--	12.2	--	11.9	--	11.7	--	--
1 year	30.9	--	26.5	--	26.5	--	27.5	--	27.3	--	27.3	--	--
All periods	9.4	--	8.2	--	8.2	--	9.5	--	9.2	--	9.2	--	--
<b>Net replacement rate</b>													
Average initial	--	--	--	--	55.0	--	55.0	--	54.0	--	57.8	57.3	--
Average long-term	--	--	--	--	34.3	--	35.3	--	33.5	--	30.8	30.0	--
Average initial	--	--	--	--	59.3	--	60.4	--	58.3	--	57.3	55.0	--
Average long-term	--	--	--	--	28.5	--	27.1	--	25.8	--	24.3	23.8	--
<b>Unemployment duration</b>													
Maximum benefit duration (in months)	--	--	--	--	6	--	6	--	6	--	--	6	--
<b>Direct tax wedge average<sup>1</sup></b>													
Single No child	--	--	--	--	--	--	--	25.3	25.4	25.3	23.1	23.0	22.9
Single 2 children	--	--	--	--	--	--	--	-12.7	-12.1	-11.9	-14.4	-14.4	-14.1
Single No child	--	--	--	--	13.0	--	12.2	11.6	8.5	8.6	5.0	5.2	3.4
Couple No child	--	--	--	--	--	--	--	27.9	28.0	27.8	25.8	25.7	24.8
Couple 2 children	26.7	--	24.7	24.7	24.4	23.9	24.1	23.7	21.1	21.3	18.3	17.8	15.5
Couple No child	--	--	--	--	--	--	--	26.2	26.3	26.1	23.7	23.6	23.0
Couple 2 children	--	--	--	--	--	--	--	16.0	13.3	13.4	10.5	9.9	7.2
<b>Active Labour Market Policies</b>													
ALMPs spending per unemployed person, constant US\$ PPP	1901.3	2250.8	1720.3	1904.0	1997.3	1890.1	2195.0	2422.1	2367.9	2456.7	2021.2	2021.2	--
<b>Employment Protection Legislation</b>													
Temporary	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Permanent	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<b>Early retirement - Implicit tax on continued work</b>													
55 y. --> 60 y. early retirement	4.7	5.0	5.0	5.0	4.9	4.9	4.8	4.8	4.7	--	--	--	5.0 <sup>2</sup>
60 y. --> 65 y. early retirement	6.6	6.5	6.3	6.1	6.0	5.9	5.8	5.6	5.4	--	--	--	12.8 <sup>2</sup>
60 y. --> 65 y. old-age pension	6.6	6.5	6.3	6.1	6.0	5.9	5.8	5.6	5.4	--	--	--	12.8 <sup>2</sup>
<b>Working time flexibility</b>													
Percentage of part-time workers	14.7	14.1	14.7	14.2	14.0	13.9	13.5	13.4	13.3	12.6	12.8	13.1	13.2
<b>Wage setting</b>													
Ratio of minimum to median wage	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	--	--	--
Coordination	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--	--
Centralisation	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--	--
Union density	17.4	15.5	15.1	14.9	14.3	14.0	13.6	13.4	13.4	12.8	12.8	12.6	--
Union coverage	--	18.0	--	--	--	--	--	--	--	14.0	--	--	--

1. Earnings are calculated with reference to the earnings of an average productivity worker (APW). For couples, earnings are reported for first and second earners respectively.

2. Currently legislated systems.

Table A2.60. United States : Recommendation and actions since 1994

	Recommendations	Actions taken before end of 1999		Actions taken after 1999		Average Score 1993-2003
		Reforms	Score	Reforms	Score	
<b>Panel A. Labour Taxes</b>						
<b>Overall taxes on labour income</b>						
Overall labour taxes		+	2	+	3	2.5
Overall payroll taxes						0
<b>Taxes on low income</b>						
Labour taxes on low incomes	X	+	1	+	2	1.5
Payroll taxes on low incomes						0
<b>Total</b>			<b>3</b>		<b>5</b>	<b>4</b>
<b>Panel B. Employment Protection Legislation</b>						
<b>Regular contracts</b>						0
General stance						0
Prior authorisation						0
Notice periods						0
Severance pay						0
Dismissals						0
Others						0
<b>Temporary contracts</b>						0
Fixed-term contracts						0
Temporary work agencies						0
Guidelines for courts						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel C. Unemployment benefits</b>						
Benefit replacement rates						0
Benefit duration						0
Work availability requirements						0
Eligibility						0
Re-qualification possibilities						0
Benefit conditionality	X	+	1	+	1	1
Waiting periods						0
Work disincentives	X	+	1			0.5
Establishment or strengthening of UI schemes	X					0
Others						0
<b>Total</b>			<b>2</b>		<b>1</b>	<b>1.5</b>
<b>Panel D. Active Labour Market Policies</b>						
Evaluation effort			+	1		0.5
Extent of ALMPs			+	2		1
Targeting of ALMPs	X					0
Re-qualification via ALMPs						0
Integration and restructuring of ALMP activities						0
Contestability of PES						0
Integration of job counselling, ALMPs and various benefit agencies			+	2		1
Others						0
<b>Total</b>			<b>5</b>		<b>0</b>	<b>2.5</b>
<b>Panel E. Early retirement, invalidity schemes and old-age pensions</b>						
Early-retirement schemes and old-age pensions			-	-1		-0.5
Invalidity or sick pay schemes	X					0
Others					+	1
<b>Total</b>			<b>-1</b>		<b>1</b>	<b>0</b>
<b>Panel F. Industrial relations and wage setting</b>						
Wage determination						0
Wage distribution or indexation						0
Wage setting with regard to skill level, experience and productivity						0
Administrative extension						0
Use of "opt-out" clauses						0
Minimum wages	X					0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>
<b>Panel G. Working time flexibility, part-time work</b>						
Flexibility of working-time arrangements						0
Flexibility of part-time work						0
Others						0
<b>Total</b>			<b>0</b>		<b>0</b>	<b>0</b>

<b>United States : Summary table of scores</b>			
	Actions taken before end of 1999	Actions taken after 1999	Average Score 1993-2003
Labour Taxes	3	5	4
Employment Protection Legislation	0	0	0
Unemployment benefits	2	1	1.5
Active Labour Market Policies	5	0	2.5
Early retirement, invalidity schemes and old-age pensions	-1	1	0
Industrial relations and wage setting	0	0	0
Working time flexibility, part-time work	0	0	0
<b>Total</b>	<b>9</b>	<b>7</b>	<b>8</b>

### ANNEX 3 METHODOLOGY OF QUANTIFYING LABOUR MARKET REFORMS

7. To get an overview of cross-country differences in reform efforts within each policy area and for the labour market as a whole, quantitative indicators of the reform progress have been constructed. These indicators have been used in Section 4 of the main paper. The 1999 follow-up of the Jobs Strategy (OECD, 1999) developed a scoring method aimed mainly at assessing progress in implementing country-specific OECD recommendations. Scores were assigned based exclusively on ERDC assessments of reform progress. The resulting “follow-through indicator” measured the degree of compliance to recommendations.

8. In this study, a somewhat broader approach is taken in that all reforms within the realm of the OECD Jobs Strategy that have been implemented during the period 1994-2004 are taken into account, independent of whether or not they followed country-specific EDRC recommendations. The reform intensity indicators for each policy area and for all areas together provide a broad-brush picture of policy reforms over the past ten years. However, as emphasised in the main text, the scoring and aggregation of reforms are inevitably subject to a large margin of uncertainty. Thus, the indicators should be regarded as providing some information as regards the intensity of reforms across OECD countries rather than a reliable ranking.

9. The remainder of this Annex is organised as follows. The next section describes the methodology that has been used for the quantitative evaluation of reforms. It is followed by a description of the scoring procedure for each reform area, which is illustrated by a discussion of the evaluation for Germany. A final section discusses the sensitivity of the quantitative evaluation to weights associated with policies.

#### A3.1. Evaluating policies in different areas

10. All in all, the current study examines reform progress in 44 different types of policies grouped into seven main areas. For each individual policy type, a value is given to characterise the presence and, if possible, the intensity of reforms over the period considered. Policy actions were evaluated for the period 1994-1999 and the period 2000-2004. The score for the 1993-2004 period is the average score of the two sub-periods. Evaluations for the second period take account of all policy reforms that are currently legislated even if they will be implemented only in the future. This is particularly relevant for pension reforms for which the available indicators reflect currently legislated reforms, including those that will be phased in after 2004.

11. A **reform intensity indicator** is calculated to characterise the overall reform effort whether or not it follows general OECD recommendations. It is calculated as follows:

$$[1a] \quad I_i = \frac{\sum_j^{N_i} w_{ij} \cdot S_{ij}}{\sum_j^{N_i} w_{ij} \cdot \bar{S}_{ij}} \quad [1b] \quad I = \frac{\sum_i^7 \sum_j^{N_i} w_{ij} \cdot S_{ij}}{\sum_i^7 \sum_j^{N_i} w_{ij} \cdot \bar{S}_{ij}} \quad \text{for all } j$$

where  $i$  is the area index;  $j$ , the policy type index;  $N_i$ , the number of policy types in area  $i$ ,  $S_{ij}$  is the assigned score of reforms of the policy type  $j$  in area  $i$ , and  $w_{ij}$  is the associated weight. Equation [1.a] shows the derivation of the aggregate index for area  $i$ , and equation [1.b] shows the derivation of the reform intensity index for all the seven areas combined.

12. Different reforms have different impact on various aspects of the labour market. In principle, the weight associated with each policy measure should reflect its relative impact on the policy objective in question. However, labour market performance is multi-dimensional and different weights should be applied for each of the different dimensions. In the absence of comprehensive empirical studies that can be used to assign weights and given the multi-dimensional nature of the policy objective, the approach adopted here is to assign identical weights to each of the 44 individual policies. As shown by the sensitivity analysis below, the ranking of countries with respect to reform intensity varies widely depending on the set of weights used, especially for countries currently ranked in the middle.

13. In equations [1.a] and [1.b], scores are normalised by using maximum scores  $\bar{S}_{ij}$  for each policy type  $j$ . The  $\bar{S}_{ij}$  are identical across all countries. The choice of maximum score values is arbitrary and does not reflect any assessment of required changes in institutional setting. In particular, it does not take into account countries' starting position. Thus, low scores may merely reflect that there was no need for reforms since the starting position was favourable.<sup>20</sup>

14. A **follow-through ratio** is used to evaluate country responses to EDRC recommendations specifically directed at them. It is calculated in the same way as the intensity indicator described above, but taking only those reforms into account that follow specific EDRC recommendations:

$$[2a] \quad F_i = \frac{\sum_j^{N_i} w_{ij} \cdot S_{ij}}{\sum_j^{N_i} w_{ij} \cdot \bar{S}_{ij}} \quad [2b] \quad F = \frac{\sum_i^7 \sum_j^{N_i} w_{ij} \cdot S_{ij}}{\sum_i^7 \sum_j^{N_i} w_{ij} \cdot \bar{S}_{ij}} \quad \text{for all } j \text{ with an EDRC recommendation}$$

### A3.2. Scoring method

15. The method of scoring reforms differs depending on the nature of the data available:

- Whenever a quantitative indicator is available to measure the intensity of reforms, it is used to assign scores. For instance, if a given country has changed its labour tax system in line with the overall thrust of JS recommendations (*i.e.* reducing the overall tax burden) and the overall labour tax wedge (reported in country-specific Tables in Annex 2) shows a corresponding change in the expected direction, a positive score is given, reflecting the magnitude of the indicator change in accordance with the procedure described below for each of the policy area. Correspondingly, a change of the indicator contrary to JS recommendations is scored with a negative sign.

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20. Although, from a certain point of view, it would be desirable to take starting positions into account, this has not been done in order to avoid complicating the evaluation method further. Furthermore, allowing scores to depend on the starting position would involve even more subjectivity as it would entail judgement about how high a tax wedge or values of other policy indicators would have to be in order for them to be too high.

- In many cases, there is no quantitative indicator available to characterise reforms. Under such circumstances, the general approach is to assign a value of -1 when policy changes go in the “wrong” direction and +1 when reforms are in line with the thrust of the JS recommendations.

This section describes in detail the scoring rules used for each of the seven policy areas. The quantification of reforms in Germany is discussed as an illustrative example with reference to Table A2.17 in Annex 2.

### A3.2.1 Labour taxes

16. Scores are assigned in the category “Overall taxes on labour income” for any reform that can be associated with a change in labour income taxes and/or a change in payroll taxes regardless of which income range was concerned, according with the following rule:

[3]	if $\Delta I < 2.5$	then	$S = 1$
	if $2.5 \leq \Delta I < 5$	then	$S = 2$
	if $5 \leq \Delta I < 10$	then	$S = 3$
	if $10 \leq \Delta I$	then	$S = 4$

with  $\Delta I$  being the absolute value of the change in percentage points over the period considered in the average tax wedge for a single-earner family with two children with wage income equivalent to the average production worker’s (APW) earnings. The sign of the score is positive (negative) for tax reduction (increase).

17. Thus, the score for overall tax reforms ranges from -4 to +4, with +4 being the maximum achievable score ( $\bar{S}_{ij}$  in equation [1a and 1b]). If changes in labour income taxes and in payroll taxes went in different directions, e.g. if a country increased payroll taxes, but decreased labour income taxes, the direction of the change in the tax wedge is used to decide which effect was dominant. The same was done if a country raised taxes at some point in the sub-period and decreased them at other times. There is no specific score for changes in payroll taxes as these are already included in the aggregate tax wedge.

18. Rule [3] is also used to assign scores for changes in labour income or payroll taxes in the category “Taxes for low income”, with  $\Delta I$  being the average absolute change in percentage points over the period considered in the tax wedges for *i*) a family with two children where the principal earner earns the 40 per cent of the APW income; *ii*) a family where the principal earner earns 67 per cent of the APW income; and *iii*) a family where the principal and the second earner earn 40 per cent of the APW income. For some OECD countries the tax wedge series are subject to breaks due to changes in the methodology to calculate these tax wedges. In those case, only changes in the tax wedges before and after these breaks are considered for the evaluation.<sup>21</sup>

*Germany as an example:*

*1994-1999: “Overall taxes on labour income” -- labour tax decreases along with some increases and some decreases in social charges with a resulting increase in the tax wedge by 0.8 per cent, score: -1; “Taxes for low income” -- increases in tax allowances and in the lowest tax rate, social charges for “Minijobs” introduced with a resulting decrease of the average of the three tax wedges of 1.1 per cent, score: +1.*

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21 . Methodological breaks are also pointed out in the country notes of Annex 2.

2000-2004: “Reduction on taxes in labour income”: tax rate decreases across all income ranges with a resulting decrease in the tax wedge of 0.8 per cent, score: +1; increase of the earnings ceiling for “Minijobs” and rebates of social charges for income ranges just above that ceiling with a resulting decrease in the average of the three tax wedges for low income of 0.8 per cent, score: +1.

Overall score for the 1994-2004 period: 1, the overall score expressed as a percentage of the maximum score (=8): 12.5 per cent which is the **reform intensity indicator**.

### A3.2.2 Employment protection legislation

19. For regular contracts, any reforms corresponding to the sub-categories “General stance”, “Prior authorisation”, “Notice periods”, “Severance pay”, “Dismissals” and “Others” that are taken into account in the calculation of the OECD EPL indicator for regular contract are first considered. If the overall impact of these reforms is judged to be positive (in line with the thrust of JS recommendations) and is associated with a drop of the corresponding EPL indicator, scores are assigned according to the following rule:

[4]	if $\Delta I < 0.3$	then	$S = 1$
	if $0.3 \leq \Delta I < 0.6$	then	$S = 2$
	if $0.6 \leq \Delta I$	then	$S = 3$

with  $\Delta I$  being the absolute value of the change over the corresponding period of the OECD EPL indicator for regular contracts. If the overall impact of reforms is judged to be contrary to JS recommendations and associated with an increase of the corresponding EPL indicator, negative scores are assigned according to rule [4]. For any reforms that were in line with (contrary to) JS recommendations, but were not accounted for in the calculation of the EPL indicator for regular contracts, a 1 (-1) score was assigned. The sum of these extra points was added to scores assigned on the basis of the EPL indicator. Theoretically, a country could have attained 9 extra points if it had engaged in reforms that are not reflected in the EPL indicator in all of the considered fields. The same rule applies for reforms affecting temporary contracts and corresponding to the sub-categories “Fixed-term contracts” and “Temporary work agencies”. The indicator on which the assessment in this category is based is the OECD EPL indicator for temporary contracts.

*Germany as an example:*

1994-1999: “Regular contracts” -- company size limit for dismissal protection lifted from 5 to 10, but this was reversed, score: 0, “Temporary contracts” -- maximum duration and permissible renewal frequency increased with a resulting, change in the EPL-indicator of 1.5, score: +3; total score for 1994-1999 equals 3.

2000-2004: “Regular contracts” -- size limit for dismissal protection lifted from 5 to 10, this reform is not reflected in the EPL indicator, score: +1 “Temporary contracts” -- maximum age for restrictions on the renewability of fixed-term contracts decreased and the maximum duration for contracts through temporary work agencies eased further with a corresponding decrease of the EPL-indicator of 0.2, score: +1; total score for 2000-2004 equals 2.

Overall score for the 1994-2004 period equals 2.5; the overall score expressed as a percentage to the maximum score (=15, that is a total of 6 for a change in the EPL indicator bigger than 0.6 for both temporary and regular contracts plus 9 extra points) takes a value of 16.67 per cent.

### A3.2.3 Unemployment benefit systems

20. For the criteria “Benefit duration”, “Work availability requirements”, “Eligibility”, “Re-qualification possibilities”, “Benefit conditionality”, “Waiting periods”, “Work disincentives” and “Establishment or strengthening of UI schemes” no suitable<sup>22</sup> quantitative indicators are available to measure the intensity of reforms. Therefore, for each criterion, the score takes a value of 1 if reform efforts were in line with the thrust of JS recommendations and -1 if policy changes were contrary to these recommendations. Scores in the category “Re-qualification possibilities” are only assigned if these did not concern re-qualification *via* ALMPs to avoid double-counting with the corresponding criterion in the ALMP category. For the category “Establishment or strengthening of UI schemes”, scores are only assigned if EDRC recommendations indicated that a widening of the scope of the unemployment insurance system in a particular country was desirable. In those cases, increases in benefit duration or in replacement rates were not evaluated with a negative score in the corresponding categories. A positive score in the category “Benefit conditionality” is also assigned if benefits were conditioned on ALMPs other than training, such as voluntary work.

21. For “Benefit replacement rates”, scores were assigned for any reform that can be associated with a change in gross replacement rates according to the following rule:

[5]	<i>if</i> $\Delta I < 2.5$	<i>then</i>	$S = 1$
	<i>if</i> $2.5 \leq \Delta I < 5$	<i>then</i>	$S = 2$
	<i>if</i> $5 \leq \Delta I < 10$	<i>then</i>	$S = 3$
	<i>if</i> $10 \leq \Delta I$	<i>then</i>	$S = 4$

with  $\Delta I$  being the absolute value of the average change in percentage points of gross replacement rates of workers earning 67 and 100 per cent of the APW income, respectively, in the first year of benefit receipt. The sign of the score is positive (negative) for a reduction (increase) of the gross replacement rate. However, replacement rates extend only to 2001. In cases where important reforms occurred afterwards a judgmental score was assigned, which took the expected change of the indicator after 2001 into account.

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22. Data for maximum benefit duration are available but are not comprehensive enough to reflect reforms affecting specific segments of the labour force.



*Germany as an example:*

*1994-1999: work availability requirements were tightened, score: +1; eligibility conditions tightened, score: +1; concerning the benefit replacement rate, crediting of redundancy payments against unemployment benefits was introduced and reversed in 1999, score: 0.*

*2000-2004: wage base for benefit calculation extended resulting in an average increase of the replacement rate of 1.8 per cent, but in 2004, it was decided to reduce benefits sharply beginning in 2005, to capture the latter reform measure a score of +1 is assigned; benefit duration lowered: +1; work availability criteria tightened: +1.*

*Overall score for the 1994-2004 period: 2.5, as a percentage of the maximum score (=13): 19.2 per cent.*

#### **A3.2.4 Active labour market policies**

22. For the criteria “*Evaluation effort*”, “*Re-qualification via ALMPs*”, “*Integration and restructuring of ALMP activities*” a score of 1 (-1) is assigned for policies in line with (contrary to) the thrust of JS recommendations.

23. For “*Extent of ALMPs*”, 1 point is assigned if the role of ALMPs in general was enhanced. A supplementary point is assigned if this involved an enhancement of the job search function of the Public Employment Service (PES), an additional supplementary point if individual action plans were introduced and one more point if the country introduced a programme of activating jobseekers early in the unemployment spell. Hence a total of 4 points can be attained in this category. In addition, targeting activation on weak groups is evaluated with 1 additional point within the category “*Targeting of ALMPs*”. Thus, this additional point always comes as a complement of a non-zero score in “*Extent of ALMPs*”.

24. In the category “*Contestability of PES*”, 1 point is assigned if private employment services were allowed to act in the market and 2 points if the placement market became contestable. In the category “*Integration of job counselling, ALMPs and various benefit agencies*”, 0.5 points are assigned for increased collaboration between these institutions, 1 point for integration of some of those institutions and 2 points for the creation of one-stop-shops.

*Germany as an example:*

*1994-1999: evaluation efforts stepped up, score: +1; ALMPs were targeted more on the long-term unemployed, the young and older workers, with some of these programmes being new, consequently 1 point was assigned in the category “Targeting of ALMPs” together with a point in the category “Extent of ALMPs”; ALMPs were re-oriented towards encouraging job search while inefficient job creation programmes were scaled down, for this measure a point was assigned in the category “Integration and restructuring of ALMP activities” and a point in the category “Extent of ALMPs” for enhancing the job search function of the PES (resulting in a total of 2 points in this category); one point was assigned in the category “Re-qualification via ALMPs” for abolishing re-qualification via training programmes.*

*2000-2004: evaluation efforts stepped up once more, score: +1; for profiling, corresponding to an enhancement of the job search function of the PES, for individual action plans to become mandatory in 2005 and for efforts to introduce early activation, a score of 4 is assigned in the category “Extent of ALMPs”; a supplementary point in “Targeting of ALMPs” is assigned for early activation of young jobseekers; in “Contestability of PES” 1 point for introducing the possibility to outsource placement to private agencies is assigned; in “Integration of job*

*counselling, ALMPs and various benefit agencies”, 2 points are assigned for the centralisation of the responsibility for the long-term unemployment in one agency that will be introduced in 2005; a further point is assigned in the category “Re-qualification via ALMPs” for abolishing the possibility to re-qualify.*

*Overall score for the 1994-2004 period: 7.5; as a percentage of the maximum score (= 13): 57.7 per cent.*

### **A3.2.5 Industrial relations and wage setting**

25. In the absence of a time varying indicator in this area, a score ranging up to three is given on a judgmental basis in line with the “hump shaped” hypothesis (Calmfors and Driffill, 1988). Therefore, any policy change that goes in the direction of more decentralised (for countries where wage setting institutions were already decentralised or characterised by intermediate centralisation/co-ordination) or more centralised wage setting (for countries where wage setting institutions were already centralised or characterised by intermediate centralisation/co-ordination) is given a positive score in the category “*Wage determination*”. The only case of centralisation is for Belgium where a positive score is assigned.

26. In the categories “*Wage distribution or indexation*”, “*Wage setting with regard to skill level, experience and productivity*”, “*Administrative extension*” and “*Use of opt-out clauses*”, a 1 (-1) was assigned for reforms along the lines of (contrary to) JS recommendations. Because there is some overlap in the content of “*Wage setting with regard to skill level, experience and productivity*” and “*Wage distribution or indexation*”, only points for the abandonment of indexation were assigned in the latter, points for widening of the wage distribution being assigned in the former category. For the introduction or changes in the minimum wage for which sufficient data are available, scores are assigned in the category “*Minimum wages*” according to the following rule:

[6]	<i>if</i> $\Delta I < 0.1$	<i>then</i>	$S = 1$
	<i>if</i> $0.1 \leq \Delta I < 0.2$	<i>then</i>	$S = 2$
	<i>if</i> $0.2 \leq \Delta I$	<i>then</i>	$S = 3$

with  $\Delta I$  being the absolute value of the change in the ratio of the minimum to the median wage. The sign of the score is positive (negative) for a reduction (increase) in the ratio of the minimum relative to the median wage. A +1 (-1) was assigned, if a reform occurred but cannot be assessed using rule [6] due to missing data.

*Germany as an example:*

*1994-1999: 1 point in “Wage determination” for an increase in plant-level agreements over the 1990s; 1 point in “Use of opt-out clauses”.*

*2000-2004: no action, score: 0.*

*Overall score for the 1994-2004 period: 1; as a percentage of the maximum (=13): 9.1 per cent.*

### **A3.2.6 Working time flexibility**

27. For the categories “*Flexibility of working time arrangements*”, “*Flexibility of part-time work*” and “*Others*”, a 1 (-1) was assigned for policies along the lines of (contrary to) the JS was assigned.

*Germany as an example:*

*1994-1999: 1 point in the category “Flexibility of working time arrangements” for the introduction of working time accounts.*

*2000-2004: employees obtain a right to unilaterally transform a full-time job into a part-time job, score: 0 because it is not clear that the possibility to transform full-time into part-time jobs without the employers consent eases constraints in a way that more job creation is to be expected.*

*Overall score for the 1994-2004 period: 0.5; as a percentage of the overall score (=3): 16.7 per cent.*

### **A3.2.7 Early retirement and invalidity schemes**

28. In the category “Invalidity and sick pay schemes” a 1 (-1) was assigned for policies along the lines of (contrary to) the JS. In the category “Early-retirement schemes and old-age pensions”, scores are assigned based on the average change of three implicit tax rates on continuing work: *i)* the implicit tax rate embedded in a representative early retirement scheme of the concerned country for the age groups 55-60, *ii)* the implicit tax rate embedded in the same early retirement system for the age group 60-65 and *iii)* the implicit tax rate on continuing work embedded in the old age pension system. Scores for the period 2000-2004 include the long-term impact of all pension reforms that have been legislated up to 2004, even if their impact on labour markets will take years to materialise. The score is assigned according to the following rule:

[7]	<i>if</i> $\Delta I < 5$	<i>then</i>	$S = 1$
	<i>if</i> $5 \leq \Delta I < 15$	<i>then</i>	$S = 2$
	<i>if</i> $15 \leq \Delta I < 25$	<i>then</i>	$S = 3$
	<i>if</i> $25 \leq \Delta I$	<i>then</i>	$S = 4$

with  $\Delta I$  being the absolute value of the average change in percentage points of implicit taxes on continuing work from age 55 to 60 and age 60-65 embedded in early-retirement schemes and from age 60 to 65 embedded in old-age pensions. The sign of the score is positive (negative) for a reduction (increase) of the implicit tax on continuing work.

*Germany as an example:*

*1994-1999: entry ages to different retirement schemes gradually increased, involving a drop in the average implicit tax of 1.7 percentage points, score: 1; introduction and subsequent suppression of reforms to the sick pay and the disability pension system, score: 0.*

*2000-2004: early retirement involves discounts and unemployment benefit pathway to early retirement is phased out progressively as the exemption of older workers from job search requirements expire, involving an average reduction in the implicit tax of 11.5 percentage point, score: +2.*

*Overall score for the 1994-2004 period: 1.5; as a percentage of the overall score (=6): 25 per cent.*

### A3.3 Sensitivity analysis

29. In calculating the aggregate indicators of reform intensity reported in the Section 4 of the main paper (Table 8), identical weights have been assigned to each of the individual policies considered. Thus, the above equation [1.a] can be rewritten as follows:

$$[3] \quad I = \frac{\sum_i^7 \sum_j^{N_i} S_{ij}}{\sum_i^7 \sum_j^{N_i} \bar{S}_{ij}}$$

30. To examine how robust the indicators are to departure from the equal-weight assumption, a sensitivity analysis has been carried out. For this purpose, the ‘random-weights’ technique presented in detail in Conway *et al.* (2005) is applied.<sup>23</sup> This technique generates random weights  $w_{ij}$  to calculate a distribution of the values of the aggregate reform intensity indicator for each country.<sup>24</sup> The random weights are generated under the extreme assumption of complete uncertainty about their most appropriate values, while, at the same time, respecting the ‘adding-up-to-one’ constraint. From the distribution of indicators for each country it is possible to calculate confidence intervals.

31. Figure A3.1 graphs the 90 per cent confidence intervals for both the value of the aggregate indicator of reform intensity (Panel A) and the associated ranking of countries (Panel B). It is apparent that, in many cases, there is no significant statistical difference across countries. This result comes as no surprise. Indeed, insofar as most countries have carried out significant reforms in certain policy areas but not in others, different sets of weights are likely to yield very different values of aggregate reform intensity. For instance, the degree of uncertainty is wide in the case of Ireland because reforms have almost exclusively focused on ALMPs and tax wedges. In contrast, at conventional degrees of confidence, those countries that have implemented far-reaching and comprehensive reforms (Denmark, Finland, Netherlands and, to a somewhat lesser extent, Belgium, Germany, Italy) clearly rank higher than other countries where reforms have been comparatively limited both in terms of strength and scope (Czech Republic, Iceland, Japan, Mexico, Spain, Switzerland, Turkey). It should also be noted that ranking appears more sensitive to weights than the intensity indicator, in particular for countries ranking at the middle of the ranking.<sup>25</sup>

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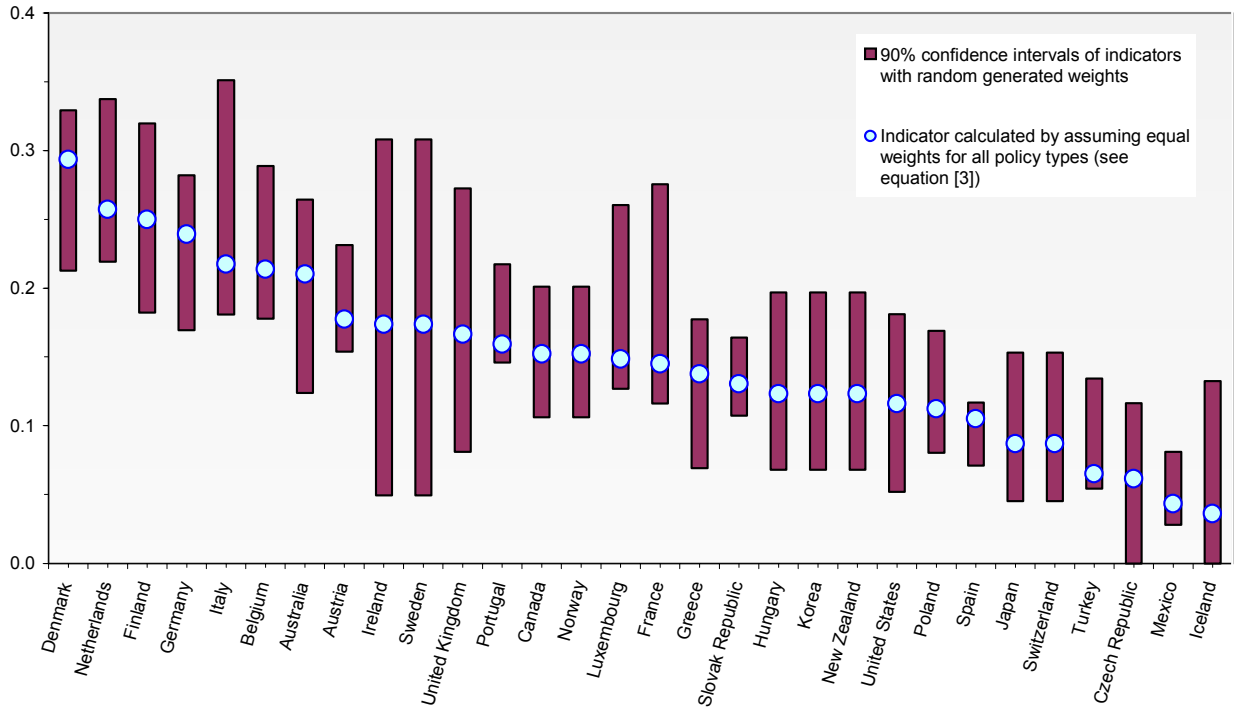
23. The random weights technique was recently developed at the OECD by Anders Hoffmann in the Directorate for Science, Technology, and Industry.

24. For simplicity, random weights  $w_{ij}$  are generated under the restriction that all  $w_{ij}$  belonging to the same policy area  $i$  are identical. The sensitivity of the aggregate reform intensity indicator to changes in the weights used at the most disaggregated -- *i.e.* individual policy-level -- has not been tested.

25. This reflects the small differences of the intensity indicator values for countries ranking at the middle together with the fact that the ranking distribution is truncated for countries at the top and the bottom of the ranking. Moreover, the additional restriction mentioned in the previous footnote explains why the value of the intensity indicator in Panel A calculated by using equation [3] does not stand at the middle of the 90 per cent confidence intervals.

Figure A3.1. Sensitivity analysis

Panel A. Reform intensity indicator



Panel B. Country ranking with respect to the value of the reform intensity indicator

