

# Introduction

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In analyzing the run up to the French Revolution, the British historian Simon Schama opposes the “late Enlightenment Rationalists” like Talleyrand, Barnave or the Marquis de Condorcet, whose “language was reasonable and their tempers cool”, to those who were

*“not only ready but eager to use popular force and the polarizing language of patriotism and treason to empower their ideology. [...] Rationality, however, did not have a monopoly of utterance in 1788 and 1789. The kind of eloquence needed to mobilize popular anger to the point at which it could be used as a lever of power was not cool but hot. And the stokers of revolutionary heat were not prepared to allow it to cool off for the benefit of moderate constitutional change. They were guided neither by rationality nor by modernity but by passion and virtue.”* (Schama, 1989, pp. 243-245)

In selecting this quote to introduce the first E-book of the Re-Bel initiative I certainly do not want to suggest that institutional quarrels in Belgium have pushed us into a pre-revolutionary stage, comparable to the clean break of the French revolution, let alone to the years of Terror following shortly afterwards. But what is to be learnt from the analysis of Schama is that we should never take for granted that “rationality has the monopoly of utterance”. Reasonable language and cool temper is a hard-won daily fight in public discourse and political debate. Precisely for that reason the Re-Bel initiative is timely and long awaited.

The mission of Re-Bel is to foster this open, rigorous, non-partisan and reasonable way of thinking about the institutions of the Belgian federal state in the longer term. So, what better way to kick-off Re-Bel’s E-book initiative than with a lead piece by Jacques Drèze? His text “On the interaction between subsidiarity and interpersonal solidarity” is an original, convincing and stimulating analysis on how one can set up a conceptual framework to deal with often passionately formulated questions and proposals about loosely spoken “the regionalisation of social security”. How stimulating Jacques Drèze’s paper is, is illustrated by the enthusiast, critical and often equally interesting comments by seven distinguished colleagues.

But let me first briefly introduce the text of Jacques Drèze himself.

It consists of two central ideas. The first one - not surprising for those familiar with Jacques’ publications - emphasizes that what many politicians, and a fortiori the broader public, consider as ‘redistributive’ activities, can often (but not always of course) be interpreted as ex post transfers of welfare improving insurance contracts. The adjective ‘ex post’, used by economists, refers to the fact that, *after* an accident happened, the insured gets his damage repaid by the insurance company. The ‘donors’ are all the other insured who have paid their premiums. The ‘recipient’ is the person who incurred the loss or damage. And yet, it would be better not to speak about ‘donors’ and ‘recipients’ since this risk sharing is welfare improving or win-win for all insured parties, also for those who happen not to receive transfers since they have not been struck by misfortune. Reasoning within this insurance framework sheds a very different light on many transfers going on in the welfare state. In his text Jacques Drèze shows that also interregional transfers could be designed and/or interpreted within this framework. From this perspective, and only within the context of eventual future interregional transfers (since Jacques Drèze only considers his insurance perspective to bear on future developments), a transfer from (eventually rich) Flanders to a

possibly poor Wallonia should not be interpreted as Flanders who is 'helping' Wallonia. No, the transfer follows from an agreement by which both Flanders and Wallonia insured themselves against lower than expected growth in real GDP per capita. It means that Flanders in that case perceives (at least part of) its higher regional GDP as a matter of luck and is aware of the possibility of the reversal of fortunes.

This application at the interregional level brings us to the second central idea of the paper. The insurance framework could lead to the hasty conclusion that, other things being equal, pooling the risks at the broadest possible level is preferred. This would plead in favour of keeping social security at the federal level (or moving it even higher up). Yet, Jacques Drèze shows that one can implement efficient risk sharing in a two tier structure. The upper tier then consists of an insurance between the units of this upper tier (e.g. the regions) concerning the uncertainty of future deviations of real regional GDP's per capita from their expected trend. This insurance gives rise to "interregional transfers", implemented through the financial innovative instrument of bonds indexed on the regional GDP per capita. The second tier implements the interpersonal "within-region" redistribution (still to be interpreted as ex post transfers within an ex ante-efficient insurance system).

This brief summary certainly does not cover all detail and nuances, let alone the depth, of the text of Jacques Drèze. But since most of the commentators also open their comment with short summaries of the main ideas in the text of Drèze, I leave it like this for the introduction. Actually, the variation in the summaries produced by the discussants is also informative about the heterogeneity of the scholars who read the text and thought about it. Which is not surprising in view of the fact that our set of invited commentators consists of French, Dutch and English speaking economists (and one philosopher of course), Belgian and foreign, experienced in problems of federations like Canada, teaching in – at least for the time being – a centralized state like France; some are middle-aged, a bit older, or young and unburdened of historical traumas or frustrations.

I would classify the comments of Robin Boadway, Christian Gollier, Jean Hindriks, Pierre Pestieau, Erik Schokkaert, Johannes Spinnewijn and Philippe Van Parijs into four broad, non exhaustive, categories.

1. Most discussants are moderately to very positive about the approach advocated by Jacques Drèze to consider most (if not all) transfers as part of an insurance design. This comes as the lesser surprise. But it could of course also reveal the bias in our set of commentators, who are predominantly economists, and of whom many are trained and specialized in the economics of insurance. It also shows how valuable and much appreciated this framework is, also outside the setting of Belgian institutional reform, to clarify issues of efficiency and redistribution, and the (often taken for granted) trade-offs between the two. Most commentators seem to realize (and regret) that this seems "hard to understand for short-sighted analysts" (Christian Gollier), but, see also point 3 below for the critical comments on pushing this insurance approach too far.
2. Within the insurance framework, many commentators, if not all, refer to the problems of "commitment" (why would a region not renege on the contract?) and "moral hazard" (why would a regional government not be tempted to induce a negative deviation of the expected real regional GDP per capita in order to capture transfers?). Some of them, like Jean Hindriks, clearly remind us of the fundamental properties of mutual insurance, and – Jean Hindriks, Christian Gollier, Johannes Spinnewijn - introduce the requirement that the insurance contract should be self-enforcing (which would fix the commitment problem in removing the incentive for a region to defect unilaterally). Amongst other things, this constraint of self-enforcing contract depends on the time horizon adopted. The longer the time horizon, the larger the expected gain of insurance. This is also stressed by Robin Boadway and nicely illustrated by Christian Gollier who opens his comment with the story of the reversal of fortunes of China since the early fifteenth century. The answer to the question whether the framework might be usefully adopted to discuss institutional reform in Belgium hence crucially depends on the time

horizon of the policy makers (and of the electorate as Robin Boadway remarks). Erik Schokkaert suggests that moving to a two-tiered approach might make it more difficult to deal with both the commitment and the moral hazard problem. The indispensable trust in institutions that might weaken the commitment problem will not be fostered by a two-tiered approach. And to tackle moral hazard we need some “shared understanding” of which factors are under or beyond the control of, in this case, politicians. Again, this shared understanding might be eroded by the two tiered approach. Christian Gollier adds the interesting thought that also “intrinsic motivations may inhibit moral hazard”, although “whether or not communities can develop such intrinsic incentives remains an open question at this stage”.

3. The second set of substantive comments goes beyond the insurance framework and questions whether the reduction of ‘redistribution’ to insurance is sensible or justified, at least if one pushes it as far as most discussants perceived it in Jacques’ text (but see Jacques’ reaction on this perception in his Reply, par. 12). Pierre Pestieau seems to be quite critical about it, and refers to the “limits of the veil of ignorance approach” [to] “explain why one tries to find other foundations of the redistributive role of the government: ethical values, altruism, political economy or recently evolutionary biology”. Also Erik Schokkaert doubts whether the “interpretational move” from solidarity to insurance (no matter how much he agrees on this move) “removes the challenge to foster sufficient social support for the welfare state”.

The most explicit doubts however are articulated in the comment by Philippe Van Parijs who writes that “it cannot be asserted that ‘the issue of ‘fairness’ under regionalisation is entirely contained in the static definition of the initial conditions”. Van Parijs also explicitly brings to the fore that the framework presented in the Drèze-paper will not relieve us of making value judgements (something none of the commentators, and certainly Jacques Drèze, would deny). And the most obvious judgement to be made here is “the scale at which [the criterion of distributive justice] is supposed to operate”. Do we give a fundamental ethical status to states and local communities, leading to the formulation of principles of distributive justice “between peoples”? Or do we take the cosmopolitan perspective that in today’s world we live in a global community of world citizens in which states or local communities only have an instrumental role to play, i.e. to implement principles of justice which bear on the world community of all people in the world? For me as a moderator it was surprising to note that it was not until I received Philippe Van Parijs’ comment that this question about “Who is my people?” (see Dewachter, 1994) came to the fore. The more because in the whole exchange of ideas nobody paid attention to the distinction, of such practical political importance in Belgium, between ‘Region’ and ‘Community’. To be sure, a distinction which might be of crucial importance to the implementation of the two-tiered approach (and in fact implicitly hinted at by Van Parijs when referring to the peculiar role played by Brussels Capital (one Region, but how many communities?).

4. Finally, not only Jacques Drèze himself, but also all discussants emphasize the need to give empirical content to the proposed framework and to the many questions it induces. Most obvious is the empirical question to disentangle insurance and redistributive components in even the current tax and transfer system. Even after years of advocating this conceptually neat and attractive distinction, we only have sparse information about the relative magnitude of both components. Some of the discussants (Jean Hindriks, Pierre Pestieau) suggest that the current tax and transfer system is dominated by redistributive aspects, and that insurance only plays a lesser role. Which does not tell us anything of course about empirical values of interregional transfers that would follow from future risk sharing between regions. For that we would need to estimate the expected path of growth in real regional GDPs per capita, and need to have information on risk aversions. But also the question how important interregional externalities and economies of scale are, is ultimately an empirical one. And no matter how important it is to point at the theoretical possibility of moral hazard at the level of regional public

policy, how prone these policy makers are to the incentives produced by the insurance scheme, has – to best of our knowledge – not been answered empirically in the Belgian context.

Although all of the commentators are eagerly awaiting answers on these questions, and plead in favour of empirical research, it is comforting for the Re-Bel initiative that some of them, although fully aware of the “many unknowns”, realize that “Impatient policy-makers and citizens usually hate the conclusion that there is an interesting research agenda for academics. They want to move forward” (Schokkaert), and they explicitly speak out clearly on a possible proposal to regionalize social security.

Our own Appendix to this E-book is certainly *not* meant to be an empirical implementation of a forward looking mutual insurance of risks affecting regional incomes per capita in the long run. It could at most be considered as a modest “kickoff” or “warming-up” for this kind of research, simply by illustrating how uninformative the current framing of the discussion about “interregional transfers” is, since they are a mere “by-product of interpersonal redistribution” (Erik Schokkaert), which itself is again a combination of insurance and redistribution.

The structure of the rest of this E-book is as follows. We start with the lead piece by Jacques Drèze. We then have put the different comments in alphabetical order of the name of the discussant. Then follows a Reply (and clarification) of Jacques Drèze on some of the points raised by the discussants. We close the book with our own illustrative calculations of transfers in the current Belgian tax and transfer system. I hope the reader will enjoy this stimulating exchange of ideas as much as the moderator did.

## REFERENCES

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