

# A comment on Marcourt and Vandenbroucke's call for action in the interest of economic recovery and social progress

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In my view, this Marcourt-Vandenbroucke (hereafter MV) text is more than welcome. In fact, when I read it in the newspaper in December 2008, I thought it was a real source of hope, after such a long period of immobility in the political debates about institutional reforms that started right after the 2007 elections. The really disappointing news is that things do not seem to have progressed on this front while we are already at the end of March and everybody gets focused on the upcoming regional elections. I fear that the failure to move on the basis of this text constitutes a missed opportunity for all those who would want to convince voters that this country has not become unmanageable. My hope is that political parties will be able to make progress along the lines of the MV text after June 2009.

In terms of substance, I agree with the basic assumptions and main objectives of the MV text, and I also agree with its main proposal.<sup>16</sup> As such, the MV text is understandably short on details in some dimensions, and I will elaborate a bit on these at the end of my comment.

As far as assumptions are concerned, the MV text takes as given the need for institutional reforms in this country, to promote efficiency while maintaining solidarity. I agree with this view, because: (i) there is wide consensus within Flanders about the need for reforms, and this cannot be negated forever if one wants to keep this country together; (ii) of course, in order to obtain an agreement, one also needs to reassure French-speaking Belgium about the maintenance of interpersonal solidarity; and (iii) in turn, this requires credible mechanisms to ensure that federated entities manage to gradually “converge” so that solidarity is not forever unidirectional as far as cross-regional flows are concerned.

The MV text stresses the labour market as first priority. This is quite right, because the main reason for the economic imbalance between our federated entities concerns employment and unemployment rates. If Brussels and Wallonia had the same employment rates as Flanders,<sup>17</sup> there would be no significant “financial transfer” between them any more.<sup>18</sup> Moreover, given that regional labour markets have very different outcomes, it makes sense to think about decentralizing some labour market policies.

Which policies should be decentralized? The MV text argues for keeping labour law, wage setting and welfare state provisions federal, and for decentralizing active labour market

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<sup>15</sup> I thank Antonio Estache for useful comments.

<sup>16</sup> In fact, it is very consistent with proposals put forward in January 2008 by 120 academic economists from all over Belgium: “Reforming the Belgian institutions: Combining flexibility and coordination”; the French version of this text will be republished in a special issue of *Reflets et Perspectives de la Vie Economique* entitled “Wallonie et Bruxelles – Analyses et Enjeux” to appear in April 2009.

<sup>17</sup> Instead of the current rates of around 65% in Flanders versus 55-56% in Brussels and Wallonia.

<sup>18</sup> I leave aside here the issue of whether transfers should be computed on the basis of GNP or GDP, which is crucial to consider the relative “contributions” of Brussels and Flanders.

policies and training. Conceptually, this seems a reasonable balance between efficiency and equity, even if the devil can be in the details here, and labour market experts should be brought in to comment on the fine-tuning of the system.

One question these proposals beg concerns their real expected impact: how much convergence can we hope to obtain if we follow them? This will in fact depend on the resulting actual labour market policies chosen by public authorities. And here the MV text suggests coupling decentralization with an incentive scheme conducive to Governmental “responsibility” so that to insure a “positive return for the regions as well as the federal state”.

This idea makes a lot of sense: all levels of Government should have incentives to tackle much more vigorously our labour market problems.<sup>19</sup> Of course, this is a politically hot issue, and it is maybe not surprising that the MV text is really short on details on this topic. My feeling is that this question should be addressed explicitly, namely with well-defined targets and bonus-malus components in case of deviations with respect to these targets.

Once again, the devils will be in the details. Work needs to be done to make investigate “sustainable scenarios”. Let me just offer here a few remarks:<sup>20</sup>

1. First, on French-speaking side, where concerns exist with respect to such bonus-malus mechanisms, one should consider their benefits in terms of ‘commitment devices’, which will build momentum to focus policies on raising employment rates (just like the Maastricht criteria helped improve the state of Belgian public finances).
2. Second, one should define ‘neutral’ initial employment rate targets,<sup>21</sup> maintaining current solidarity levels, as well as ‘reasonable’ objectives in terms of speed of convergence. These objectives will be the subject of intense political debates, and the same will be true for the size of the bonus-malus in case of deviations from this path.
3. Note that I assume objectives in terms of labour market outcomes, not in terms of policies, since the idea is to decentralize policies. However, one should avoid ‘vicious circles’ in case a region fails to meet its objectives and starts losing money as a result, which may hamper its ability to undertake adequate labour market policies. One may therefore want to consider malusses in terms of obligations to intensify labour market policies rather than in terms of reduced financial resources.
4. Finally, one should limit the randomness of such mechanisms for the regional public finances. This means filtering out as much as possible risks that are beyond the control of policymakers, for example, the current deterioration of employment rates due to the international financial crisis. Since such events typically affect all Belgian regions at the same time, going for some form of ‘relative performance evaluation’ is the natural solution. One should make sure however that the system remains ‘win-win’, namely that every entity (federal and federated) actually benefits financially when employment rates improve in any one region.

Putting together a system which decentralizes active labour market policies and training and incentivizes federated entities is a good way to introduce a commitment device to improve employment rates and thereby make interregional solidarity sustainable. It will moreover also focus political energy on improving education systems, another key issue for employability, especially in Brussels and Wallonia. Designing such an incentive system is not technically

<sup>19</sup> Of course, the relevant concept in this debate is that of ‘structural underemployment and/or unemployment’, not the big cyclical component of unemployment that we are starting to witness right now because of the financial crisis; this latter one has to be dealt with by macroeconomic policy coordinated at EU and even world level.

<sup>20</sup> These remarks are further developed in an article entitled “Gouvernance francophone « responsable », condition d’une politique socio-économique efficace et solidaire en Belgique?”, to be published in a special issue of *Reflets et Perspectives de la Vie Économique* entitled “Wallonie et Bruxelles – Analyses et Enjeux” in April 2009.

<sup>21</sup> Employment targets are attractive because they are more comprehensive and less ‘manipulable’ than unemployment targets or, worse, long-term unemployment targets.

trivial, but it can be done in a way which is truly “win-win”. It would be politically very desirable if one wants to preserve Belgian solidarity while favouring efficiency.