

Introduction

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This E-book addresses one of the most hotly debated questions in the Belgian federation: To what extent should some federal labour market institutions be decentralized? “Labour market institutions” include formal organizations, laws, rules and policies that affect the functioning of the labour market. It starts with the point of view of the ministers Marcourt and Vandembroucke (henceforth, MV) who are in charge of Employment in respectively the Walloon and the Flemish governments. This joint viewpoint appeared in newspapers on December 8, 2008. This viewpoint, briefly summarized in Section 1, establishes a list of institutions that should remain federal and, with a certain degree of precision, others that should be decentralized. The rest of the E-book is made of comments on this viewpoint. These comments are made by academics in economics and sociology and by the Minister Cerexhe who is in charge of employment in Brussels.

1. The Marcourt-Vandembroucke (MV) standpoint and a global appreciation of it

The starting point of MV is that labour regulations, wage policy and the funding of Social Security and all its branches should remain within the competence of the federal authority. Then, the ministers plead for a complete regionalization of a number of training and educational policies that have remained a federal competency up to now. They also propose to investigate whether other policies, such as ALE/PWA, outplacement¹ and temporary work permits shouldn't be regionalized. They call for a further simplification of the federal employment subsidy schemes targeted to specific workers and to gear it better to the specific regional needs.² In fact, this point of view seems to be influenced by the general view that the Walloon Region is particularly hit by youth unemployment, whereas the Flemish Region faces the problem of low employment rates among older workers. Finally, MV call for a new funding scheme that would promote “incentives and accountability and take into account the needs and capacities of each government”.

From the various comments found in this E-book, emerges a dominant view that broadly speaking the position paper of MV goes in the right direction. However, “the devil is in the details”. Put another way, an evaluation of these proposals requires that they be formulated in a precise way. Understandably, this is not the case yet, in particular with respect to the new funding scheme. Moreover, there is some disagreement on the opportunity of regionalizing some competencies and Minister Cerexhe argues that improvements are possible and needed within the current structure of competencies. Finally, in our contribution we argue that, even if a well-designed decentralization of labor market policy may improve the functioning of the labor market, it's not the first and most important step. We claim that the current priority is a structural reform of labour market institutions, independently of the issue of decentralization. We briefly explain why and what reform is more urgent, but the reader is referred for details to a companion paper.

¹ Minister Cerexhe discusses explicitly the regionalization of outplacement.

² In particular, this refers to the recently much debated federal scheme of targeted wage subsidies. After the position paper of MV was written, this scheme was sharply reduced by the last inter-professional agreement among the social partners. Since then, this decision has been blocked by the Flemish government. It is also been criticized by Minister Cerexhe in his comment on the MV's position paper. Both argue that such targeted wage subsidies are needed to fight regional-specific problems of non-employment.

2. Major arguments and their implications

In arguments for and against regionalization, the notions of “efficiency” and “equity” are key. We briefly clarify these notions for the reader who is not familiar with them. It is often thought that “efficiency” only refers to the utilisation of less resources to attain a given objective. While this “technical efficiency” is required, “efficiency” means more than that. Without entering into technicalities, “efficiency” means that nobody can be made better off without making someone else worse off. Put differently, an allocation of resources is inefficient if a change in this allocation would imply a gain for someone and no loss for others. When the environment presents randomness, in our context when there is a risk of being unemployed, “efficiency” requires that, loosely speaking, an additional euro has the same value in all possible positions occupied by an individual. “Equity” is a very complex notion, too. A basic requirement is “the equal treatment of identical citizens in comparable socio-economic situations, including their equal access to social protection” (Van Rompuy in this E-book). According to the preferred ethical perspective, more can be required: People with different endowments (talents, location of birth...) should be given the same “opportunities” (the precise measurement of it being of course crucial).

This clarification being made, more decentralization should improve the balance between efficiency and equity in Belgium as a whole. It is then often argued that, in the case of the labour market, devolution is motivated by regional long-lasting disparities in unemployment and employment and by the need of creating more coherent packages of instruments to fight the regional-specific unemployment and the ageing problems. Our comment qualifies the importance of these disparities. Moreover, as stressed by several contributors to this E-book, the gain in coherency strongly depends on the details of the implementation.

A common view found in the comments is that social security – from the perspective of efficiency – ought to remain a federal competence. This is also true for the labour market legislation and for the wage-setting institutions. About the latter, while Cantillon considers that “wage costs (...) are uniform throughout the federation”, Plasman *et al* argue that current wage-setting institutions “allow wages to adapt to regional productivity differences”. If more sensitivity of wages with respect to local conditions is needed, they add that current institutions already have regional sub-joint committees and that in addition more importance could be given to collective bargaining at the company level.

Most of the commentators also agree with MV that policies aiming at reintegration of unemployed and of inactive workers in the labour market should be decentralized since they logically are part of a competency that has already been transferred to the Regional level. Such a reform should provide the Regional Public Employment Services (PES) with an enlarged and more coherent set of instruments. So, more efficiency can be expected by such a reform. As some of these policies are currently jointly organised by the federal authorities and the social partners, the role of the latter should be adjusted but the principle of their involvement is not questioned (a standpoint that seems to be shared by MV).

More delicate is whether the Regions should be made responsible for the targeted wage subsidies and for the monitoring and sanctioning of job search, of job acceptance behaviour and of mandatory participation in active labour market policies (ALMP). It is often argued that federal wage subsidies directed to specific target groups should be regionalized, because this allows to accommodate these subsidies to the Regional labour market conditions. Our comment explains why this argument is flawed. Targeted wage subsidies are broadly of two types: Permanent or temporary. The first one, also called “structural”, should remain the competence of the federal level (this is claimed by us and can be deduced from the comment of Van Rompuy and Plasman *et al*). If it makes sense to regionalize any wage subsidy- this is not the view of Minister Cerexhe -, it would be the *temporary* targeted subsidies. The monitoring and the sanctioning of the unemployed should become a responsibility of the regions in the MV position paper, provided that rules remain defined at the federal level. There are good arguments to go in that direction. Still, some important complications should be resolved to gain from such a reform (for further details, see our comment and the critical view of Minister Cerexhe on such a reform).

Policies that affect the duration in unemployment (be it active programme or monitoring and sanctions) touch upon the federal social security scheme. Put differently, regional decisions induce “externalities” at the federal level. Hence, Cantillon calls for “consultation between the competent authorities”. To avoid that the socio-economic outcomes would further diverge between Regions, Cantillon stresses that common objectives should be defined and indicators of fulfilment of these objectives should be monitored, such as in the ‘Open Method of Coordination’ approved by the European Union. Cantillon argues that “the regions should be made fully aware of their financial accountability for federalized policy strategies”, but how remains an open question.

Dewatripont, Van Rompuy and we believe, as MV, that, to bring about convergence in the Regional labour market performance, funding of the Regions on the basis of an explicit incentive scheme is desirable. Incentive contracts are required to resolve problems of conflicting interests. In the case we consider here, the conflicting interest is between the federal authority and the Regions. Essentially, the conflict is that unemployment benefits are paid and wage taxes and contributions are raised at the federal level, while a number of policies, in particular ALMP and education, that affect these expenditures and proceeds are a Regional competence. Since the Regions do not collect the full³ proceeds of their actions, they tend to under-invest in ALMP and education or do not care enough about their effectiveness. An incentive contract attempts to align the objective of the Regions to that of the federal authority by financially rewarding (or penalizing) Regional actions according to an indicator of performance that reflects the interests of the federal authority. As recognized by the commentators, the details of the design of this scheme are crucial.

1. *The choice of the indicator of performance.* In principle, the indicator of performance could just be the sum of the savings generated by the reduced payments in unemployment benefits and the increased proceeds in terms of wage taxes and contributions generated by each Regions. In practise, it is, however, administratively too costly to measure these savings. This is why the commentators propose to relate incentive pay to indicators that are easier to measure, but that are still related to the generated savings. Two candidates are the Regional long-term unemployment rate⁴ (Van Rompuy) and the (full-time equivalent⁵) employment rate. All commentators agree, however, that the employment rate is a better candidate, since the unemployment rate can be “manipulated” by pushing unemployed workers into inactivity.
2. *Limit randomness of the indicator.* Whatever the chosen indicator(s) of performance, one has to be aware that their evolution is not only affected by the regional interventions, but also by many external factors, such as the economic business cycle and policy at the other (federal, European,...) levels of competence. So, a benchmark is needed. Different viewpoints appear here. Principal candidates are a Belgian average, an average in surrounding countries.⁶ Even if there is not a clear agreement on the eventual choice of the benchmark, commentators seem to agree the scheme should be ‘win-win’, namely that every entity (federal and federated) actually benefits financially when employment rates improve in any one region. This seems to exclude the first candidate in a pure form.

³ The Regional means already depend of economic indicators that are only partially correlated with the Regional employment level. Moreover, the Federal government already transfers means to finance *some* Regional labour market policies. It should be added that poor employment performances are detrimental to the image of a Region, with e.g. potential electoral implications.

⁴ This is a measure of structural unemployment. As rightly pointed out by Dewatripont, “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.”

⁵ We propose this refinement as to avoid that the scheme would be “manipulated” by stimulating the creation of part-time employment.

⁶ There is no clear agreement among commentators whether this average should be calculated prospectively (Van Rompuy) or retrospectively.

Even if one reaches agreement over the benchmark, the question remains which Region should be rewarded (or penalized) for employment created (destroyed) in a Region where one does not live. Brussels e.g. attracts 360 000 workers from other Regions and 61 000 inhabitants of Brussels work in the other Regions (Cerexhe, p. 15). Minister Cerexhe argues that, as a consequence, the Brussels Region does not currently receive the funding it's entitled to and that this needs to be resolved before discussing "accountability" in the Regional funding. In our contribution we propose a sharing rule to resolve this problem, but recognize that it's very complicated to assign the appropriate shares in this rule, so that agreement on this point may be key in negotiations regarding the design of an incentive scheme in the funding of the Regions.

3. *The size and form of the bonus-malus.* Since the performance indicator will never perfectly reflect the effort undertaken by the Regions, the transfer to the Region should not be related only to indicators of labour-market performance, but should partly consist of a lump-sum transfer. It is, however, difficult to objectively determine the optimal size of the bonus-malus, which therefore will be subject of intensive political debate (Dewatripont). To avoid 'vicious circles' in case a Region starts losing money as consequence of the incentive scheme, Dewatripont suggests to consider malusses in terms of obligations to intensify labour market policies rather than in terms of reduced financial resources. But this requires an objective measurement of the "intensity" assigned to labour market policies by a third party. Is this feasible?
4. *A neutral initial target.* The employment rates between the different Regions will differ at the moment of the introduction of the scheme. Since the incentive scheme can only affect future actions, we argue that it should take past behaviour as given and normalize each Region's indicator to the level attained at the moment at which the scheme is introduced. This boils down to measuring performance in terms of variation of the employment rate, instead of in absolute terms.

3. Conclusion

This collection of brief comments around the MV position paper hopefully paves the way of a more rational debate about decentralization of labour market policies in Belgium. Such a debate is unavoidable. Needless to say, much work remains to be done to help the decision making in this touchy domain.