

Should the setting of wages in Belgium be regionalized?

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Within the debate over the relationship between the structure of wage bargaining and economic performances in Europe, the issue of regional dimension returns in a recurring way. The discussion often relates to the capacity of wage-setting systems to take into account the important economic disparities between regions. Pensch *et al.* (1999) support for example that a uniform fixation of wages across regions would not be adapted to local job markets. According to Davies and Hallet (2001), the important regional differences in unemployment observed in numerous European countries are due to the incapacity of the wage-setting systems to take into account the levels of productivity of the least productive regions.²³ The predominance of national industry bargaining, in a large number of European countries, could explain this phenomenon. Accordingly, two types of answers are generally proposed in order to take into account the local environment in the establishment of wages. The first, supported by the European Commission (Davies and Hallet, 2001) and the OECD (OECD, 2006), consists of decentralizing wage bargaining towards the company level. The second, which is at the heart of current negotiations relative to a de-federalization of employment policy in Belgium, consists of regionalizing wage bargaining.

In their joint “call for action and dialogue for economic recovery and social progress”, Ministers Frank Vandenbroucke and Jean-Claude Marcourt clearly indicate that the Belgian wage policy should remain a federal competence. This is an important statement as it implies that wage setting in Belgium should not be regionalized. In what follows, we explain why we share their point of view and suggest alternative ways to increase the sensitivity of wages in Belgium to local (and in particular regional) conditions if it turned out to be necessary.

Partisans for the regionalization of wage bargaining argue that the actual wage-setting system in Belgium (inter-professional agreement, followed by industry agreements, and eventually followed by firm-level agreements) is not flexible enough to take into account the regional differences in productivity. They also indicate that negotiations at the Walloon level would be more sensitive to unemployment and would thus involve lower wages for this region.

To assess whether the setting of wages in Belgium should be regionalized, it is interesting to focus first on other countries’ experience. Within European countries, only Spain and Germany present a regionalized formation of wages. In Spain, Simón *et al.* (2006) note important variations in wages between regions as well as in wages agreed at the industry level as in actual paid wages. They deduce from this that the regional character of industry bargaining allows for a differentiation of wages between regions. However, these wage differences do not seem to fully reflect local conditions because of the phenomenon of inter-regional imitation within one same industry (Bande *et al.*, 2008). In the case of Germany, the regional differences in industry agreed wages are rather weak although wage bargaining is

²² The views expressed in this paper are those of the author and do not necessarily represent those of the Central Economic Council.

²³ Other factors such as differences in economic development, labour qualification and the lack of geographic mobility can also cause differences in unemployment between regions. (Davies et Hallet, 2001)

held at the Landers level. The strongly coordinated character of wage bargaining between trade-union confederations and employer associations could explain this situation (Schnabel, 1999). The idea that the level of regional wage differentials depends on the degree of centralisation/coordination of wage bargaining is also supported by Vamvakidis (2008). The latter analyzes the relation between the degree of centralisation/coordination of wage bargaining²⁴ and the regional wage differentials in 10 European countries between 1980 and 2000. He finds a negative relation between the degree of centralisation/coordination of wage bargaining and the level of regional wage differentials. To sum up, empirical evidence suggests that regionalization of wage bargaining is neither a necessary nor a sufficient condition for generating high levels of regional wage differences. It seems in fact, in this debate, that the regional character of the wage-setting systems brings less than the degree of centralisation/coordination of wage bargaining.

Another way to evaluate the pertinence of the regionalization of wages is to examine potential consequences for Belgium highlighted in recent studies. According to Bogaert (2008), a regionalization of wages would remove the moderating influence of “francophone” unemployment on Flemish wages. This would increase wages in Flanders and, through demonstration, generate similar wage increases in Wallonia. The final result would be a higher increase of wages than in the current federal system. This phenomenon seems to be occurring in Spain where bargaining is already regionalized (Bande *et al.*, 2008). Deschamps (2003) suggests that a regionalization of wage bargaining would also increase the complexity of the system and lead to administrative costs for firms that have production sites in more than one region. Moreover, he argues that a regionalization of wages would pave the way to the regionalization of social security. It would seem incoherent to restrict regionalization solely to wages, and not to total labour costs. Therefore, the contributions to social security, which represent a large part of the total labour costs, would also be regionalized. This could, finally, affect the level of social security spending in the different regions.

Several recent studies have examined whether the current system of wage formation in Belgium is capable of taking into account the regional levels of productivity (Dejemeppe and Van der Linden, 2006; Plasman *et al.*, 2007; Joskin *et al.*, 2008). Their results indicate that the average labour productivity is lower in Wallonia and that regional wage differentials are smaller than regional differences in productivity. Yet, Plasman *et al.* (2008) show that regional wage differentials and regional productivity differences are positively correlated within joint committees²⁵. Moreover, their results indicate that this correlation is stronger in decentralized joint committees (whereby company-specific agreements have a significant impact on the wage setting) and in joint committees already sub-divided along a local line (i.e., subdivided in regional sub-joint committees). These results thus suggest that it is the possibility to negotiate wages at the company level and the existence of regional sub-joint committees that allow wages to adapt to regional productivity differences.

Overall, more research is needed on whether wages in Belgium are sufficiently sensitive to local (and in particular regional) specificities (Du Caju *et al.*, 2008; Rusinek and Rycx, 2008). Yet, if it turned out that this is not the case, we would recommend to increase the possibility of negotiating wages at the company level and to facilitate the creation of regional sub-joint committees. This solution would have the advantage of avoiding increasing administrative complexities in joint committees where a more important wage differential is not necessary. Moreover, the decision to increase the weight of company-specific agreements or to subdivide joint committees would be taken by the national joint committees, composed of members close to the reality on the field. In addition, these mechanisms would not only allow to take into account differences between regions but equally differences between provinces, labour pools or companies. Lastly, it is important to keep in mind that

²⁴ Measured by the OECD index taking into account the prevailing bargaining level and the formal or informal coordination between trade unions and employers.

²⁵ Joint committees are permanent bodies at the industry level in which employers' associations and trade unions are represented. Their main task is to oversee the conclusion of industry collective agreements by the organizations represented.

regionalization of wage bargaining could create a higher increase in wages than in the current national system, and could open the path to the regionalization of the social security. In conclusion, it appears that the current system already contains the mechanisms that allow for regional differences in productivity to be reflected in wages. It is therefore not certain that a regionalization of the wage setting system is necessary.

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