

# Reaction to the Re-Bel e-book: “Does it Make Sense to Regionalize Labour Market Institutions?”

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## *1. Introduction*

On 8 December 2008, Jean-Claude Marcourt and I published a joint call for action and dialogue in which we presented the outlines of a proposal to regionalize labour market policy. By means of this initiative we not only wanted to overcome the institutional deadlock by proving that agreements between Walloon and Flemish politicians are possible, but also to demonstrate that the institutional debate can be approached from a very practical perspective, namely that of bolstering our social security by helping more people to find employment. Strong governments, i.e. with clear tasks and the financial means to perform them, are therefore needed at federal, regional and local authority level. Institutional reform can contribute to achieving this.

The statement we published contained the broad outlines of a proposal to regionalize labour market policy, which of course is still to be concretized. We hope that we can redouble our efforts in this area following the regional elections, and continue the dialogue required to fine-tune the principles we have outlined. It was in this regard that I warmly welcomed the Re-Bel initiative. The fact that experts on both sides of the linguistic border are reflecting on and discussing the institutional reorganization of our country will certainly help both to de-dramatise and bring objectivity to the debate. A meticulous analysis of the content of institutional issues, a stable political climate and a constructive and open approach are prerequisites for any progress in this area.

Although necessary, the strengthening of the labour market policy-making powers of regional governments and greater financial accountability for their choices are not in themselves sufficient to make our labour market more dynamic. A far broader reform of our labour market is needed, including the modernization of labour law through the fairer division of flexibility, which is currently predominantly shouldered by temporary workers; a more active approach to redundancies; equal rights for blue and white collar workers; etc.

Below I will explain some key principles I set out in a discussion on the regionalization of labour market policy. I will conclude by giving further details as to how I envisage that some aspects of the joint statement can be implemented.

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<sup>1</sup> More information and background on my vision of social state reform at [www.vandenbroucke.com](http://www.vandenbroucke.com)

## *2. Key Principles for Sound State Reform*

State reform is by no means a goal in itself; it is the means by which to enhance the social and financial capacity of our different governments at their different levels.

In order to achieve this goal, a sound roadmap is needed which respects a number of fundamental principles (e.g. interpersonal solidarity, social dialogue) and which also aims to ensure legal security (especially with regard to European law), simplicity and efficiency.

### *2.1 Interpersonal Solidarity*

State reform must not jeopardize interpersonal solidarity. Interpersonal solidarity is the cornerstone of our social model, uniting all the inhabitants of this country. By increasing the level of employment, the reinforcement of the regional labour market must lead to the consolidation of the existing mechanisms of interpersonal solidarity, particularly where it concerns securing our social security funding.

### *2.2 Greater Simplicity and Customization*

Greater institutional autonomy offers the regions the possibility to customize their policy choices and to tailor their measures to the personal needs of the unemployed. Despite claims to the contrary, tailor-made solutions do go hand-in-hand with simplicity. For example, both objectives can be achieved by reforming employment plans, dramatically simplifying the federal system (by focusing on general labour cost reductions), by giving regions direct responsibility for the allocation of labour cost reductions for specific target groups (customization) and by centralizing and simplifying the authorization procedures (one institution responsible both for calculations and payments).

The monitoring of job seekers' progress is another example. This is currently shared between the federal government and regional governments. The regional employment agencies (Forem, Actiris, VDAB) and the RVA monitor the efforts made by the unemployed to actively seek work. Both the federal government and regional authorities undertake similar initiatives to support those persons actively seeking employment (e.g. employment mobility). This results in overlapping measures and a cumbersome administrative system leaving little or no room for a tailor-made approach (e.g. the RVA facilitators may detect problems encountered by a job seeker, but they neither have the authority nor the expertise to provide that person with any solutions). Giving the regions exclusive competence for monitoring job seekers and for the policy on availability for work would simplify the system and ensure that measures were properly geared to requirements. Greater simplicity is possible by avoiding the duplication of procedures carried out by the regional employment agencies and federal RVA facilitators. A more tailor-made approach is ensured because the regions have expertise in job activation due to their competence as an employment agency and because they are best acquainted with the personal situation of job seekers.

### *2.3 More Efficient, Inter-Federal, Interregional and Local Cooperation*

Clear and coherent sets of competences are essential in order to strengthen policy-making capacity at each institutional level. A clear-cut distribution of competences is also important to ensure smooth cooperation between different tiers of government. Cooperation between entities with indistinct authority and unclear responsibilities results in indefinite arrangements,

increasing the risk of institutional inertia and conflict. In other words, we should not try in vain to address institutional malfunctioning with a barrage of different cooperation agreements, by extending consultation within the Consultation Committee or by setting convergence “criteria” as the norm for policy instruments, etc. Different governments and governmental levels must be persuaded to think along similar lines by means of accountable financial arrangements as well as arrangements as to what constitutes core business in each case, not by participating in yet more consultative procedures. For this same reason, we would argue that the redistribution of powers can result in the utmost simplicity and conformity and not to ever more diffuse situations in which individuals and companies find themselves confronted with two different governments with responsibility in this area, thereby generating an even heavier administrative burden and less transparency.

In short, yet more cooperative agreements will not result in greater policy coherence within the present institutional constellation. As such, a more rational and coherent distribution of powers is needed to ensure better collaboration between the various governments.

The starting point is that each government should be able to perform its main tasks without being dependent on cooperative agreements and consultative rounds. This is not to negate the need for interaction between different governments, particularly where it concerns labour market institutions in which the federal government (in enacting labour law and social security law), the Communities and regional authorities (employment agencies, education, and training) as well the local government (in the form of sub-regional agreements, local service economy, local consultative structures etc.) all play a role. Cooperation might lead to interesting cross-fertilization and institutional innovation. E.g. the Flemish approach to addressing youth unemployment whereby the local authorities are made an explicit partner in the youth unemployment plan and where room is left for a tailor-made approach and innovative projects.

Cooperation is also important to improve interregional labour mobility. For that purpose the interregional cooperative agreement of 2005 between the Communities and regions was a first step in the right direction, and specific initiatives – such as the interregional job market – have been taken to implement it. We need to further enhance interregional cooperation, and strengthen it. Strengthening regional powers over labour market policy must offer even greater possibilities in this regard.

### ***3. The Concretization of Some Elements of the Joint Statement***

#### ***3.1 Special Target Group Measures: More Simplification and a More Tailored Approach***

Despite the simplification exercise of 2004, a number of employment plans remain a cluttered jumble of federal and regional procedures (activation of unemployment benefits at federal level, RSZ reductions and regional employment subsidies), with benefits often being paid out in bits and pieces via three different channels (RSZ, RVA and the regional government).

The idea behind the proposal of regionalizing wage subsidies that are targeted at specific groups is not to transfer all existing federal labour cost-reducing powers to the regions. Here I am pleading for a more clear-cut institutional division and a dramatic simplification of the means by which subsidies are allocated. In my view, simplification by no means implies that special targeted wage subsidies should be withdrawn, as stated in the reform proposal in the IPA-agreement. I made my opposition to these plans clear because an increase of the labour costs of those vulnerable groups of workers currently experiencing particularly difficult labour market conditions is irresponsible in my view, especially at a time of economic crisis marked by mass

redundancies (more information concerning my disapproval of the reform of the employment plans, can be found at [www.vandenbroucke.com](http://www.vandenbroucke.com)).

Ambiguity can be reduced by keeping the general or structural wage subsidies, including wages subsidies, coupled to income (for instance wage subsidies focusing on low incomes), whilst giving the regions exclusive powers for wage subsidies targeted at specific groups. In this way subsidies can be allocated in such a way as to best meet regional labour-market-policy priorities.

A company's place of establishment should provide the point of reference for the application of regional targeted wage subsidies. HR policy could therefore be conducted in a uniform manner regardless of where employees have their place of residence. In addition, companies established in different regions are already acquainted with the different regional activation policies.

The financing of our social security system via social contributions made at the federal level remains untouchable. To keep the employment plans' system both simple and practical, the computation and granting of wages subsidies should remain centralized with one government agency. The RSZ together with the so-called *Kruispuntbank* can play this central role. This would mean that a separate channel would no longer be needed to activate benefits or wage supplements, and that all wage subsidies would be deducted from the social security contributions. If the subsidies were to exceed the owed social security contributions, the employer would have the right to make negative contributions or a contributory credit.

### 3.2 *Monitoring the Progress of Job Seekers*

The federal RVA (National (Unemployment Office) as well as the regional employment agencies are authorized to monitor the progress of job seekers; this leads to the duplication of work and blurred responsibilities. Sanctions resulting from an unemployed person's unavailability for work are imposed by the RVA, mostly after a report by a regional employment agency. The authorization to proceed with sanctions is not granted at a central level – it is decentralized. It is the head of the unemployment office in whose district the person concerned lives who takes all the decisions with regard to that person's right to unemployment benefits. This same head also decides whether an unemployed person is to be exempt from the requirement of being available for work e.g. as a result of following courses or training, or for social reasons. In addition, regional employment agencies (VDAB, Forem, Actiris) may exclude unemployed persons from unemployment benefits by officially deleting them from the job seekers register.

This overlapping of the powers of different authorities cannot be solved by cooperation agreements. A clearer designation of institutional powers is needed. To avoid the duplication of work by the RVA and the regional employment agencies, the regions should be entrusted with exclusive authority for monitoring the progress of job seekers within a federal normative framework. This would ensure consistency in the basic principles applying to all three regions and that the federal government could keep its grip on the outlines of a policy regarding the requirement to be available for work.

The present diffuse situation in which the job seeking strategy is defined and judged by regional agencies as well as by the RVA would be avoided by giving the regions exclusive executive powers for the monitoring of job seekers. Furthermore it would be better for those services that are most familiar with the personal situation of the unemployed persons concerned to decide upon their availability for work. The principle must be to ensure that the policy is made for people and that it is less bureaucratic. If a regional employment agency states that an unemployed person is not available for work due for example to psychological or family problems, that should exempt the person from this requirement. In this case another evaluation

by the RVA would not be needed. If a regional agency decides that the unemployed person is not actively seeking employment or refuses an appropriate position, the RVA would not need to re-examine that. In this case the regional job agency should be able to act directly and impose a sanction and the RVA should automatically implement the sanction imposed by the regional agency. It goes without saying that the RVA should check whether all formalities are respected. There should also be an appeals procedure with the regional agency as well as with the labour court. However, the regional authority would be limited to dealing with violations of the requirement to be available for work and actively seeking employment. Monitoring and sanctioning unemployment benefit fraud (e.g. working whilst on unemployment benefits, incorrect reporting of family status) would remain federal competences.

Given the fact that the efforts of the regions (or the lack thereof) have an impact on the federal unemployment budget, the implementing autonomy of the regions is linked to previous minimal commitments. With this in mind, the European goals concerning the following up of job seekers as noted in the Lisbon employment guidelines should be respected at least (among others to offer counselling to school-leavers within four months and to other job seekers within a year). Through a mutual agreement between the federal government and the regions, minimal commitments concerning the follow up rhythm and the guidance offered can be given. The regions are also made financially accountable for the results within their region via a bonus/malus incentive mechanism (as stated below).

### *3.3 Bonus/Malus Incentive System: Incentive Financing for the Regions and a Federal Dividend*

Financing used to be the last chapter in discussions on state reform, this money having been the final piece of the deal with which to settle negotiations. However, our country needs a deal of a different kind. In order to stimulate the regions and the communities to become effective and efficient in their social investment agenda (education, activation, integration, etc.), a result-focused incentive financing chapter has been added as an addition to the special financing law. It concerns a deal in which it is in each government's interest to increase employment, for which they receive a financial stimulus. Having a greater number of people at work also results in a better overall result (i.e. for the federation as a whole). In short, there are three prerequisites to this additional chapter of the special financing law:

- (1) it has to create a long-lasting net dividend for the federal government;
- (2) incentive-based financing has to reward results (output financing, not input financing);
- (3) incentive-based financing is temporary by nature.

For such incentive-based financing it might be possible to check the effectiveness of each region annually, i.e. the number of employed persons living in the region concerned. As such it is possible to check annually whether the effectiveness really has increased compared to the previous year and compared to the previous maximal level (the referential level). If so, the regions concerned receive a one-off bonus, proportional to the increase over the previous year. If there has been a drop in effectiveness compared to a previous year, this is noted down as a kind of debit balance and will be credited in possible bonuses. In other words it functions as a kind of running account with maluses (negative bonuses) and bonuses, in which bonuses are only paid out after crediting the maluses.

Paying out the incentive bonuses is not only to the advantage of the regions, but this stimulating approach is also very advantageous for the federal government, when the framework is viewed as a whole. After all, the incentive bonus is only a bonus for the "improvement" of the effectiveness (the "delta"): the recurrent profit of the "improved effectiveness" (the "level") is to be found with the federal government. Moreover I assume that the transfer of responsibilities is not linked to a

proportional transfer of budgets, and that new accountable contributions of the regions to the federal government are negotiable.

Besides the necessary guarantees for a sustainable federal dividend, the possibility to apply correction mechanisms on the running account formula in case of exogenous shocks has to be foreseen, to avoid no longer being able to bridge the gap between the referential effectiveness and the real effectiveness for years, and where reaching bonuses could no longer be reached thereby negating any stimulating effect that the incentive might have.

By way of conclusion, how Brussels Capital-Region can be given greater responsibility in the proposed plan is not obvious. On the one hand, Brussels Capital-Region provides a lot of employment from which other regions can benefit by increasing the employment opportunities for the inhabitants of their own regions. On the other hand, a major part Brussels' unemployment problems are linked to educational problems. The complex situation of the Brussels administration is often an obstacle for a vigorous, unambiguous and visible urban authority. Our plea for strong governments with transparent and coherent authorities necessarily applies to Brussels. A simplification of Brussels' governmental organization is needed. The atypical situation of Brussels needs to be taken into account when giving the region more responsibility. It is atypical because of Brussels' status (a region where two Communities are in charge of community aspects), because of its specific metropolitan and international remit and because of its specific labour market situation i.e. being a significant driving force for employment via commuter labour amongst other factors, but also because of the high unemployment rate among Brussels' inhabitants.