



The Politics of Labour Market Reform: How Belgium Can Learn From Successful European Precedents

This is the transcript of the speech given by Robert H. Cox, Visiting Fellow, at the first edition of the Itinera Institute Discussion series (Brussels, 21th February 2007).

Labour market reform has become one of the central issues in Belgian politics. A high level of inactivity, especially among the youngest and oldest members of the work force, have established Belgium firmly as a country with one of Europe's worst performing labour markets. Enormous pressure has been brought to bear on Belgium from the outside. A recent report from the Organization for Economic Cooperation and Development (OECD)¹, for example, is another in a series of reports by international organizations that is seriously critical of the performance of the Belgian labour market². The problem is also recognized within Belgium, at least it is widely discussed, and there is general agreement that the problem is severe and demands immediate action. Yet, the political establishment seems incapable of taking steps to reform labour market practices.

¹ Organization for Economic Cooperation and Development, *Jobs for Youth: Belgium*, Paris: OECD, 16 February 2007.

² For example, "Belgium: Momentum Slows," *OECD Observer*, Paris: OECD, December 2006; Commission of the European Communities, *A Year of Delivery: The European Commission's 2006 Annual Progress Report on Growth and Jobs*, Brussels: European Commission, 2006; International Monetary Fund, *Belgium: Selected Issues*, IMF Country Reports no. 05/76. Washington: IMF, March 2005.

The problem is not hopeless, as demonstrated by other countries that have had more success reforming labour market practices. Countries such as the Netherlands and Denmark offer lessons that could be helpful for Belgium. The lessons to be learned from these countries, however, are not the typical ones often discussed. The employment miracles both countries exhibited in the 1990s look less miraculous in recent years. Yet, the general trend has been towards improvement and to understand the improvement, one must look towards the less obvious changes.

In this article, I discuss the consequences of inaction and then focus on four types of reform that seem to work. The first is administrative decentralization. In Denmark and the Netherlands, administrative reforms were an important prelude to reforms of labour market policy. The second is to reform social benefits. This will create a stronger incentive to work. Third, include all the stakeholders, and make each of them equally responsible for the results. This is especially important for corporatist countries where the social partners have a strong role in policy making and policy implementation. Finally, introduce a creative discourse that frames these changes in a positive light. In both Denmark and the Netherlands, the discourses that surrounded the reforms generated broad consensus. Germany, by contrast, provides an example of a country



where the wrong discourse led to a polarization of the debate that delayed the reform project by many years.

Policy Drift and Reform by Stealth: The Consequence of Inaction

Policy areas that are highly controversial often are difficult to reform. Everyone expects big changes, the actors and interests raise their voices to shrill levels and dig in their heels. To resist change, actors exercise their veto power to stop reforms, believing that doing so will protect their interests. Yet, in circumstances such as this, immobility is not always the result. Two researchers in the United States have noticed that pernicious effects happen to policy areas when reforms fail.

When political leaders fail to enact reform, it is easy to assume that the status quo has

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been preserved. But, this is rarely true. Any policy area requires small adjustments and alterations. Each of these adjustments is insignificant, but over time their cumulative impact can be quite large. It is an outcome that Jacob Hacker³ describes as policy drift, and most often is the result of political immobility. A series of small steps, taken over a long period of time, can lead to dramatic change. Each individual step looks like a small departure from the previous one, but when the starting point is

³ Jacob Hacker, "Policy Drift: The Hidden Politics of US Welfare State Retrenchment," in Wolfgang Streeck and Kathleen Thelen, eds., *Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford: Oxford University Press, 2005.

compared with the present situation, the magnitude of the change can be shocking.

Sometimes this type of incremental change can happen without design or intention, but it might also be the result of a pernicious political strategy. Paul Pierson noticed that in advanced welfare states, the popularity of generous social support makes it politically difficult for political leaders to enact reforms. Any proposal for reform generates the ire of some group that feels its benefits need to be preserved. Yet, politicians feel the pressure to reform. They see the demographic and economic projections, they hear from other actors who want reform. In this situation, Pierson argues, political leaders respond to the pressure by following a strategy of "blame avoidance." Because any action will draw the blame of some group, they delegate decision making authority to bureaucratic officials, or implement reforms in ways where their

effects are unnoticed. Pierson applied this understanding to the experience of pension and tax reform in Britain and the United States in the 1980s. Strategies of blame avoidance, however, can have perverse effects. Pierson shows how blame avoidance in discussions of tax reform actually allowed special interests to preserve the tax concessions that everyone agrees makes the system unfair.

Swedish welfare reforms in the 1990s provide an example of how the significance of reforms can go unnoticed and have unexpected consequences. For the past fifteen years, Swedish governments have implemented small reforms to respond to demographic change and to recognize the



special needs of new groups. There is general agreement among Swedes that these small changes have helped to preserve the Swedish model. But, many of these changes reverse some of the most important achievements that are characteristic of the Swedish Model. For example, there has been a moderate decentralization of collective bargaining, the pension system is becoming more contributory, and there is much more paternalistic supervision of people receiving public assistance. It is too harsh to say that these reforms move in the direction of an American style welfare system, but they certainly mark a departure from the main characteristics of the Swedish model. The longer they go unnoticed, the deeper they will become entrenched. Moreover, they are the new foundation upon which future reforms will be built. It is easy to see the drift, if you are looking for it.

The lack of decision does not mean that the status quo will be preserved. It only means that the changes will be hidden behind the sclerotic public debate and that the results will be unexpected and probably sub-optimal.

The lessons for Belgium are clear. Political immobility today might allow politicians to avoid blame for controversial reforms to the labour market, but the lack of decision does not mean that the status quo will be preserved. It only means that the changes will be hidden behind the sclerotic public debate and that the results will be unexpected and probably sub-optimal.

Designing Effective Programmes of Activation

Activation programmes represent an effort to attack long-term unemployment, especially among the youth. They represent the new paradigm where welfare states help people to hold jobs rather than simply pay

them to sit idly. Belgium has programmes of activation, and in relative terms spends a lot of money on them. However; the results in Belgium are not as good as those in neighbouring countries, especially Denmark and the Netherlands. I will briefly discuss these to outline the lessons that can be learned.

The Danish activation programmes have received a lot of attention. They are not the panacea for full employment, as shown by the high number of older workers who leave the Danish labour market.⁴ But, the programmes of activation have been successful in keeping more people of working age in the work force and there are three main reasons they work well. First, activation programmes are operated at the local level by municipal officials, and those officials are given a wide range of freedom to design the programmes as they see fit.

This allows municipal officials to design programmes that fit local needs and which can be altered and adjusted more easily. The freedom exercised by municipal officials leads to a great deal of national variation in the way programmes are designed and administered. But, in Denmark, trading effectiveness for universal standards has paid off.

A strong tradition of local administration has always prevailed in Denmark and historically municipalities have been the primary locus for the delivery of social

⁴ Johan Albrecht, "Is Denemarken Europees Werkgelegenheidskampioen?" Memo 5/2006, Brussels: Itinera Institute, 7 December 2006.



services. Then, in the 1980s there was a large-scale overhaul of local administration in Denmark. Municipal boundaries, some of which dated from medieval times, were rationalized and many communes were consolidated into units large enough to effectively carry out their tasks. More importantly, in an effort to instil cost cutting, these localities were given more discretion over their budgets. Local governments had more freedom to move funds between different projects, depending on what their local needs were. Rural communities could move funds into care for the elderly, while cities could boost day care funding to accommodate their growing population. This decentralization had the effect of creating a capacity at the local level to carry out public tasks, and it fostered an ethos of designing programmes to fit local needs.

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Danish activation programmes is that they came with severe penalties for those who do not participate. The benefit system is divided into two phases. For the first six months, unemployed people receive their full unemployment benefit. Experience shows that during this time most people manage to find another job. The targets for activation, therefore, are the long term unemployed who have trouble finding work quickly. After six months, unemployed are expected to report for an activation programme or their benefits are reduced by 50%. This is a strong incentive for activation.

The third important characteristic is that the notion of activation is broad, applying to

anyone not in the work force, and not only the unemployed. After the first six months of unemployment, the difference between the unemployed and people on social assistance disappears. The expectation to be activated, therefore, applies to people who are receiving social assistance as well as those who are unemployed.

The types of activities that count as activation also are broad in scope, and this helps to preserve the Danish social net as a generous one. Mothers whose children are younger than school-age are considered to be activated and therefore receive their full benefits until their children enter school. Immigrants enrolled in Danish language programmes are considered activated. And, people with disabilities are exempted from activation. But for the rest of the population, the requirement is that they report to the municipal “job centre” for activation.

Job centres are a good example of how the strict benefit rules and the administrative decentralization allow officials to develop creative and effective programmes of activation. Some municipalities are very strict, while others are more lenient. One of the strict examples can be found in the city of Farum, which won the Bertelsmann prize for innovation in local government.⁵

The Production House, as it is called, demands that people receiving assistance

⁵ For a detailed discussion of the Production House in Farum, see <http://www.bertelsmannstiftung.de/cps/rde/xbcr/SID-0A000F0A-A202FDD5/bst/besch.pdf>;



work for their support. Because the long-term employed often lack the work habits they need to find and keep a job, strict rules of behavior are enforced. A dress code requires workers to look professional. Tardiness is not tolerated, nor is taking long breaks during the work day. Violations of these rules are punished with reductions of the assistance benefit for that day.

The activities at the Production House also represent real work. The Production House is located in the center of an industrial park and contracts with local businesses to provide work. For example, workers at the Production House take finished goods and box them for shipping. Companies benefit by paying reduced rates to outsource these activities. The income is used to cover the expenses of the Production House. Because the municipality has the ability to control how it spends its budget, all money brought in by the Production House frees money in the municipal budget for other projects.

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Farum's innovative example has been copied extensively across Denmark and the innovative spirit can be duplicated in other policy fields. A number of important lessons for Belgium can be drawn from this example. First, creating capacity at the local level can lead to activation programmes that are effective. The Belgian debate, which focuses on the responsibility of federal or regional authorities, needs to give more consideration to how local governments can be given the capacity to take on new tasks, and be provided incentives for carrying out the new tasks well. Second, the Danish example has a strong element of paternalism, but the source of this is pragmatic, not ideological.

The attitude is, "if people are to work, they must adhere to the norms of the work place. They can choose not to participate, but there will be consequences to those choices." It is difficult to identify the ideological center of this attitude, because it is pragmatic and realistic. Its focus is on the result (encouraging work) rather than an ideological principle (paternalism or individual autonomy).

The Social Partners Must Share Responsibility

The greatest challenge for corporatist economies is the role of the social partners. 'Insider-outsider' problems are created when the social partners use their institutional position to veto policy reform. The efforts by labour unions to protect jobs results in labour market regulations that discourage employers from hiring younger workers. Businesses also often use their institutional position to protect their markets

from competition, which block smaller and newer firms from realizing innovative ideas. Yet, the social partners are at the centre of any reform effort and the creative challenge is to involve them in a constructive rather than obstructive way. A contrast between few European examples is helpful;

In the Netherlands, programmes of activation similar to those in Denmark were adopted in the 1990s. And, as in Denmark, these programmes were accompanied by innovative administrative reforms that allowed municipalities to develop new capacities. The implementation of the one-stop shop in the Netherlands brings together employment agencies with municipal social



service officers. A strict regime of benefit reductions was enacted to provide strong incentives for inactive people to find work. Paternalistic intervention is expected of officials who must help clients develop 'Individual Action Plans' for returning to work. Yet the results are disappointing. Only a small portion of the target groups are indeed activated.⁶

Part of the problem in the Netherlands is the labour-intensive design of the activation schemes. Employment services focus

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individual attention on clients. The way to improve their performance is to grant them more staff to help them better serve more clients and to police the flow of people out of the work force. A recent study by the Dutch Central Planning office underscored this point, concluding activation is more effective when more staff can be committed to the project.⁷ Such labour-intensive designs, however, are not the most attractive examples.

Activations programmes are only successful if the employers play a strong role. Employers need to think the programmes provide them value, or they will not participate. A study carried out by Cathie Jo Martin,⁸ a professor at Boston

University, offers a stark contrast between the positive role played by employers in Denmark, and the weak involvement of employers in Tony Blair's New Deal, and sheds light on the factors that encourage employers to take a positive role.

In Britain, participation by employers in the New Deal activation schemes is very low, and more likely to involve firms that employ low-skilled workers. Martin discovered that this is due to a perception that the workers available via the New Deal

schemes are not of high quality and lack skills. Exploring this further, Martin noticed higher rates of participation in the schemes by two types of employers; those who were cozy with the Labour government and those that had a high share to sales to the public sector. In both cases, employers were motivated by the gain that they expected, but this gain was motivated more by their desire to maintain good relationships with the Blair government, than to their support for the activation schemes.

In Denmark, by contrast, Martin found that a high percentage of employers participate in activation schemes, and that this includes employers with high-skilled blue collar workers as well as low-skilled workers. Exploring this finding, Martin discovered that Danish firms have a more positive impression of the results produced by activation programmes. Activation programmes in Denmark include retraining schemes designed to upgrade the skills of the work force. As a result, Danish

⁶ Wim Oorshot, "Balancing Work and Welfare: Activation and Flexicurity Policies in The Netherlands, 1980-2000," *International Journal of Social Welfare*, 2004, 13: 15-27.

⁷ Pierre Koning, *Measuring the Effectiveness of Public Employment Service (PES) Workers An Empirical Analysis Based on the Performance Outcomes of Regional Employment Offices*, CPB Discussion Paper 73 Den Haag: CentraalPlanBureau, December 2006.

⁸ Cathie Jo Martin, "Corporatism from the Firm Perspective: Employers and Social Policy in

Denmark and Britain," *British Journal of Social Policy*, 2004, 35: 127-148.



employers feel the activation programmes bring better workers to the labour market.

Moreover, another important finding was that employers associations in Denmark played a crucial role in increasing participation. Firms were more likely to be involved in activation programmes if they belonged to the associations that vigorously promoted participation as part of a new ethos of 'corporate responsibility.' This suggests an important positive role for groups who represent the social partners. Employer and labour organizations can become information conduits, helping inform their members of the opportunities

For example, the idea of 'flexicurity' is now well known. It is a creative way of recasting the debate about how to make the workplace more flexible. Following the old debate, flexibility meant reducing labour market regulations so that employers had more freedom to reduce and increase the size of their work force. If flexibility is only seen in this way, it is indeed the opposite of security, which guarantees a worker a secure place in the firm, as well as a secure income. But, in the Netherlands, novel perspective. On the one hand, it is the reduction of labour market regulations that employers desire. On the other hand, flexibility also includes more diverse forms

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activation programmes offer, and encouraging them to embrace a sense of corporate social responsibility. At the same time, their communication with public officials can help in the development of more effective public private partnerships, rather than protecting the narrow interests of their membership.

Initiate a Creative Discourse to Build Support for Change

Countries that have successfully enacted reform have been helped along by leaders who were able to frame proposals in a positive way. These 'policy entrepreneurs,' we might call them, helped to take controversial issues and present them to the public in a way that allowed a large number of diverse interests to see a positive benefit in the changes. By careful framing of the proposals, broad consensus was achieved.

of labour contracts that allow people to accept jobs that deviate from the normal full time work. Part time labour contracts, that still have all the social benefits of a full time job, were cast in Holland as ways for modern families to balance the conflicting pressures of work and home. Today, households are more likely to be comprised of two income earners, or a single parent. The old breadwinner idea of a man working outside the home, and a woman working inside the home, is quickly becoming as quaint as rotary dial telephones. For the new households, balancing work and home obligations are difficult if the only option to work is to take a full time job. Opportunities for part time work, therefore, benefit both employers and employees. It takes creative thinking to see how this is the case and to present it to the public as a positive development.

Another creative discourse in both the Netherlands and Denmark was a new discussion over the foundation of social



rights. Social rights, we have all been told, are things governments owe to their citizens. But, in the Netherlands and Denmark, during the 1990s, a vigorous discussion recast rights as reciprocal relations between the state and citizens. In other words, the rights citizens have also impose duties, and the most important duty is to work. It is through work that societies are able to provide for those less fortunate. In both the Netherlands and Denmark, the people who initiated this discussion were careful to distinguish their arguments from the neo-liberal attack on the welfare state. In Denmark, policy entrepreneurs argued that the obligation to work was a well established Danish tradition, even mentioned in the Danish constitution.

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Danish history and culture, therefore, were the source of social obligations, not part of some neo-liberal agenda. The way the issue was framed helped diffuse opposition and generate more support for reforms.

In the Netherlands, a similar new discourse developed, but also interesting in the Dutch case was an important shift on the political left. The *Partij van de Arbeid*, which had built its support by being the party that advocated a just redistribution of the fruits of capitalism, discovered that any theory of redistribution had to also have a well-considered theory of production. After all, Karl Marx knew this. His dictum, “from each according to his ability” means that you have to expect people to contribute to their society in some way. This was the foundation of a vigorous critique of the social benefits that create a disincentive to work, and especially the disability programme, which is still the Achilles heel of the Dutch labour market. At the extreme

was the PvdA’s Minister of Social Affairs, Ad Melkert, who once quipped, “I always believed that those who do not work, should not eat.” The more mainstream members of the party took the more pragmatic position that in an age of tight budgets, assistance has to be targeted on those who really need it, and not everyone who can claim it. The position is pragmatic rather than principled, but it is more compelling morally.

Germany provides an example of a country where an ill-conceived discourse led to political polarization years of delay in reform. In the 1980s and 1990s, Germany attempted to use the issue of global competitiveness to justify labour market reforms. The argument was that unless

wage costs were lowered and labour regulations were relaxed, German industry could not compete with other countries in a more globalized world. The *Standortdebatte*, as it was called, led to stalemate as German employers demanded reform and labour unions opposed the insecurity that would result. When the labour market is based on the principle of security, reforms in the name of global competitiveness only increase insecurity. The polarization that resulted continued to plague German politics throughout Gerhard Schroeder’s tenure as Chancellor. It took fifteen years after the *Standortdebatte* before serious labour market began to take hold.

The lesson of discourse is to find elements of tradition that are more powerful than the ethos of the welfare state. Tradition, after all, reaches back many generations, while the welfare state is really only one generation old. Welfare states are popular



for the security they produce. Therefore avoid drawing attention to the insecurity that comes with adaptation to the global economy and emphasize the opportunities for balancing work and home that the global economy presents.

Lessons for Belgium

Despite the lessons that can be drawn from other countries, none is a perfect example. Denmark has great programmes of activation, but its early retirement programme is a national scandal. Virtually every Dane leaves the work force by the age of 60 and expects his or her children and grandchildren to support a very long retirement. The Netherlands still has not fixed the perverse incentives in its disability

There certainly is a crisis in the Belgian labour market, but the most successful reform will come from those who pick easy targets and steadily mark progress. Endurance will be more valuable than speed in this struggle. For example, the way to raise the retirement age is not to immediately make changes, but to make changes that will take effect in ten years. The fifty year old who expects to retire in five years will be angered by a change in the early retirement programme. But, if the rise in the early retirement age takes effect in ten years, the thirty year old worker will have lots of time to get used to the idea that he will stay in the workforce longer than his father. In the mean time, change the incentive structure for the person who chooses to retire early. This will not fix the

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programme. Yet, both countries have had some success and where they have been successful in reforming their labour market practices, the results have paid huge benefits.

problem immediately, but over time it will create more support for more ambitious reforms, and the next generation will not possess the sense of entitlement that was instilled in the post-war generation.

One lesson to draw from this is to not be overly ambitious, or overly impatient. There is a temptation in the face of strong pressures to invoke the fear of an impending crisis to push all parties into action. Crises can often do this, but people are clever and usually respond with caution to those who see crises on the horizon. The danger is that casting labour market reform as a crisis raises the stakes too high for all parties. When everything is on the table, everyone works hard to protect as much as they can. They set their heels and resist compromise on anything that can cause them damage.

Another important lesson is to encourage more innovation in the public sector. Decentralization is one example of how this can be done, but the bigger issue is to turn public officials into social innovators, not pencil-pushers. Active labour market policy is not a punishment for people who already have a tough life. It is a way to combat social exclusion by giving people a social connection the rest of us already enjoy.

Finally, the most important lesson is to focus attention on things that are least controversial and provide the biggest payoff. Education reform and retraining



should be at the top of the list. The biggest mistake Belgium, and many European countries made, was to protect the incomes of people who have skills no employer wants, and who expect to do the same job for their entire working life. Giving unemployment benefits to young people who have never worked, for example is foolish. Like in Denmark, unemployment benefits should be a short term support while one is looking for a new job. Like in Britain and Holland, incentives should be introduced into the educational system to

encourage people to study in the fields where there are jobs, and to dissuade students from studying in fields that have high levels of unemployment. These changes are not dramatic, the results will not be immediate, but they will provide a solid foundation for a labour market that is more closely aligned with the needs of the contemporary global economy.

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