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Trends, Recent Developments, "Feeding in" and "Feeding out"

A Study of National Policies

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Executive summary

Generally speaking, the NRP progress report appears to reflect a double discourse, with a lack of coherence between the economic and social objectives: a very consistent, orthodox growth-employment nexus with rather marginal references to social inclusion is supplemented with a series of heterogeneous measures aimed at safeguarding the social cohesion and inclusion objectives.

The Belgian version of the Lisbon strategy is characterised by a rigorous, orthodox budgetary and monetary policy aimed at restoring the major macro-economic equilibria that were so severely broken in the past. Public debt is being steadily reduced, while government budgets tend to display a slight surplus in recent years. Those surpluses are being invested in the 'Silver Fund' to face the challenges of the ageing society in the coming decades. The social security system participates in this operation through a strict financial discipline, thus preserving its own sustainability in the long run. Can we define this as a case of 'feeding out'? Whereas the orthodox policy certainly creates the necessary conditions for the prevention of large-scale social exclusion in the next generation, it does not provide the 'sufficient conditions'.

Admittedly, social benefits are being upgraded and their pace of growth will be linked to the overall growth of welfare in the future. At the same time, however, some of the lowest benefits are kept below the poverty threshold and no correction is made for the fact that the price increases of basic goods (housing, energy and, recently, food) disproportionately affect the lowest income groups. The dominating 'making work pay' strategy, building mainly on selective tax cuts for working people, is *designed to raise the gap* between working and non-working households, so that eventually inequality and social exclusion cannot but increase.

The basic paradigm underpinning Belgian labour market policy remains '*making work pay*' – i.e. the line of thought propagated through the OECD and the European Employment Strategy in the 1990s, a doctrine that proved modestly successful in terms of employment but far from successful in terms of social inclusion. All too often, 'making work pay' has been the key argument to keep benefits down (or indeed, cut them back) and to activate job seekers into precarious jobs. No wonder, when efforts are concentrated on boosting effective labour supply – at given levels of labour demand - employment rises but wages, contract terms and labour conditions tend to deteriorate. The rise of 'working poverty' and the Americanisation of European labour markets (including, to some extent, the Belgian labour market) must be largely attributed to this approach.

Recent analyses, both at the OECD and the EU level, have acknowledged this failure on the social inclusion front (see e.g. OECD 2006a). The emphasis has shifted towards the new 'flexicurity' paradigm which combines *stronger* social protection with more flexible labour markets. The Belgian NRP Progress Report openly admits (p.49) that "*virtually no progress has been made with the development of a coherent 'flexicurity' policy, with the aim of striking a new balance between flexibility and security to make it more favourable to the large numbers of 'outsiders' in the Belgian labour market*". On the contrary, the ongoing negotiations between the new centre-right coalition partners tend to emphasise further activation and exclusion of the long-term unemployed as the core of their social policy.

Negative feeding-out effects on social inclusion have been generated by the liberalisation of energy markets. In combination with increasing energy prices, the recent reforms seem to have hit the most excluded most. There has been an increase in the number of households unable to pay their electricity bills, while the number of households that use a budget meter has increased. The recently announced increase of energy prices by providers is likely to aggravate the situation for low-income households. The implementation report remains quiet about this side effect of the liberalisation of energy markets.

As regards feeding in, the role of education and lifelong learning policies for socially excluded groups in fostering economic growth and achieving the knowledge-based economy, i.e. the core of the Lisbon Strategy, seems to be strongly underestimated in the Belgian Lisbon Reform Programme as well as in its progress report. Different pathways may lead to the knowledge economy. At one extreme, the ‘high-end’ approach stresses investment in R&D, high-tech industry and top qualifications as the key to competitiveness and growth; at the other extreme, ‘lower-end’ measures attach greater importance to universal basic objectives such as qualified school-leaving, basic ICT literacy etc. The latter approach is definitely more inclusive and not necessarily less efficient.

It seems like the Belgian NRP has not made any choice in this regard. The section on the innovating economy (section 2.1) heralds the high-end approach and totally disregards the other one. The section on quality jobs (section 3) admits that the rate of participation in lifelong learning is declining and that this may be attributable to excessive restrictions in educational leave regulations. It ignores that the rate of unqualified school-leaving is on the rise. Nevertheless, some of the following sections do mention efforts to raise e.g. the quality of part-time vocational education (which serves the most disadvantaged youth), or to boost labour market training for job seekers.

1. Context – key trends and challenges [1]

According to Marlier et al. (2006) Belgium can be classified into a cluster of nine ‘rich and solidary’ member states of the EU27. Nevertheless, on the basis of internationally comparable indicators, Cantillon et al. (2007) demonstrate that, within this group, Belgium tends to slide back from a very favourable to a rather modest position as regards equality and social inclusion. Significantly unfavourable gaps between the Belgian scores and the corresponding averages of the ‘rich and solidary cluster’ are observed for the following indicators:

- inactivity rates, jobless households, youth unemployment, long-term unemployment,
- overall dependency on benefits, dependency on pensions, unemployment benefits as well as the guaranteed minimum income,
- overall poverty rates, poverty rates among benefit recipients and elderly people.

The most worrying conclusion in the report by Cantillon et al. is a sort of macroeconomic poverty trap. This must not be confounded with the traditional poverty traps in labour supply, which refer to the fact that job search is discouraged by high implicit tax rates. On the contrary, the causality chain runs into the other direction. Due to the combined effect of high dependency rates and budget constraints in the social security system, benefits per capita are kept low and do not adequately protect citizens against poverty.

[1] We decided to invert the order of the headings proposed in the guidelines for this report, as the ‘key trends’ are the backdrop against which the progress report can be assessed. Note also that some of the key trends are discussed within sections 2 and 3 below.

Compared to previous decades, it seems that the strong reputation of the Belgian social security system is losing ground: the level of benefits has been eroded and eligibility criteria have been tightened, so that the effectiveness of the system in preventing poverty has deteriorated. This conclusion applies not only to average benefit levels, but also to the minimum benefits (see Van Mechelen et al., 2006).

The policy implications of the report are obvious: (a) activity rates need to increase in order to safeguard the sustainability of the social protection system and simultaneously reduce the number of benefit recipients, and (b) benefits need to be lifted up to more decent levels.

The next page will discuss a selection of recently introduced measures at the federal level that are relevant for the problem of social exclusion and were introduced to improve the situation of groups at risk.

To support lone parent families financially, a supplemental 20 euro child allowance per child per month for single parents was introduced. With this measure, the government takes action to improve the financial situation of lone parents, who are faced with an increased risk of poverty[2]. 63.000 children are eligible for this supplement.

High energy prices have become a chronical problem for low-income families. A social rate for energy bills has been in place for a couple of years but as a consequence of the liberalisation of the energy sector, this social rate varied between suppliers. The downside of this is that in some areas the social rates were more expensive than the regular rate in other places, depending on the supplier. To solve this problem, the government decided that the cheapest existing social rate would apply the entire country. Another measure that improves the rights of low-income families is the automatic assignment of the social rate. Energy providers have access to administrative data and apply the social rate automatically to those who are eligible. In this way, eligible persons no longer need to apply for it. With this measure, the risk of non-take up becomes much more limited. Later in this paper, the consequences of the increasing energy prices and liberalisation of the energy sector are discussed in more detail.

In April 2007, the minimum wage was increased by 25 euro a month. In order to strengthen the effect of this measure, a proposal of decree was issued that this amount is exempted from social contributions, also in the future.

Persons and families who live in poverty are entitled to free legal aid. The income threshold for eligibility was increased to 822 euros / month for single persons and 1.176 for families. In January 2008, a juridical counter will be set up to facilitate access to this service for the target group.

Housing costs make up for a large share in the budget of low-income families. The payment of the rent-deposit is also a serious obstacle for these families, making it difficult to find housing. The new Rent Act which was implemented in May 2007 obliges banks to advance payments to tenants who lack the resources to pay for the deposit themselves. Banks cannot reject applicants on the basis of their creditworthiness record, nor can they charge any interest on the advance-payments. Some banks have already appealed against this measure and in practice, the measure misses its effect since banks often refuse to comply with the legislation and charge high costs for this service.

2. Feeding out

The core of the analysis in this section will deal with the 'active welfare state strategy' that characterises the Belgian socio-economic policy since 1999. Further, our attention will be focussed on three of the country-specific 'points to watch' (PTW) identified in the recommendations of the EC to Belgium in the context of the Lisbon Reform Programme:

- ensuring the long-term sustainability of public finances;
- improving competition in gas and electricity markets; and
- increasing the employment rates for older workers and vulnerable groups.

2.1 Labour market policy and social inclusion

One of the goals of the National Reform Programme (NRP) is the creation of more jobs. The overall record of the Verhofstadt government in terms of employment creation is quite good: over the past four years, 200 000 new jobs have been created in Belgium. The NRP Progress Report links this goal to the creation of a more inclusive society. Formulated in this way, it looks like an obvious example of feeding-out, and the Progress Report also seems to suggest that this is a desirable effect, in line with the EU expectations. However, a number of criteria need to be fulfilled before more jobs and growth result in genuine social inclusion effects. For a good assessment, more indicators are required than those currently available. It would be useful to use the population most at risk as the touchstone to assess the outcomes of specific measures.

The Progress Report does offer an overview of actions targeted at disadvantaged groups, as well as the partners involved. The implementation of diversity and activation measures is regarded to be the main solution for the groups most at risk. However, what is missing in the report is a detailed evaluation of these initiatives and an assessment of whether or not the labour market position of these groups has eventually improved.

As for job creation, the following questions can be asked:

- Are these jobs also for the low-skilled and for those furthest away from the labour market?
- Can these jobs be called decent in terms of quality and remuneration?
- Are there economic gains for all groups, including the poor?

2.1.1 The diagnosis

According to the latest labour market participation figures, Belgium had a participation rate of 61.3% and an unemployment rate of 8.1% in the first quarter of 2007. The unemployment rate is 0.4% lower compared to the first quarter of 2006. The EU 25 average was 8.0%.

Despite the increase, the overall participation rate of 61.3% is still significantly lower than the envisaged 70% target for 2010. There also remain important regional, gender and age differences. Flanders comes closest to the 2010 target, an overall employment of 70%. The Walloon region is furthest away from this target. It has to be noted that, compared to 2005, there has been a small decrease (0.2%) for Flanders in general. For the age cohort 50-64 there was a modest improvement of 0.7%. This indicates that the measures taken to retain older workers in the labour market are beginning to have an impact. Despite the lower overall participation rates for Brussels, it is the region with the best result for the age cohort 50-64. Turning to men's participation rates, Flanders has the best results, except for the older age cohort (50-64). Again, we find better results in Brussels. These intermediate results show that Belgium has a long way to go in bridging the regional gap. This was also considered as a priority by the European Commission following the evaluation of the previous Progress Report.

The Progress Report states that for the overall female and elderly employment rates, only moderate progress is being made. This progress is also happening at a lower than average EU pace. In terms of activation, Belgium has managed to enrol 30.2% of the long-term unemployed in activation programmes.

As for women, the figures illustrate that the bottleneck relates to the age cohort 50-64.The participation rates for this age cohort are considerably lower than those of their younger counterparts. The two younger cohorts exceed the 70% target in all regions and exceed 83% in Flanders. Women in this age cohort outperform their male peers in Brussels.

Table 1: Employment rates by region, age and gender

2006	Belgium	Flanders	Walloon region	Brussels
15-64	66.5	68.4	63.6	64.9
25-49	86.7	89.4	83.8	80.5
50-64	48.4	48.7	47.1	51.6
Males				
15-64	73.4	74.8	70.9	73.1
25-49	93.1	94.8	91.4	88.9
50-64	58.8	59.4	56.6	62.8
Females				
15-64	59.5	61.8	56.2	56.9
25-49	80.1	83.8	76.1	72.0
50-64	38.2	37.8	38.0	41.3

Source: Labour Force Survey, FPS Economy, Directorate General Statistics Belgium

The Progress report suggests that the development of a coherent flexicurity policy can contribute to further improving the labour market, and that this is to the benefit of the group of outsiders. However, the report remains very vague as to what the content of such flexicurity policy should be and how this would benefit the group of outsiders. The lack of elaboration on this topic is a weakness of the report.

Furthermore, the Progress Report praises the progress that has been made with regard to diversity and lowering the fiscal pressure, but acknowledges at the same time that Belgium has a long way to go in specific areas. Looking at the target for lifelong learning, the latest figures point to a decrease in participation and also point to an unbalanced participation of high- and low-skilled persons. Another bottleneck on the road toward more participation in training and education is the number of employees who participate in training and courses. With a participation rate of 39.6%, the target of 50% by 2010 will be hard to achieve.

2.1.2 The active welfare state strategy: an overall assessment

First of all, let us look at the generic features of the Belgian 'active welfare state strategy' from the viewpoint of social inclusion. In doing so, we do not question the validity of its overall objectives, i.e. raising activity rates in order to strengthen the sustainability of the welfare state. These objectives can be seen as 'necessary, but not sufficient' conditions for social inclusion. (A sound financial basis for the welfare state in the future does not guarantee that the future welfare is fairly distributed.)

Overall, the Belgian strategy rests on several pillars:

- lowering the tax wedge on wages – low wages in particular – in order to boost the demand for low-skilled work,
- by the same token, raising net wages in order to reduce unemployment traps and encourage work ('making work pay'),
- tighter monitoring and stronger activation of job seekers
- wage moderation,
- active ageing,
- development of local services (e.g. by means of service vouchers)
- lifelong learning
- fostering (interregional) mobility

The order of the bullets reflects more or less the actual relative weight of the policy elements, with an overwhelming primacy of financial and activation measures. The Belgian active welfare state can be considered as an example of the classical active labour market policy paradigm, with a strong emphasis on 'making work pay' and activation. Apart from the desired effect of lower wage costs on labour demand, the aim is to boost effective labour supply so as to raise employment while compressing wages (Layard, Nickell and Jackman, 1991).

Within this paradigm, generous compensation schemes with 'soft' admission criteria, high benefit levels and a long duration of entitlement, are seen as potentially harmful because such regulations may imply a minimal welfare loss (or indeed welfare gain) for non-employed beneficiaries, thereby reducing the incentives to re-enter the labour market (moral hazard effect). As a consequence, social insurance may discourage employment and become counter-productive. The OECD Jobs Study (OECD 1994) therefore advised Member States (if necessary) to reform their unemployment benefit systems, restrict entitlement periods and reduce replacement ratios in order to 'make work pay'. The EU Employment Guidelines, developed around the turn of the millennium, urged Member States to "review and, where appropriate, reform their benefit and tax systems to reduce poverty traps, and provide incentives for unemployed or inactive people to seek and take up work". Although Belgium has opted for a moderate version of this policy approach, prioritising tax cuts on (low) wages over benefit cuts, it cannot be denied that this approach has involved (a) restrictions on the benefit increases which were necessary to lift jobless individuals out of poverty,[3] (b) tighter eligibility conditions and more sanctions pushing a number of benefits claimants into poverty,[4] (c) the proliferation of precarious jobs in the context of activation programmes.[5]

Whereas the positive effect of ‚making work pay' and activation measures for some particular groups (such as single parents, part-time workers, older workers or minimum income recipients) cannot be denied, their macro-economic employment effect is less obvious and their impact on social inclusion is highly questionable (Nicaise, 2007). Even though some disadvantaged groups of job seekers may see their employment opportunities improve, the quality and sustainability of their jobs is often doubtful. Using a dynamic simulation model, based on the observed employment and income dynamics of households in the 1990s, we conclude that even on the individual level the anti-poverty impact of activation programmes in Belgium is bound to be short-lived (De Blander & Nicaise, 2006). And in a comparative study of 13 EU countries in the 1990s, we even find adverse effects on social inclusion on the macro-level: paradoxically, the more a country spends on active labour market measures, the more people move into poverty and the fewer move out of it (Groenez & Nicaise, 2004). Without generalising our conclusions to any kind of active labour market policy, we just want to question the simplistic argument that ‚jobs are the best weapon against poverty'.

Making work pay and activation have considerable adverse side-effects, which tend to be underestimated: downward pressure on wages and contract terms, low-quality and precarious activation programmes, substitution and crowding out effects, exclusion through sanctions etc. In order to avoid such effects, it is necessary (a) to boost the demand for low-skilled jobs rather than the supply of low-skilled labour, (b) to invest in the employability (skills, health, family-related services, mobility etc.) of disadvantaged groups, and (c) to carefully monitor the poverty impact of eligibility conditions and sanctions.

As regards points (a) and (b), some measures have been taken but one may doubt whether they have been sufficient. The human capital dimension of employability will be discussed in greater depth in subsection 3.2. As regards point (c), the old unemployment legislation provided for an income check before suspending the benefits of long-term unemployed individuals, thus protecting the weakest groups against sanctions. As the new activation programme does not contain any such clauses, the risk of poverty as a consequence of sanctions has actually increased. Some municipal social services have witnessed a boom in the number of sanction-related applications for the guaranteed minimum income. What is worse, is that sanctioned job seekers often either think that they also lose their entitlement to the GMI as the last safety net, or are actually denied access to it (Groenez & Nicaise, 2002).

2.1.3 Lowering the fiscal pressure on labour

Belgium is one of the countries that impose high fiscal pressure on income from labour. Looking at the average fiscal pressure, Belgium, with a maximum income tax rate of 42.8%, scores higher than the EU 25 average of 35.6%, and only Sweden and Italy have higher tax rates (High Council of Finance, 2007). If we break this down into pressure on wages in terms of employer and employee contributions, it scores better for employer contributions, but the fiscal pressure on

[3] See e.g. the very slow pace of increase of the guaranteed minimum income, despite consensus that it is still far below the poverty threshold

[4] See e.g. the ongoing activation of the long-term unemployed, which raised the number of suspensions

[5] See e.g. the extensive use of temporary jobs (art. 60§7 of the law on municipal social welfare centres) for the activation of minimum income recipients

employee contributions remains high. The fiscal pressure on single persons without children is also considerably higher than for one-earner families with children. In the light of the changing demographic situation (more single persons, higher divorce rates), one can question whether the marriage quotient is still an appropriate tool.

Having these figures in mind, it is not surprising that a number of efforts have been made to reduce the fiscal pressure on labour. A further reduction was also recommended by the European Commission following the 2006 Progress Report. It is clear that Belgium is taking this recommendation seriously and is continuing to work on a further reduction in the fiscal pressure on labour.

A look at the outcomes of the Belgian efforts reveals that they are beginning to pay off. In a European perspective, the reduction of the fiscal pressure on labour is largest in Belgium. The estimate is that the fiscal pressure on labour will have decreased by 1.45% in 2007 compared to 1999.

Since the fiscal pressure is most problematic for persons with low incomes, measures have been predominantly targeted toward this group and towards young and older employees in particular. For young people aged 19-29 with low incomes, 240 million euros have been set aside to reduce social contribution payments. Most of these measures imply a reduction of social contributions for both employers and employees.

To stimulate research and to boost a knowledge based society, employer social security contributions on *researchers'* salaries have been reduced as well; moreover, the personal income taxes on these wages can be kept and re-invested by the employers. Although there may be legitimate arguments for this favourable treatment of researchers (from the perspective of the Lisbon agenda) one must keep in mind that such operations partly offset the effect of tax reductions on low-skilled labour through inverse substitution effects.

At the same time, the introduction of tax exemptions for the so-called '*notional interest deduction'* has meant a very substantial tax reduction on the equity capital of companies. Some analysts see a relation between this measure and the unprecedented booming of foreign investments in Belgium in 2006 (a doubling compared to 2005). Yet, the notional interest deduction has become effective as from 1st January 2006, and it would be surprising to see the investment boom follow a policy measure so quickly. Even though a positive impact can be expected, one should be aware, once again, that tax cuts on (income from) capital trigger substitution effects with labour and thereby (partly) offset the reduction of taxes on labour that we discussed above.

All in all, Belgian fiscal policy shows a rather incoherent pattern except for the fact that any opportunity to cut back on taxes is being used. The targeting of measures towards disadvantaged groups of workers is thereby called into question. Apart from the complex 'factor allocation effects' of this untransparent policy mix, the income distribution effects and the effects on the government budget (including social expenditure) should be considered as well. This is a good example of the potential usefulness of 'social impact analysis' which has been advocated in the context of EU policies. It seems more than desirable to estimate the net outcome of recent Belgian tax policies on social inclusion.

2.1.4 Targeted activation programmes (PTW 4: increasing employment for older workers and vulnerable groups)

Older workers

The ageing population, combined with the fact that Belgium has low participation rates in the age cohort 55-64, means that efforts to increase the participation of this group in the labour market are more than necessary. Most of the measures to improve the labour market participation of older workers were introduced by the Generation Pact, which has been gradually implemented. It is too early to fully assess the outcomes of this Pact since not all measures are already in force. The indicator ‘age at which one leaves the labour market’ is increasing, but the employment rates of the older age cohorts remain low compared to the other EU countries.

Activation measures and increased monitoring of the job search behaviour of the unemployed are among the principal measures being undertaken to smoothen reentry into the labour market. The increased monitoring of job search behaviour has been introduced stepwise, and since 2006 the policy is being applied to older (40-50) unemployed persons as well. In view of this cohort’s difficulties in the labour market, the consequences of these measures may be harder for them to deal with than for the younger age cohorts. This issue cannot be treated as if it were unrelated to the problem of older workers in the labour market, and efforts to raise awareness among employers should be an integral part of the approach. One can question whether financial incentives (through a reduction of employer social contributions for older workers) for employers to retain their older workers are sufficient and effective. Further measures to upgrade the skills of this group are desirable, as well as sensitising employers to establish programmes for older workers and properly invest in this group of employees. The Progress Report mentions the call of the social partners for special training programmes for this group. Employers also see the linking of seniority and the wage level as an important bottleneck. This is a topic for negotiation among the social partners involved in the social dialogue.

Migrant workers

Another group with a weak labour market attachment are *migrants*, and the Progress Report mentions a further deterioration of the unemployment gap between them and the native population.

Migrants in Belgium are still faced with very high unemployment rates, and from a European perspective Belgium scores badly in this regard. Both in the Strategic Report and the Progress Report, only limited attention is given to this problem and to possible measures to resolve it. In the Strategic Report, one of the chosen priorities is Activation and Diversity. This is a very broad priority that does not directly target ethnic minority groups/migrants. Rather, it brings a range of challenges together in one priority. In view of the marginal position of migrants in the labour market and the reported educational disadvantage experienced by the second generation, one wonders why no more attention is being given to this group. Targeted measures are often viewed as being stigmatising. This is a valuable argument, but one can question whether general measures such as those presented in the Strategic Report will help to improve the labour market situation of migrants. Whereas recent debates tend to focus on new immigration flows (of ‘desired’ immigrants), strikingly little attention is being given to specific problems of migrants who are already in the country. A better knowledge of this group may help to prepare new initiatives. Measures to improve and upgrade their skills should be considered as well.

The Flemish employment services just launched a pilot project that involves home visits to unemployed migrants. The goal of this project is to reach the difficult-to-reach group of low-skilled unemployed migrants and to offer them information about their services. The project will kick off in Antwerp and then be introduced in other large cities with a migrant population.

Job search monitoring

The Progress Report clearly expects a lot from the *job-search monitoring* measure. A recent evaluation of this measure for the youngest age cohort (25-29) shows that the effect of this measure in Flanders is positive for job seekers with a high education level (Cockx, Dejemeppe and Van der Linden, 2007). A positive effect is also noted for the unemployed who have recent work experience, for women and for unemployed persons in areas with low unemployment rates in the Walloon Region. In Brussels, the effect of this measure for young unemployed persons is very modest.

These results also contradict to some extent the expectation that this measure would decrease the regional differences. It seems that the impact of the measure is differentiated across the regions. Another measure that is considered to have contributed to decreasing regional differences is the increased collaboration of the regional employment agencies in propagating their vacancy notices across the regional borders. Language barriers remain an important problem for the unemployed in Brussels, because it prevents them from taking advantage of the job opportunities in Flanders.

2.2 PTW1: Sustainability of public finances and social inclusion

The last couple of years, Belgium has been doing well and has presented a series of balanced budgets. The good economic climate has also been a help in achieving this positive result. The 2006-2009 Stabilisation Programme prescribes a budget surplus of 0.2% of the GDP as being necessary to continue a further reduction of the public debt.

For 2008, however, a deficit of 0.2% was announced by the Belgian National Bank instead of the expected 0.2% surplus. There is still uncertainty about the 2008 budget, but it is likely that the predictions of a deficit are realistic. Again, some analysts attribute the unexpected deficit to an underestimation of the effect of the ‘notional interest deduction’ discussed above (see section 2.1.2). As a consequence of the expected slowing down of economic growth in the coming years, it will also become more difficult to generate surpluses. The expensive euro is also a barrier, since Belgium is very dependent on exports.

All this may lead to more restrictive measures in the social field. Cutbacks in unemployment benefits and health expenditure are currently being discussed in the context of the new government formation. The sensitive issue of a partial regionalisation of the social security system may also mean, in practice, that Flanders will *want* to impose cutbacks whereas the other Communities or Regions will *need* to do so...

2.3 PTW 3: Increasing competition in gas and electricity markets

One of the main EU instruments in the Lisbon Reform Programme is the liberalisation of services. The energy sector is one of the sectors in which this process of liberalisation is taking place. Until now, the reform has failed to produce the expected welfare gains: on the contrary, the public monopoly in Belgium has been replaced with a private quasi-monopoly (with a market share of the main producer as high as 85%). As a consequence, prices have risen considerably and keep rising, the quality of services has deteriorated, and grassroots organisations of socially excluded groups have already expressed their concern about the the consequences of a business climate in which profit objectives take precedence over public service objectives (see Nicaise et al., 2004, Chapter 3). During the summer of 2007 some of the electricity providers announced a considerable increase in their energy prices. It is estimated that the annual bill for an average family will increase by (at least) 105 euros. Whereas energy providers claim that this increase is necessary to cover their distribution costs, analysts and consumer organisations rather point at the lack of competition as the explanation for this increase. The Progress Report acknowledges that further measures are necessary to boost competition in the energy sector but remains silent about the negative side-effects of the liberalisation. Recently, more control tasks were assigned to the CREG (Commission for the Regulation of Electricity and Gas Markets), but the recent increase in energy prices and the fact that the CREG has no power to do anything about it shows that the consequences for the consumer are not fully under control.

For low-income families, this increase may have even more serious consequences. Figures for 2006 from the VREG (Flemish Regulation Body for the Electricity and Gas Market) indicate that one million families in Flanders received at least one reminder for their electricity bill, an increase of 9%. There was also an increase of 9,500 in the number of families using a budget meter. 3,500 families had a restriction meter installed, which means that they can use no more than 10 Amperes. Flanders has already taken some measures in the past to tackle the issue of energy poverty, and the law states that families cannot be cut off in the period December-March, though this system is not watertight and poor families are still in a vulnerable position. (De Morgen, 16 October 2007).

3. Feeding-in aspects

3.1 Strengthening the social security system

Throughout the years, Belgium has made considerable efforts to make its social security system sustainable. 0.057% of the GDP is reserved to compensate for the devaluation of the benefits by inflation. This measure aims to *increase consumer confidence* and to guarantee a decent standard of living for those who have to rely on social benefits. The reference to consumer confidence is interesting as it points to a feeding-in effect, building on the old Keynesian principle that income redistribution boosts consumption and thus generates multiplier effects.

The Progress Report mentions the continuation of this approach with the approval of the social partners, while at the same time warning against unemployment traps. For pensioners who are drawing low pensions, a pension bonus was introduced in 2007. There are signs of a growing stratification between low- and high-income households. The latter are much more likely to have additional pension funds and very recently the Director General of the National Pension Office raised serious concerns about the sustainability of the current pension system, not in the least where it involves solidarity between the two groups.

The level of the minimum income (*leefloon / revenu d'intégration*) is still below the EU poverty threshold, despite the 2% increase in April 2007. This increase was introduced earlier than planned. As we mentioned in our assessment report of November 2006, the Government had made commitments for an overall 10% increase (in real terms) by 2007. The adjustment in April has brought the overall increase to 8%. A further 2% increase is now planned for January 2008. Yet, one must keep in mind that the poorest households suffered from a disproportionate loss of purchasing power due to sharp increases in rents and energy prices in the past years. Defeyt (2007) estimates, on the basis of a detailed study of the household budget survey, that under the existing price indexation regime of wages and benefits, households living on the at-risk-of-poverty threshold have actually lost on average 382€/year or 2.6% of their purchasing power between 2004 and (August) 2007. The loss is due to the fact that the price index mechanism underestimates the weight of basic items such as rents and fuel in its reference consumption basket – items for which prices have risen disproportionately. Moreover, the near future looks very gloomy indeed with rocketing oil prices and the expected upward jump in food and other energy prices in the coming months. The consumer organisation Test-Aankoop/ Test--Achats estimates that the average household expenditure will increase by another 400€ per year. Whereas the average household will be partly compensated for this loss of purchasing power, the poorest households will again lose disproportionately.

From 2009 onwards, the minimum income will be coupled to the average welfare growth, in line with other benefits. Grassroots organisations have been lobbying for this for several years. By the beginning of 2009, much of the 10% increase promised in 2003 will in fact have vanished.

Summing up, Belgium continues to take measures to safeguard its social security. This is necessary in the light of the studies by Van Mechelen, Cantillon et al. (2006, 2007) which pointed to a deterioration of social protection in the country.

3.2 Investing in the human capital of disadvantaged groups

Investments in education and training of socially excluded groups are probably the most straightforward case of feeding-in. In any event, it is the area where research has most extensively demonstrated beneficial effects, not only for the individual (in terms of sustainable, long-term inclusion and self-sufficiency), but also for society at large. The (indirect) 'social benefits' of education are enormous: Psacharopoulos, in a recent report for the European Commission (DG EAC), concludes from a thorough review of the literature that a (social) benefit / cost ratio of 3:1 is probably a fair average estimate (Psacharopoulos, 2007). This figure only captures the returns that have been quantified and that can be expressed in monetary terms. Investing in the education of disadvantaged young people generates additional tax and social security receipts in adulthood, a longer and more healthy life expectancy, savings on health, welfare and security expenditures, a more democratic functioning of society, better chances for their own future offspring etc.

Cunha et al. (2006) moreover suggest, on the basis of another survey of the literature, that (a) the profitability of investments in education is highest during early childhood, and (b) that it is higher (during that period) among the most disadvantaged (compared to average) children.

In concrete terms, this means that every euro invested in the education of disadvantaged groups yields an average (discounted!) return of three euros, a profitability which outscores most commercial investments. Education of disadvantaged youth is definitely an engine of welfare and growth. The question that arises is whether Belgian inclusion policies have integrated this message and do translate it into practice.

As we argued in our report on child poverty (Morissens & Nicaise, 2007) education in Belgium – in all three communities – treats pupils from various socio-economic backgrounds very unequally, although average performance is good. According to UNICEF, Belgium comes last (out of 24 countries) in terms of inequality at the bottom of the education ladder (the gap between the 5th and 50th percentiles in PISA), and 14th out of 24 in terms of a composite indicator of "educational disadvantage" (UNICEF 2002). Nowhere in the OECD is the performance gap between native and immigrant young people as wide as in Belgium (OECD 2006b). The system is also characterised by a very rigid social stratification, with a disproportionate share of pupils from lower socio-economic backgrounds being referred to special education, early streaming (at age 12) between academic and (pre)vocational tracks, extensive use of grade repetition etc.

Current education policies in all three Communities are taking this criticism seriously. Measures have been taken to reduce the private cost of education (for parents) and to attenuate its rigid stratification. The participation of immigrant children in kindergarten is being promoted actively. The quality of technical and vocational education is being enhanced through a closer collaboration with private companies, including more and better apprenticeship and internship opportunities. Yet, curiously, these efforts are not (fully) reported in the National Reform Programme, nor in the Progress Report. The sections relating to innovation in the economic chapter (sections 2.1.3 and 2.1.4) focus very narrowly on R&D and the dissemination of ICT skills, ignoring all other aspects of human capital investments. In the labour market chapter, on the other hand, the lack of investments in adult education is acknowledged (the rate of participation has actually decreased in 2006); the investments in the transition phase between school and work are highlighted; the efforts to make lower secondary education more comprehensive in the French and German-speaking Communities are reported and some rather piecemeal measures in adult education are mentioned. The overall picture seems to reflect a 'trickle-down' view on education, with R&D and ICT contributing to the productive capacity, and education and training just redistributing the fruits of welfare growth. This view looks quite biased if one considers the conclusions from the international literature summarised above.

Despite genuine efforts to make education more fair and effective for socially excluded groups, the NRP lacks an integrated, strategic view on the education – inclusion – growth nexus. It seems to strongly underestimate the power of education and LLL in promoting sustainable social inclusion and simultaneously boosting economic performance. The narrow focus on R&D and ICT indeed entails a serious risk of fuelling the dualisation of society. What is needed instead, is a full chapter on education and LLL covering all stages of the life cycle and examining systematically the policies required to upgrade the capabilities of the population, beginning with the most excluded groups.

The disconnection between the economic and social agendas in the revised Lisbon strategy has also led to a negligence of monitoring tools in this field. Apart from the critical position of Belgium in the PISA statistics, one should be aware of the rising trend in the rate of unqualified school-leaving and the drop in participation in LLL. Urgent and powerful measures will be needed to curb these trends.

4. Governance

As a consequence of very difficult political negotiations following the federal elections of 10 June 2007, Belgium still has no new Government at the time of writing. The resigning government can only take decisions about ongoing issues. Therefore, only a few new policy measures have been introduced at the federal level since the elections. This is a first, direct symptom of the impact of the political tensions between the two main linguistic communities in the country. But a second, more fundamental tendency is underlying the current transition period.

A new state reform resulting in a further federalisation of Belgium and more competences for the regions and communities is a top priority for the Flemish political parties around the negotiation table. If the state reform is implemented – with shifts in competences from the federal to the regional level - this may have substantial consequences for the coordination of labour market policy and social policy (depending on the extent of the reform). Fundamental differences in policy vision are emerging between the Flemish and Walloon regions, partly as a consequence of the ongoing economic, political and social dualisation of the country. According to combined ECHP and EU-SILC data, the poverty risk in Flanders has decreased from 13% in 1998 to 10% in 2004, as opposed to the Walloon Region where it has risen from 13 to 17.5%. Mr. Vande Lanotte (the former Minister of Social Integration and chair of the Flemish socialist party) has argued that, under equal (federal) social security regimes, Flanders has been more successful in reducing poverty because of its stronger activation approach (Vande Lanotte, 2007). The argument may be interpreted as an implicit criticism of the Walloon Government for maintaining a dependency culture and thus sponging on Flemish financial transfers. At the same time, it touches a very sensitive chord in Flanders, where dissatisfaction is growing about the continuous budget transfers to the federal level and the Walloon Region. As part of the (Flemish) population undoubtedly adheres to a moral discourse about poverty, such arguments may well result in much tighter approaches after a splitting of labour market policy and/or parts of social security. Actually, it has already affected the (partial and provisional) government agreement between the new coalition partners, in that the eligibility for unemployment benefits will be further limited.

As for the monitoring and evaluation of the measures that are introduced to combat social exclusion and to raise employment, it seems that the monitoring of the latter is more successful. The existence of well-defined guidelines in the European employment strategy makes the monitoring easier and the practice of using targets and well-defined indicators also has become more established.

As for the social inclusion strategy, each of the federated entities produce their own report on challenges and policies to combat social exclusion and poverty. These reports serve as inputs for the Belgian NAPincl, which is put in annex to the Strategic Report. Representatives of the different entities participate in the ccordination process, together with representatives of grassroots organisations and other relevant stakeholders. The participation of social partners in the task forces remains modest. An increased participation of unions could possibly strenghten the interlinkage between social and employment policies and they could act as catalysts to improve the integration of social policies in the coordination process that is in place for employment policies.

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