The Reform-Resistant Belgian Welfare State

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One of the iconic election posters of post-war Belgium is from 1995. It shows the President of the Flemish socialist party, Louis Tobback, looking straight at the voters with only the simple message: 'Your social security'. The 1995 elections had been called early by outgoing Prime Minister Dehaene, because he wanted the backing of the voters to continue with his centre-left coalition and the planned reform of the welfare state. This focus on the welfare state and on its possible reform was certainly not unique for the 1990s. In the 1970s and 1980s already the sudden increase of unemployment had made adjustments necessary. The Verhofstadt government that came into power in 1999, after Dehaene, launched the notion of an 'active welfare state', and more recently the question of the future of the pension scheme and the price of health insurance were (once more) on the agenda. Indeed the welfare state has been on the agenda almost constantly for the past four decades.

This almost permanent focus on and debate about the functioning and the financing of the welfare state is of course not a typical Belgian phenomenon. All welfare states have been, since their full deployment after the Second World War, confronted with pressures that have triggered heated debates and subsequently led to adaptation and change. Yet welfare states are not all alike, and therefore the kind of pressures that they encounter and the way in which they deal with them can vary quite extensively.

A continental model

In *The Three Worlds of Welfare Capitalism* (1990) Gøsta Esping-Andersen suggests a distinction between three types of welfare regimes or three types of welfare state. He draws the boundaries between them by looking at the way in which benefits are financed, the degree to which they are accessible and generous, and the extent to which they affect the social structure of society. The liberal regime (as in the US, the UK, Australia or New Zealand) is characterized by fairly limited benefits aimed at avoiding poverty and is financed by taxes. The social democratic regime, on the other hand, though it is also tax-financed, is much more generous and offers a very solid protection against

the loss of income from employment. This is the regime found in the Scandinavian countries. Belgium belongs (with the Netherlands and Germany, among others) to a third type, labelled the conservative or continental type of welfare state. Here the benefits are financed by payroll contributions and they are linked to a person's former income or to a family relationship with someone who has contributed. Special arrangements for specific groups (like civil servants) are also typical for this model. The division into three welfare regimes is of course quite crude, but it does point at relevant differences in the basic logic of a welfare state.

Whether one of these types is developed in a particular country depends to a large degree on the political coalition that has initiated it. The continental regime is typical for countries where the welfare state was put into place by a coalition of social democrats and Christian parties (or of Christian parties alone).

The Belgian welfare state was put into place towards the end of the Second World War. Its origin was an agreement between the employers' and workers' organizations that had started negotiations during the German occupation. By bringing these two groups together, a typical 'continental' grand coalition was formed, and the agreement was rapidly implemented by the post-war governments. By bringing representatives of workers and employers together, the two major parties of the period – the Christian democrats and the socialists

– were also immediately involved. In the Belgian context this also meant the creation of a coalition of the largest political group in Flanders (Christian democrats) and the largest political group in Wallonia (socialists).

This coalition established a system of social security that is based on compulsory payroll contributions by both salaried workers and their employers. In a later phase – in the 1950s – a similar system for the self-employed was gradually developed. Under this system unemployment benefits and pensions are (or at least were in the early days) closely linked to the level of income earned. So social security in Belgium works very much like insurance. As with other continental systems, it has its obvious weak points. The most important is the fact that it relies on income generated by the active workforce and not on general income tax. In the first place this directly affects the cost of labour. Hiring personnel is more expensive because the total cost includes the contributions to be paid into the social security system. In the second place a system that relies on payroll contributions is very dependent on the extent to which the working age population is employed. High unemployment or early retirement tend to erode the very basis of the system and to have a negative impact on the ratio between those who work and contribute to the system and those who receive benefits.

Path dependency

Welfare regimes belong to a category of policy structures that are difficult to change. They are a complex set of rules and mechanisms and financing methods that – once put in place – become very sticky. The longer a system exists, the more difficult it becomes to rebuild even parts of it from scratch. Further developments, additions and changes become *path dependent*, which means that the decisions and (financial) commitments made in the past heavily influence the kind of policy that can be developed and limit the policy choices open for future coalitions.

On top of this path dependency, welfare state policies face other obstacles to change. The most obvious is the fact that welfare benefits are of course popular, which means that when citizens vote they are not likely to support parties that announce radical changes or cuts. Political parties know that they are taking electoral risks if they announce that kind of policy. This does not mean that changes to welfare policies are impossible, but that they are likely to be slow and that they require from the parties a convincing story about adjustments in the short run being needed to safeguard the system in the longer run. This is easier in times of crisis.

As regards the Belgian welfare system, we have to take into account two extra elements that slow reform down. In the first place Belgian political decision-making in social and economic matters has a strong *corporatist* flavour. This means that organized interests not only mobilize to defend their members' interests, but that a number of larger ('representative') organizations are directly involved in preparing, making and implementing the policy. For the welfare state this is reflected from the outset in the fact that these 'social partners' themselves negotiated the founding agreement, and in the fact that some of the benefits are paid out by the organizations themselves (trade unions and health insurance 'mutuals') rather than directly by the state. A National Labour Council with equal numbers of workers' and employers' representatives provides the government with advice on social policies. And interprofessional agreements between the peak organizations are made legally binding by the government. The management of the social security system is in the hands of these same social partners. This gives the social and economic policy a broad and solid legitimacy, but it also builds in hurdles for decision-making. If consensus is needed between the social partners, the absence of consensus means that no policy can be developed unless – as will indeed happen more and more often – the government takes over and imposes changes on the social partners (which will still be very much involved in the implementation).

Since the coalition that founded the welfare state was also in fact a coalition between the north and the south of the country, the increasing tensions between the two regions have important consequences for it. During the post-war period Walloon industry was in decline, while Flanders was increasing in economic strength and thereby fiscal capacity. As a result, debates on social and economic policies and on social security policy in particular always have a strong regional flavour. Welfare state policies have a different impact in each of the regions, which creates different policy demands in Flanders and Wallonia. But, more importantly, the welfare state is a system of redistribution from those who contribute to those who receive, and if one aggregates indi-

Achille Van Acker, Socialist Prime Minister (1945-1946; 1954-1958), 'Father' of the Belgian Welfare State.

vidual contributions and benefits per region the conclusion can only be that the richer region is subsidizing the poorer one. One of the recurrent themes in the debates about the structure of the Belgian state is the question of whether social security should remain a federal matter or whether, on the contrary, it should be organized on a regional basis. However, the Belgian federation is based on power sharing between the two language groups at the federal level, so governing requires an agreement or at least a compromise between the views and demands of them both. The Belgian state is a typical *consociational democracy* with the two language groups each being a strong veto player. On issues related to social security, this obligation to find a middle ground acts as another effective brake on attempts at radical reform, unless – which is unlikely – it does not affect the substates of the federation unequally.

While all welfare regimes face path dependency, the Belgian system – because of the corporatist and consociational nature of its political decision-making – displays a few extra mechanisms that contribute to the avoidance or slowing down of change. The social partnership requires a good social climate, which means that in periods of economic crisis – exactly when pressures on the welfare state increase – agreements are more problematic. Yet here one can find an interesting pattern in the history of the Belgian welfare state. Changes to the system have indeed been introduced, but often precisely during periods in which the social climate was *not* good and social partners were not able to reach an agreement amongst themselves. The social partners were then overruled by the government, which is itself of course a body in which Flemings and Francophones need to agree on major policy choices.

The government takes over

The first difficult period was the 1970s and the 1980s. The impact of the oil crisis in the 1970s had confronted Belgium with rising unemployment rates and therefore increasing pressure on the social security system. The central state had to increase the (still relatively small) proportion of money from general tax income that is added to the payroll contributions, while the budget of the central state showed huge deficits. In this difficult economic climate the relations between the employers and the trade unions were very poor. Yet changes and adjustments to the welfare system were needed, not only because of the economic crisis, but because various societal and economic developments meant that society was no longer what it had been immediately after the war. The improvements in medical care and therefore also higher life expectation, the increasing participation of women in the workforce, the gradual change from an industrial to a service economy, and the changing structure of households and partnerships all demanded at least some fine-tuning of the welfare system.

Since the social partners could not agree with each other in these difficult times, the reforms of the social and economic policy and the social security system were to a large extent imposed by the government, without the formal agreement of the social partners. The centre-right governments led by Prime Minister Wilfried Martens between 1981 and 1987 actually went even further and asked parliament for special powers, allowing the cabinet to rapidly push though policies and ask for parliamentary approval at a later stage. Yet while

Charles Michel, Liberal Prime Minister (2014-),
attacked with Belgian fries by an activist, crying ‘Away with austerity’.

there was no formal agreement from the social partners, the government had kept open the lines of communication within the Christian pillar, with informal and secret gatherings of key figures, including the leader of the Christian trade union Jef Houthuys. The Martens governments were able to devaluate the Belgian franc, link the evolution of the cost of labour in Belgium to that of the most important competing countries, raise social security contributions (by abolishing upper limits for higher salaries, among other measures), reduce the unemployment benefits for some categories, and reform the financial management of social security by bringing all the income and expenses of the different sectors into one single budget.

The 1980s can now be seen as a turning point. Leaving the social partners who were at the origin of the welfare state out of these reforms certainly did not mark the end of the social partnership in Belgium. Constant contact, negotiations and formal agreements per sector or for all sectors remain important ingredients of social and economic policy-making in Belgium. But when an agreement cannot be reached the government takes over and, if necessary, ignores the social partners. That happened in the 1980s and has been repeated several times since.

When the Christian democrats and the social democrats were back in government together, from 1987 to 1999, the cabinet tried at crucial times to get the formal backing of the trade unions and employers. The so-called Global Plan of the Dehaene I government – working hard to reach the Maastricht norms for joining the euro – once more introduced some changes to the way the welfare state functioned, although they were rejected by the socialist trade union. Among the changes were a longer waiting time for school-leavers before they could receive unemployment benefits, the non-adjustment of wages to inflation caused by the rising prices of tobacco and fuel, and the computing of pensions on the basis of average income during a whole career rather than on the income at the end of it. Meanwhile the government also strengthened the so-called second and third pillars of pensions. The second is a pension scheme based on capitalization and financed by the employers and the third is an individual insurance or capitalization for which tax incentives are given. It is interesting to note that the government moved forward not only without the agreement of all of the social partners, but it also – like the centre-right governments of the 1980s – asked parliament for special powers.

When, in 1999, the Christian democrats were removed from power for the first time since 1958 and a 'purple' government of liberals, socialists and greens took over, with the liberal Guy Verhofstadt as Prime Minister, the programme that brought the liberals and socialists together was labelled the 'active welfare state'. One of its key goals was 'activation', which means that more people should be activated and convinced to enter and to stay in the labour force. It was made more difficult to take early retirement and a bonus was introduced for those who did not; likewise, the unemployed were checked and monitored more closely to make sure that they could enter or re-enter the labour force. The economic situation was better in the early 2000s, which should have made a broad agreement between government and the social partners easier. Yet Prime Minister Verhofstadt, who had previously often criticized the informal power of the social partners, opted for open debates and public round tables involving the social partners among other participants. When the second Verhofstadt government put its 'Generation Pact' (with the pension reforms) on the table, it failed – again – to convince the employers and trade unions to agree with it.

The current government, formed in 2014 – with the socialists removed from power for the first time since 1987 – has put forward a programme of austerity for which it has quite obviously not received the backing of the trade unions. Once again the cabinet has simply moved forward, introducing an increase in the retirement age from 65 to 67, for instance, and further reducing the availability of unemployment benefits for young people who have not yet worked.

How much has changed?

The Belgian welfare regime belongs to the continental or conservative category because it was set up by an alliance of Christian democrats and social democrats. These were the two major political forces in the country, together obtaining almost 75% of the vote in 1950. Both parties were at the centre of a network of organizations to which the most important representatives of the employers and the workers also belonged. In 2014, however, the Christian democrats and socialists together held only 37% of the votes, and relations between the parties and the representatives of the workers and the employers have become much looser than they were before. One might therefore also expect a move away from the basic structure and policies of the welfare state.

The many smaller and sometimes larger changes and adjustments to the welfare state have not, however, fundamentally altered it. There certainly have been numerous smaller alterations, corrections and fine-tuning. Some benefits are more difficult to obtain, but more minimal protection measures have been introduced too. Social security is still based on payroll contributions and therefore remains vulnerable to low employment rates. But Belgium has not become a liberal-type welfare state and neither has it become a social democratic-type welfare state. It remains a continental model that requires broad agreements – with or without the ex-ante approval of the social partners – to introduce adjustments. One hears once in a while that the trade unions and health insurance 'mutuals' should not be so deeply involved in managing the social security system, but they are still solidly there. Likewise, since the 1980s there have been debates about the automatic adjustment of wages and welfare benefits to keep up with inflation (the so-called *indexing* of wages) but, apart from some minor changes, that system is still in place too. Those who defend the basic features of the system do however believe that it is gradually being dismantled, while those who are not happy with some of those basic features believe that the in-built resistance to change will be detrimental in the long run. The first opinion is voiced more loudly in the south (Wallonia), while the second is heard more often in the north (Flanders). The welfare state is and remains a compromise built on corporatist and consociational mechanisms. It is a compromise with which nobody is really happy. This must be Belgium. ■

Train Strike in Belgium, 6-7 January 2016