

Strategic choices in social policy

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Strategic choices

“strategy” = “long-term plan or policy”

- Explicit strategic choices
 - Budgetary strategy to prepare for ageing
 - Reconciling work and family life
 - (A certain type of) activation
 - Sector-based second pillar pensions
 - ...
- Implicit strategic choices
 - Emphasis on minimum protection
 - ...

Structure of the presentation

1. Two strategic choices that shape our current situation
 - An explicit choice: a budgetary strategy to cope with ageing
 - An implicit choice: emphasis on minimum income protection
2. Did we (strategically) pursue “the new welfare state”?
3. Outcomes: which litmus test for success?
4. Strategic choices to be made

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The budgetary strategy: turning vice into virtue

Current budgetary objectives, as formulated by the HRF

	Budgetary objectives ("NFS"), distribution per Entity					
	2010	2011	2012	2013	2014	2015
Total	-5,1%	-4,1%	-3,0%	-2,0%	-1,0%	0,0%
Entity I	-4,1%	-3,3%	-2,6%	-2,1%	-1,6%	-1,0%
Entity II	-1,0%	-0,8%	-0,4%	0,1%	0,6%	1,0%
+ G&G	-0,6%	-0,5%	-0,2%	0,2%	0,6%	0,9%
+ LO	-0,4%	-0,3%	-0,3%	-0,1%	0,0%	0,1%

Entity I = Federal Government and (federal) Social Security

Entity II = Regional and Community Govt. (G&G) and Local Govt. (LO)

Experiences of budgetary turn-about in the past

	Primary balance
1981-1986	+8,0%
1983-1988	+7,5%
1982-1987	+5,3%
1984-1989	+4,7%
1985-1990	+4,6%
1986-1991	+3,14%
1993-1998	+3,09%
1992-1997	+2,7%
1996-2001	+2,4%
1995-2000	+2,2%

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1985-1990	+4,6%			
1986-1991	+3,14%			
1993-1998	+3,09%	+2,6% (- Inv)	1,7% (Ent. I)	1,4% (Ent. II)
1992-1997	+2,7%			
1996-2001	+2,4%			
1995-2000	+2,2%			

Limits of the budgetary strategy

- An unprecedented budgetary turn-about
- A fundamental institutional recalibration
- All net budgetary margins for the next 50 years = pensions & health-care ("cost of ageing")

⇒ 80% of the "cost of ageing" is absorbable

... "heroic" in terms of budgetary effort, institutional deal,

... "bleak" in terms of societal dynamism?

The social adequacy of pensions today

- Poverty
 - Poverty rate total population: BE < EU15
 - Poverty rate 65+: BE > EU15
 - Poverty gap 65+: BE < EU15
- Replacement rates

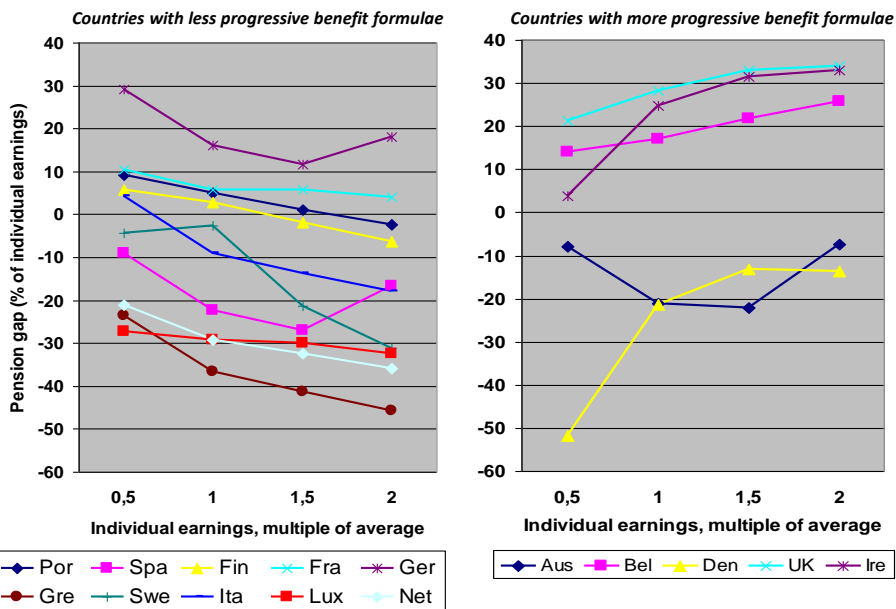
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- Replacement rates
- *Insurance for sickness, invalidity, unemployment... (assimilated periods)*
- *Indexing of pensions (pension wealth)*

The OECD on (prospective) replacement rates

	Gross (net) pension replacement rates by earnings (individual earnings, multiple of average)			
	0,5	1	1,5	2
OECD	72,2 (82,4)	59,0 (70,3)	54,3 (65,5)	50 (60,8)
Belgium	58,1 (78,7)	42,0 (63,7)	32,5 (51,7)	24,3 (41,2)

The pension gap and individual earnings (difference between mandatory, national and OECD average gross replacement rate)



Current Belgian replacement rates (generation 2008)

RVP sample
salaried workers with career > 25 years
gross
individual pension

- Viz-à-viz average earnings over career: 64%
 - career 25-29 years: 47%
 - career 45 years: 67%
- Viz-à-viz earnings last 5 years: 51%
 - career 25-29 years: 41%
 - career 45 years: 52%

? *Single-income => dual income pension households*

! *Second pillar: Matthew...*

The projected social adequacy of pensions

Forecast by the Belgian Planning Office:

- Significant decrease of poverty among the elderly (2030)
- Further erosion of pension replacement rates for men, improvement then erosion for women

Should/can we improve upon this (simulated) scenario?

Is the legitimacy of our pension system in danger?

Pension reform is on the agenda

- Lowering the “quality” of pensions
 - “quality” for which people?
 - ⇒ what conception of social adequacy?
- Extra contributions
 - Second pillar?
- Working longer

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“The new welfare state”

- “*New risks in post-industrial societies*”
 - Inability to reconcile work and family life
 - Single parenthood
 - Having a frail relative
 - Possessing low or obsolete skills
 - Insufficient social security coverage
 - “*The social investment state*”
 - Activation
 - Training & education
 - “*From cash-heavy to service-orientation*”
- = a coherent set of interrelated strategic choices?

Did we (strategically) pursue “the new welfare state”?

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- “*From cash-heavy to service-orientation*”
 - Mixed picture
 - Service-vouchers

Not a “frozen landscape”, yet...

... problems of

- coherence
- determination
- cost-efficiency

... linked, in Belgium, (amongst other factors) to

- north-south divide
- “competitive nation building”

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 - **An egalitarian and inclusive perspective**
 - **Labour market outcomes**
 - Distributive outcomes
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Change in employment rate 1998 - 2008 (ppt)

België	25-29 jaar		30-34 jaar		35-39 jaar		40-44 jaar		45-49 jaar		50-54 jaar		55-64 jaar	
	M	V	M	V	M	V	M	V	M	V	M	V	M	V
Laaggeschoold	-8,9	-2,8	-6,2	-3	-5,6	3,6	-1,6	9,7	3,1	16,3	3,1	13,6	6,4	7,9
Middengespoold	3,5	1,6	-0,1	4,5	1,3	7,4	-1,5	9,8	1,9	12,7	3,3	19,1	4,8	14,1
Hooggeschoold	-1	1,2	-2,2	3,3	-1,7	3,4	0,4	3,1	-1	4,5	1	9,8	8,8	13,5

Vlaanderen	25-29 jaar		30-34 jaar		35-39 jaar		40-44 jaar		45-49 jaar		50-54 jaar		55-64 jaar	
	M	V	M	V	M	V	M	V	M	V	M	V	M	V
Laaggeschoold	-9	-7	-2,9	0,5	-3,9	8,4	-0,9	17,4	5,9	23,2	5	18,5	7,9	9,3
Middengespoold	2,3	3	0,5	9,6	2,5	12,2	0,5	14,5	4,3	17,5	4,5	23,9	3,7	14,3
Hooggeschoold	-1,6	1,9	-1,6	3,2	-1	5	0,5	6,3	0,2	4,2	-0,1	14,5	8,5	12,7

Wallonië	25-29 jaar		30-34 jaar		35-39 jaar		40-44 jaar		45-49 jaar		50-54 jaar		55-64 jaar	
	M	V	M	V	M	V	M	V	M	V	M	V	M	V
Laaggeschoold	-9,9	3,9	-10	-1,9	-5,5	6,9	-0,3	5,4	0,4	9,7	1,3	11,2	3,6	6,3
Middengespoold	7,2	5,9	-2,2	2,6	-0,3	3,4	-3,6	4,8	-1,4	5,5	3,7	14,8	5,5	14,4
Hooggeschoold	-1	2	-0,7	4,1	-2,9	4,3	3,4	1,7	-1,3	7,7	2,3	1,5	11,6	13,9

Legende:

x $x \geq 10\%$	x $3\% \leq x < 5\%$	x $-3\% \leq x < 0\%$	x $-10\% \leq x < -5\%$
x $5\% \leq x < 10\%$	x $0\% \leq x < 3\%$	x $-5\% \leq x < -3\%$	x $x < -10\%$

Bron: Eurostat en Steunpunt WSE

Difference in employment rate Flemish region – EU15 (ppt)

1998	25-29 jaar		30-34 jaar		35-39 jaar		40-44 jaar		45-49 jaar		50-54 jaar		55-64 jaar	
	M	V	M	V	M	V	M	V	M	V	M	V	M	V
Laaggeschoold	5,5	5,9	4,1	6,8	2,5	0,7	1,7	-2,3	-0,4	-12,1	-3	-15,8	-18	-15,1
Middengespoold	8,2	9,3	4,3	6,2	1,2	1,2	2,3	-4,7	-0,1	-7,2	-1,2	-14,7	-8	-15,7
Hooggeschoold	10,3	12,7	5,7	8,1	2,6	3	1,4	-1,1	1,5	-3,5	0,3	-14,3	-15,4	-25,1

2008	25-29 jaar		30-34 jaar		35-39 jaar		40-44 jaar		45-49 jaar		50-54 jaar		55-64 jaar	
	M	V	M	V	M	V	M	V	M	V	M	V	M	V
Laaggeschoold	-2,1	0,9	3,4	4,4	-0,6	4,4	1,4	10,9	6	3,1	-1,4	-7	-16,1	-13
Middengespoold	9,1	8,1	3,9	11,3	2,6	7,1	2	4,7	3	1,1	0,7	-3,2	-11	-12,5
Hooggeschoold	5,4	11,2	3	7,5	1,3	5,3	2,1	4,3	1,6	-1,3	0,1	-5,8	-10,7	-20,8

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Difference in employment rate Walloon region - EU15 (ppt)

1998	25-29 jaar		30-34 jaar		35-39 jaar		40-44 jaar		45-49 jaar		50-54 jaar		55-64 jaar	
	M	V	M	V	M	V	M	V	M	V	M	V	M	V
Laaggeschoold	-8	-22,5	-4,1	-10,6	-6,1	-15,4	-11,3	-15,3	-10,8	-14,9	-9,8	-18,9	-18,8	-12,5
Middengeschoold	-3,9	-8,5	-0,9	-5,2	-2,7	-4,7	-1,1	-3,9	-0,7	-5	-6,5	-14,6	-12,1	-14,2
Hooggeschoold	8,1	2,1	0	2	1,9	0,5	-2,3	-0,6	-0,7	-6,7	-2	-0,6	-15,7	-23,7

2008	25-29 jaar		30-34 jaar		35-39 jaar		40-44 jaar		45-49 jaar		50-54 jaar		55-64 jaar	
	M	V	M	V	M	V	M	V	M	V	M	V	M	V
Laaggeschoold	-16,5	-16,6	-11,9	-15,4	-10,8	-13,2	-11	-14,1	-9,9	-13,2	-11,9	-17,4	-21,2	-13,4
Middengeschoold	1,9	-6,8	-4,0	-7,1	-4,1	-7,6	-5,5	-4,2	-3,3	-8,7	-5,4	-12,2	-13,3	-10,9
Hooggeschoold	3,8	0,7	-1,8	2,3	-1,3	2,1	1,3	0,2	-2,1	-1	0,2	-5,1	-7,9	-18,2

Legende:

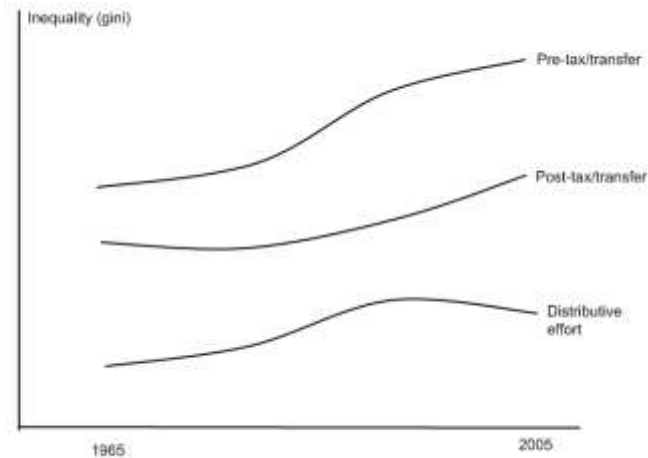
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How to account for rising inequality?



Stylized on the basis of Cantillon, Brandolini & Smeeding (US, UK, Can, Swe, Fin)

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Strategic choices to be made

1. Maintain (responsibility-sensitive) egalitarian objectives
 - Do not sacrifice minimum income protection for replacement rate objectives
 - "Matthew-test"
 - Legitimizing based on *Homo reciprocans* and a "fairness code"
2. Balance income protection, investment in human capital & care
3. Cash => service-orientation
4. Public & private
5. Keep focus on (inclusive) employment-objective
6. Activation
7. (Budgetary & personal) saving vs. working longer
8. Institutional change
 - Burden sharing
 - Responsibility
 - Focus on core tasks