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Social Security and Subsidiarity

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Social security and subsidiarity

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Abstract

In this paper we deal with the design of three social insurance schemes (old age social security, health insurance an child benefits) in a federal setting such as the Belgian one. We argue that these three programs need to be reformed to be more efficient and more equitable. In none of these cases regional decentralization would be the most important element of the reform. Yet, in all three cases, some inefficiencies can be removed by a careful design of the relative competencies of the regions and the federal state. An open discussion over these issues is urgently needed to avoid a stalemate in which the necessary reforms are blocked.

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1. Introduction

Suppose for the sake of the argument that we have a federal state with two regional governments. The two regions are different and heterogeneous. Heterogeneity is in productivity, health and tastes. The federal government has full information on these characteristics and is not restricted in its policy tools. It pursues an objective of social welfare that is supported by the two regions. Under these conditions there is no need of decentralization. Any policy that can be conducted by the regional governments can be conducted as well by the federal government. As soon as we depart from these assumptions, e.g. when the regional governments have better information than the federal one on some of their population's characteristics, some decentralization can be advocated. However, we should keep in mind that the central government has two comparative advantages even when information is asymmetric. It is the only one that can cope with both-interregional redistribution and interregional externalities. [4]

In the next section, we will briefly summarize the general arguments against or for decentralization of social protection schemes. We will then look in more detail at three specific cases: retirement pensions; health care and health insurance; and child benefits.[5] One should keep in mind that in the discussion of decentralization the starting conditions are crucial. Moving from independent states towards some form of federalism as the EU members did is different from moving from a central state to a federal one as Belgium has been doing over the last decades. This is the so-called premium to status quo.We will consider the specific Belgian situation. In the case of Belgium interregional redistribution is an issue as the two regions have different average incomes. Interregional (or horizontal) externalities are less important than vertical externalities.

In the present Belgian political system, a distinction is made between the "regions" and the "communities". The distinction is especially relevant with respect to the position of Brussels. In this paper we focus on matters of principle and we will largely neglect the distinction between regions and communities. We use the term "regions" as a generic term to indicate any decentralized level in between the provinces and the federal state.

2. General principles[6]

We first remind briefly the general arguments in favour of decentralization of government expenditures. In the second subsection, we apply these general principles to social security.

2.1. Arguments in favour of decentralization

Let us first sketch the standard arguments in favour of decentralization:

- Catering to regional preferences and needs

Different regions may have different demands for types and levels of public goods and services. These demand differences may simply reflect differences in the subjective personal preferences of the residents themselves, or they may come from more objective factors such as geographical differences, demographic differences, or relative price/cost differences. The presumption is that central provision will tend to be uniform, so that efficiency could be improved if regional communities were allowed to provide their own policy to cater to local preferences and needs.

- Information asymmetries

There are some spheres of policy making in which regional governments (and/or their municipalities) may be better informed and therefore better able to provide public services effectively than the federal government. This information advantage can be with respect to the differences in preferences mentioned before. Yet, equally

[4] In principle social insurance policies can be decentralized if the decentralized systems are complemented by a long run-insurance system at the level of the regions – see Drèze (2000) and the discussion about Drèze's proposal in Decoster (2009).
[5] We do not discuss unemployment benefits. This issue is closely linked to the one of labour market policies and its full treatment was beyond the topic of this paper – see Cockx and Van der Linden (2009).
[6] This section is heavily based on chapter 3 of Boadway and Shah (2009).

important are the information issues associated with administering public programs and delivering both public services and targeted transfers.

- Innovation and cost-effectiveness in public programs

Decentralization may lead to improvements and innovations in program design and program delivery because of the opportunities and constraints faced by regional decision-makers. When there are many regions, perhaps in competition with one another, there are more opportunities for innovations. Good innovations can then be imitated by the other regions.

- Political economy arguments

First, it is sometimes claimed that regional governments are "closer to the electorate" and should therefore behave in a more accountable way. There is not much empirical evidence to support this view, however (Boadway and Shah, 2009). Second, in some extreme public choice views, political competition between regions may help to tame the governments acting as self-serving Leviathans, always attempting to become bigger by extracting resources from an unwitting electorate. Third, in the Belgian context one sometimes hears the argument that the federal political system is unable to introduce necessary reforms, because the decision-making process is blocked by the tensions between the different regions. This stalemate would lead to a dangerous conservatism, making it impossible to change the status quo.

2.2. Application to social insurance and redistribution

With these general principles as a background, we can look now at the specific categories of public expenditures we are interested in: social insurance and redistributive transfers. A comparative assignment of responsibilities in 12 federal countries is summarized in Table 1 (taken from Boadway and Shah, 2009).

2.2.1. Social insurance

Two alternative types of social insurance can be distinguished. The first involves insurance against unexpected adversities that are not insured by the private sector. Market failures may be due to factors such as moral hazard, adverse selection or administrative costs. In almost all industrialized countries government has become involved in the provision of this form of social insurance. Examples include unemployment insurance, workers compensation covering injury on the job, and that part of health insurance that deals with sickness as a consequence of unexpected health shocks. The second form of social insurance relates to adverse outcomes that are uninsurable, especially those that are revealed at birth. Specifically, persons may be born with different abilities, skills and productivities. In the extreme, they may be disabled or they may be genetically prone to serious chronic illness. These risks are obviously uninsurable by the private sector. Again, governments are heavily involved in all industrialized countries, e.g. by guaranteeing universal health insurance at regulated premiums, or by setting up a system of public pensions.[7]

The balance of advantages to disadvantages of decentralization may differ from one form of program to another. The main arguments for decentralization from the previous subsection apply directly here. Regional governments should have an advantage at tailoring social insurance programs to suit the needs of their residents. They should be better at targeting the programs to those for whom the programs are intended. They should be better at overcoming agency problems. They could be more innovative in elaborating new solutions in a rapidly changing economic and social environment. Thus, it is not surprising that many of these social programs are assigned to regional governments in federations.

However, there are also disadvantages of decentralizing the provision of social insurance to the regions. Different regions may face very different needs for social insurance because of the demographic composition of their populations or because of adverse events in the past that were beyond their responsibility. In the case of the first form of social insurance, regions may face idiosyncratic risks that could be partially pooled across regions by central provision. Interregional competition may induce individual regions to reduce the level of protection

[7] A progressive income tax scheme can also be seen as a form of this kind of social insurance.

they provide to those adversely affected. This might be particularly detrimental for the second form of social insurance.

2.2.2. Transfers to individuals

Transfers to individuals are components of the overall redistributive policy of governments. Here again we can distinguish two broad categories. The first are demogrants, i.e. lump-sum transfers of a given amount to all persons of a given demographic category: universal transfers to the elderly or universal transfers to families according to the number of children. For these demogrants, there are in principle no particular advantages to decentralization.

The second category consists of transfers that are targeted to individuals according to their particular circumstances, the typical example being welfare or social assistance transfers made to the needy. These targeted transfers rely for their delivery on local agencies whose role is to identify the needy and monitor them for continued eligibility. Therefore, information asymmetries offer strong arguments in favour of decentralization, mainly of the control of the agencies and the programs they administer.

Table 1. Summary statistics on division of powers in 12 federalism countries (Source: Boadway and Shah, 2009)

	Number of countries with shared and/or subnational assignment	
Expenditure category	Responsibility	Provision
Unemployment insurance	1	2
Education	11	11
Social welfare	9	10
Health	9	11

Sample countries: Australia, Brazil, Canada, Germany, India, Malaysia, Nigeria, Russia, South Africa, Spain, Switzerland, USA

3. Old age social security

Retirement pensions largely fall in the category of "demogrants". As we have seen, there are for that category no strong theoretical arguments in favour of decentralization. This does not mean that the current Belgian situation does not raise some difficult challenges. Moreover, in some specific cases there is need for coordination of policies between the federal and the regional level.

3.1. Current situation and challenges

There are two ways of dealing with retirement and pensions. The narrow way consists in focusing on people aged 65+; the broad way deals with the elderly population that is not anymore active whatever the reason (disability, unemployment, early or regular retirement). In that respect the average age at which Belgian workers cease working is around 59 (it was 57 a few years ago). Both Flemish and Walloon workers behave in the same way towards retirement. They also get about the same public pensions benefits. The big differences between the two regions are with respect to life duration and relative contributions. Life expectancy is higher in Flanders. In 2006, longevity of women (men) was 81.64 (75.09) in Wallonia and 83.32 (78.08) in Flanders[8]. On the other hand, because of its larger per capita tax base, Flanders contributes relatively more to the pension system. The before tax average income was 12807€ in Wallonia and 14483€ in Flanders[9]. According to a back of the envelope calculation, pension spending is 15% lower in Wallonia and the tax base is 10% higher in Flanders. In other words to a large extent the two phenomena offset each other.

[8] See on this http://www.statbel.fgov.be/figures/d23_fr.asp#Esperance
[9] For data on incomes, see http://www.statbel.fgov.be/figures/d321_fr.asp

There is a growing second pillar in Belgium; it benefits from federal tax breaks. Overall its prevalence is higher in Brussels (42) than in the Flemish (31) and in the Walloon region (36)[10]. Its relative importance as well as that of the third pillar is still negligible relative to the first pillar. Concerning the issue of long-term care, it is clear that this will concern Flanders more than Wallonia given their age structure. For example, one knows that the dependency rate (based on SHARE data) in the age bracket 70-74 is 7 and 14% for men and women respectively whereas it rises to 37 and 52% for the age bracket 85-89.[11]

The Belgian pension system faces difficult challenges. First, an average age of 59 for exiting the labour market is unacceptably low. The rate of activity among elderly workers should be increased. This would not only narrow the gap with the Lisbon targets, but more importantly it would alleviate the financial pressure on the pension system and prepare the country, and particularly Flanders, to a labor force shortage. Increasing the rate of activity among elderly workers requires a change in the incentives at both sides of the market (labour supply and labour demand). Second, by European standards pension benefits in Belgium are low; this explains the relatively high rate of poverty among the Belgian elderly population[12]. Third, despite this rather low pension level, one may doubt that the present Belgian system of retirement pensions is sustainable in the long run. While increasing the activity rate of the elderly would help a lot (and is most probably the most effective measure), other policy interventions may be necessary.

3.2. What about decentralization?

The problems relating to the pension system are common to the two regions. There is a relatively large degree of consensus among decision-makers about how to tackle these problems. Even in the Walloon region, where the "lump of labor fallacy" is today well understood, rising the age of retirement is now deemed desirable. By the way, the opposition among the population against such an increase in the retirement age also seems quite uniformly spread over the whole Belgian territory. Yet, despite this opposition, the first thing to do is to increase the rate of activity of elderly workers, while protecting workers who truly need the support of either disability or unemployment insurance that are often used to exit elderly workers from the labor market. It is important to strengthen testing and monitoring in those two schemes. Second, regarding low benefits, one should link the basic minimal benefits (retirees with or without entitlements, surviving spouses) to the poverty threshold. Third, as for sustainability, it demands raising the effective age of retirement, raising the level of contributions and widening the accessibility to the second pillar. Incidentally, this widening does not necessarily call for additional tax breaks. None of these measures requires a decentralization of the system of retirement pensions. It would thus seem that there are no equity nor efficiency gains to be expected from decentralizing old age pensions. This is perfectly in line with the general ideas presented in the previous section.

There is, however, one important caveat. Raising the age of retirement (the most essential policy measure) requires some active labour market policies. Many of the instruments of such active labour market policies are in the hands of the regional governments. However, unemployment compensations, early retirement benefits and pensions are paid at the federal level. This may lower the incentives for the regional governments to introduce costly measures to stimulate the employment of the elderly. Moreover, some of the arguments in favour of decentralization seem to be relevant for the case of active labour market policies: regional governments may be better informed, decentralization may stimulate innovation, there might even be some interregional differences in needs, e.g. because of the demographic differences. The pros and cons of decentralizing active labour market policies should therefore be high on the political agenda (see the discussion in Cockx and Van der Linden, 2009).

There is a specific point here. In the present system, it is tempting for regions to free ride on the federal government by early retiring some of their workers. In the regional civil service, there are a number of instances where regions push their employees into early retirement (they either replace them by younger and cheaper employees or they do not replace them) at the expenses of the federal government. To overcome this difficulty one would need an incentive scheme that would penalize regional or community governments that early retire

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[10] These figures give the % of retirees receiving those pensions (Berghman et al., 2007). As to the amount of average monthly benefits they are 517€, 513€ and 773€ in the Flemish, Walloon and Brussels regions respectively.
[11] We will not discuss in this paper this issue of long term care (insurance).
[12] According to Eurostat sources, in 2006, the poverty rate among those aged 65+ was 23% in Belgium as opposed to 16% in France, 13% in Germany and 6% in the Netherlands (for a threshold equal to 60% of the median income). See: <http://epp.eurostat.ec.europa.eu/portal/page/portal/living_conditions_and_social_protection/data/main_tables>

their employees. This scheme could be inspired by the experience rating approach to unemployment compensation, in which firms using the unemployment insurance system more often have to pay higher contributions in order to cover the additional burden imposed on the system.

4. Health care and health insurance

Health insurance and the provision of health care are closely linked. International comparisons show a lot of institutional variation, even more than in other sectors of social security. For our purposes, the most important distinction is between systems with mainly government regulation and systems where insurers play a more active role. We will argue that this is the main issue in the Belgian setting. Decentralization is desirable and does not necessarily threaten interpersonal solidarity, if it is designed carefully. However, the real question is whether we should give more power to the sickness funds or to the regional governments.

4.1. Current situation and challenges

Belgium has a hybrid system of health insurance. On the one hand, there is compulsory health insurance with a very broad coverage. On the other hand, both providers and patients have a large freedom of choice. Provider payments are still largely fee-for-service, although there is a move towards prospective (DRG-) financing, mainly for hospitals. Patients can freely choose their sickness fund. These sickness funds play an important role in the system, but they act as a cartel in the negotiations with the providers.

There is outspoken interregional variation in medical practices. Part of this variation can be explained by differences in morbidity, but even after correcting for morbidity significant differences remain (Jacques et al., 2006). These differences suggest that there are clear inefficiencies in the system. However, the same phenomenon occurs in all countries in the world and as such it is not a good argument for regional decentralization.

The Belgian health insurance system is in need of reform. In the present situation, most of the attention goes to the rapid (and according to some unsustainable) growth in expenditures. It can be expected, however, that this growth will continue and, moreover, it may be desirable from a welfare point of view (Hall and Jones, 2007; Dormont, 2009). If this increase in medical expenditures will not be financed through collective social insurance, there is a severe danger of growing social inequalities in the access to the system. At this moment, and compared to other countries, own payments of the patients are already relatively large in Belgium. Moreover, the socio-economic inequalities in health remain huge, and are most probably linked to factors outside the health care system (housing, inequalities in education, etc.) What is perhaps more surprising is the fact that the health results of the Belgian system are far from excellent. Although there is little structured supervision of quality (which as such is already a bad signal), the available indicators suggest that the quality of care is mediocre. How to improve efficiency, quality and equity in a situation of growing expenditures?

It seems that quality can only increase and expenditures can only be kept under control, if the freedom of choice of patients and (even more importantly) providers is to some extent curtailed. This means that we have to move in the direction of “managed care”, probably involving also some pay-for-performance and other financial incentives. During the last decades, cautious steps in that direction have already been taken, mainly by the government (Schokkaert and Van de Voorde, 2005). However, the structure of negotiations between various partners (government, providers, sickness funds, social partners, pharmaceutical firms) is cumbersome. Things are complicated because of the linguistic divide and the tensions in this regard. The power position of the various partners in the negotiations is not the same in all parts of the country, e.g. the position of general practitioners is stronger in Flanders. Moreover, the present allocation of tasks to the federal and the regional levels is not fully transparent nor coherent. There are obvious problems of coordination between welfare and health care, e.g. with respect to mental care or long term care for the elderly. While prevention in principle is the responsibility of the regions, the federal level also takes initiatives in this domain (e.g. smoking ban). There are now plans to introduce a system of supplemental hospital insurance at the Flemish level.

What seems missing is a long run-view on on the future development of the system. This lack is partly explained by the misplaced complacency of the sector and by the permanent relative popularity of health insurance among the population. At the same time, however, the issue of decentralization is looming over the whole debate, more than in other sectors. In a situation in which some players consider regional decentralization as a corner stone of

every good reform, while other players vehemently reject each step in that direction as a breach of solidarity, discussions get very difficult indeed.

4.2. What about decentralization?

The theoretical structure in section 2 draws attention to the importance of information asymmetries and of the opportunities to innovate as an argument for decentralization on the one hand, and on redistribution as an argument in favour of centralization on the other hand. Both arguments are especially relevant in the context of health insurance. Indeed, more than any other sector, the health care system is characterized by asymmetric information (Arrow, 1963). At the same time, there seems to be near-consensus in European societies that health care should be financed in an equitable, "redistributive" way. Let us focus on the two arguments in turn. How to think about a long run-project for the Belgian health insurance system?

4.2.1. Asymmetric information and decentralization

There can be no doubt that decentralization is an essential element in any good health care system. This fits very well into the objective of having more (and better) managed care. The real question is whether we should decentralize power towards the regions or towards the sickness funds. The first direction (decentralization towards the regions) fits into a National Health Service-type model, in which the government remains the principal actor. In such a model (as suggested in Table 1), regions mostly play an essential role.[13] At the same time there is in many of these countries, with England being the most evident example, a move towards the introduction of what is called "internal market"- mechanisms.The second direction has been taken in countries with insurers or sickness funds. In the Netherlands, Germany and Switzerland, individual insurers have received more instruments to effectively control expenditures.[14] In this model of "regulated competition", the government remains an essential player. It introduces a compensation scheme between the insurers, so that the insurers with better risks (the young and healthy) get relatively less financial means, while the insurers with the worse risks (the sick and elderly) get more. This should remove the incentives for risk selection (see below). The regional dimension can then still be introduced in the system in many different ways[15], but the main challenge consists in creating a workable degree of (regulated) competition between insurers.

The choice between the two models is not an easy one. Because of the hybrid nature of its health care system (with free choice of sickness funds, but sickness funds acting as a cartel), Belgium can go either way. In the health care system, the asymmetric information issue is closely linked to the issue of innovation in program design and program delivery. Who is better placed for this, the regional governments or the sickness funds? We believe that there is a good case to be made for a greater role of the sickness funds.[16] Regional decentralization is then still possible, but it may be counterproductive, since it might create strong power positions of some sickness funds in some regions. Indeed, the Belgian compulsory health insurance system can be characterized as an oligopoly with some really big players that are moreover unevenly distributed over the whole territory. Of course, the degree of competitiveness will also depend on the decision whether or not to allow the entry of private insurers in the compulsory health insurance market. In any case, in this approach decentralization becomes a minor issue.

All this does not imply that the division of competencies should not be defined in a more coherent way. In fact, it should be made clear that prevention is part of health policy and is within the realm of the regions. It is sometimes claimed that the regions do not have the right incentives to do prevention, as long as health care expenditures are borne at the national level. This argument is not very convincing, however. First, it requires an extremely cynical view on policy makers, in which they would be more concerned with the financial than with the health consequences of prevention. There is not much evidence to confirm this cynical view. Moreover, while prevention is good for health, it very often leads to an increase rather than a decrease in health care expenditures. Non-smokers live longer and are, over the whole of their life, more expensive than smokers. From a broader perspective, it is well known that a coherent health policy should not in the first place concentrate on medical care. Improving the health of the population and decreasing socio-economic inequalities in health have

[13] The precise allocation is not completely evident, however. In many countries there seems to be an almost permanent reshuffling from competences from the local to the regional to the national level and back.
[14] A description of these systems can be found in Van de Ven et al. (2003, 2007).
[15] In Switzerland insurers can differentiate the premiums in the different regions.
[16] See Bevan and van de Ven (2009) for a critical comparison of both approaches, focused on the UK and the Netherlands (the two standard reference cases).

more to do with social housing, integration of minorities, poverty and education. The regions already control the most important instruments in all these domains. However, the most difficult coordination problems arise with respect to the coordination of welfare (including long term-care) and health care policies. An open debate about these issues is urgently needed.

4.2.2. Solidarity, redistribution and decentralization

The need for solidarity and equitable redistribution is often used as a decisive argument against all regional decentralization. It is not a convincing argument, however, although it does require some careful thinking about the best financing scheme. More specifically, there is no problem at all to decentralize some policy instruments while at the same time keeping the financing at the national level. The basic idea here is similar to the financing scheme that is now already used for the sickness funds. Let us therefore first explain how this system works.

All citizens pay health care contributions that are collected in a "central fund".[17] At the same time they have a free choice of sickness fund. The means collected by the central fund are divided over these sickness funds, taking into account not only the number but also the characteristics of their members. Risk adjusted subsidies are calculated with a regression-based formula, including among other variables age, gender, indicators of chronic illness and socio-economic vulnerability. More specifically, sickness funds with more elderly, chronically ill, etc. get more. The advantages of this scheme are clear. Given that financing remains centralized, it is possible to implement any desired vertical redistribution scheme. It is even possible to finance the central fund with taxes. Given the system of risk adjustment, incentives for risk selection are minimized. Given that risk adjustment is based on ex ante-characteristics and not on ex post-expenditures, the sickness funds keep all the necessary incentives to keep expenditures under control. Solidarity and incentives for efficiency therefore remain intact.

Similar financing schemes are applied in many NHS-systems (such as England or Italy). Here also one has a central collection of financial means, which are then divided over the regions on the basis of a "risk-adjusted" allocation formula. The regions remain responsible for their own expenditures, but given the risk adjustment in the correction formula, they are treated in an equitable way.[18] Note, however, the difference between regional decentralization and decentralization towards the insurers. The latter option creates a danger of risk selection, which is not present in the former case. On the other hand, competing insurers will have stronger incentives to offer good quality and to introduce innovations, since this will make them more attractive for citizens/patients.

The basic choice about how to decentralize therefore remains open. While we agree that interpersonal solidarity is essential in a civilized society, it can be reconciled with any of the two systems.

We can summarize. Decentralization is desirable in health care and health insurance. This does not necessarily imply regional devolution, however. The crucial debate should be about the future role of the Belgian sickness funds. This choice has to be made on the basis of the arguments of asymmetric information and innovation. There are strong equity arguments to keep financing at the central level. It is possible, however, to go in the direction of decentralization without threatening interpersonal solidarity.

5. Child benefits

Child benefits are another example of "demogrants" and therefore there is no prima facie case for decentralization. However, as for pensions, there is need for coordination of policies between the federal state and the regions and in some specific cases decentralization may help to get at a more efficient system.

5.1. Current situation and challenges

The introduction in 1930 of statutory child benefit was characterised by strongly diverging views, including between Flanders and Wallonia, on what was the most appropriate design: in view of the lower and sharply declining birth rate in Wallonia, the Walloon industrialists – supported by the socialist party – were in favour of

[17] The "central fund" in Belgium is RIZIV/INAMI.
[18] In some Scandinavian countries, where local financing is more important, there are compensation schemes which basically aim at the same end result. A fairly general (but already somewhat obsolete) comparison of the systems in different countries can be found in Rice and Smith (2001).

higher child benefit amounts for the first and second children; in child-rich Flanders, on the other hand, much emphasis was put on the need for higher (or even exclusive) child benefits for third and higher-order children. The design that has prevailed to the present day reflects the compromise reached at the time: child benefits are granted for all children, but there are substantial supplements for higher-order children in large families.

The child benefit system is organised along socio-professional lines and consists of three regimes: one for employees, one for the self-employed and one for civil servants. In recent times, the principal differences between these regimes have been reduced substantially (including in terms of benefit amounts). Since the introduction in the 1980s of a general funding system ('Globaal Beheer/Gestion Globale'), social security contributions and other revenues of the social security system are no longer assigned a priori to any particular branch of that system.

In the allocation of child benefits, three legal concepts are used. In principle, child benefits are paid to the mother (the *benefit recipient*) of the *entitling* child on the basis of rights that have been accumulated by the *entitled person*. Starting from these three notions and the abovementioned regimes, the system has been gradually adapted to strongly changing family structures. Every effort was made to universalise child benefits: despite the fragmented design of the system, families with children now almost invariably receive child support. At the same time, however, recent developments in child benefits exhibit a strong tendency towards selectivity: in part to resolve the fact that child benefits have not followed the rise in the general standard of living, the amounts for the most vulnerable families (including those with long-term unemployed heads and lone-parent households) have been increased. Increasingly the system departs from the initial demogrant design.

Most child benefit payments are made through so-called employers' payment funds. As a result of successive mergers, most of these funds have grown quite substantially. They now usually operate in at least two of the country's three regions. They are funded by the public authorities on the basis of, among other things, criteria relating to the quality of service offered. In other words, these institutions have, to a considerable degree, been encouraged to undergo a process of 'responsibilisation'.

The child benefit system initially entailed a considerable interregional transfer from Wallonia to Flanders.[19] However, the redistributive flow has since been reversed: average expenditures on child benefits are now approximately 15% higher in Wallonia than they are in Flanders (Cantillon et al., 2008, p. 136). This is explained by the higher birth rate in Wallonia, the higher proportion of families entitled to increased child benefit through unemployment, and the higher proportion of orphans and disabled parents and children.

Generally speaking, the system would appear to work satisfactorily: almost all families receive their child benefit payments on time, without too many problems. Yet, there are problems, about which there seems to be a great deal of interregional agreement. These are of a twofold nature.

First, there is the *enormous complexity* of the system due to much greater selectivity in the allocation of amounts and the numerous adjustments to the entitlement rules necessitated by societal evolutions towards new and often less stable family types. These rules, constituting an almost unfathomable amalgam of administrative modalities of allocation and control, affect the regimes for employees, the self-employed and civil servants alike. A merger of the three regimes might therefore result in a very substantial administrative simplification.[20] More in particular, the concept of the entitled person would become superfluous. It would no longer be necessary in the allocation of child benefits to identify a person who is able to assert the right to child support under one of three distinct regimes. Only the receiving child and its family context would then serve as a basis for child benefit allocation. Hence, for reasons of administrative simplification as well as social efficacy, the merger of the three regimes would appear to be a first priority for future child benefit policy.

Second, there is the *efficacy* of child benefits in the light of population ageing. Over the past thirty years, growth in the average spending per child has decelerated, so that, since the 1990s, it has barely kept apace with purchasing power developments. The basic amounts, the age supplements and the social supplements have all been subject to a welfare decline of approximately 30%. Should this trend – which is implicitly incorporated into

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[19] It emerges from the political debates that this was not always considered self-evident : "Il y a là quelque chose de souvereinement injuste...Une partie des cotisations patronales de Verviers va servir à encourager la natalité en Flandre, ou elle est dejà considerable, et à y rendre la main-d'oeuvre encore meilleur marché, alors qu'elle devrait servir à enrayer la dénatalité dans nos contrées ", Senator Simonis, cited by De Koster, 2001, p. 130.

[20] Although there seems to be a large consensus around this idea, in Wallonia it is sometimes perceived as a threat, as it might create opportunities for alternative types of funding that would bring the system closer to devolutionary reform.

the calculations of the cost of population ageing by the Federal Planning Bureau – persist, then child benefits will lose a further 16 to 36% in welfare capacity by 2030. This threatens to seriously undermine their social efficacy. In order to cushion the negative effects in terms of child poverty under such a scenario, ever greater selectivity towards vulnerable families shall be required. The child benefit system would then increasingly diverge from the original demogrant design. The horizontal solidarity of childless families with those with children would decline, and consequently so too may the perceived legitimacy of the entire system. It would therefore seem essential that the link be re-established between child benefits and the general level of welfare. An equally important argument in this respect is the need for an equitable distribution of the cost of population ageing: child benefits are a very strong instrument for achieving this while taking due account of the burden that families bear in the raising of the next generation.

5.2. What about decentralisation?

On the basis of the theoretical arguments discussed in part I, we may assert first and foremost that, in view of the basically universalistic design of the system, the complexity of implementation (which, given the great diversity and fluidity in family types, will remain even if the three existing regimes are merged) and the current mode of organisation (with child benefit funds generally operating in different communities) it seems more rational to maintain a unified structure than to devolve. The gradual transfer of child benefit files from the Flemish authorities to the Federal Service for Child Benefits for Employees is illustrative in this respect. Likewise, a centralised approach would appear to be more efficient for the necessary but complex integration of the regimes for employees, self-employed and civil servants. The potential benefits of scale should certainly not be underestimated.

In view of the substantial commuting flows from Flanders and Wallonia to Brussels, the argument of interregional externalities would also appear to be relevant here. The coordination rules imposed by the EU stipulate that social benefits (irrespective of how they are funded) should be allocated to all those employed in a given country. It can be expected that in the future the applicability of this stipulation shall be extended to regional entities (at present, it applies only to interstate flows, as the case of the Flemish care insurance scheme demonstrates). This would imply that a child benefit system in Brussels would have to unilaterally bear the cost associated with not only European parents working in the Belgian capital but – by extension – also Flemish and Walloon parents employed there. Any negative consequences for the financial viability of the child benefit system and/or for child benefit amounts in the Brussels Region could then only be remedied by means of a complex system of compensation. It speaks for itself that the complexity of such a compensatory system would be proportional to the regional differences in regulation.

National solidarity would also seem to be preferable from the perspective of intergenerational redistribution: the intended horizontal redistribution envisaged through child benefits contains an important element of intergenerational solidarity. Child benefits are, after all, an effective way of distributing the cost of population ageing in an equitable way while taking due account of the investment by young families in future generations.

The casuistry of child benefits suggests that the argument of cost effectiveness which is used usually as an argument in favour of decentralization also works the other way round: competition between regions does not necessarily lead to better cost effectiveness. As in the case of the Flemish care insurance, competition over competences between regions and the federal level may actually cause a rise rather than a decline in cost. A similar cost-increasing dynamics unfolded recently in relation to the so-called school bonus, which was first introduced in Flanders only for the federal level to follow suit.

There are however also strong arguments for more decentralisation.

First, in relation to the aspect of cost effectiveness, there are examples to support the theoretical assumption. We refer to higher education, where Wallonia decided to establish a two-year rather than a one-year Master's. This, of course, implies an additional year of child benefit. However, the associated cost will be borne by the federal budget, not by the Walloon government, even though it was responsible for the decision. In this respect, devolution would result in greater accountability on the part of the regions.

Secondly, the innovation argument is to some extent also relevant to the context of child benefits. Devolved social policymaking offers a potential for innovation. The Flemish school bonus, for example, is dependent on whether or not the child attends school. In this manner, the Flemish government hopes to reduce the incidence of truancy, in what is a good example of the 'laboratory of democracy' (Jung, 2005).

Closely linked with the innovation and the cost effectiveness arguments are the differential preferences and needs between the regions. The argument of the so-called 'homogeneous competency packages' also ties in with this rationale. Specifically in Flanders, it is argued that child benefits should be devolved so that a link would be established with the regional competencies in the field of family policy. While it is unclear where precisely the special links between regional family policy and child benefits lie, there is an unmistakable connection with education policy, as the aforementioned example relating to the consequences of the different implementation of the Bachelor and Masters' reforms shows. This argument is also relevant to the application of the child benefit regulation to students in higher education. As the definition of a student is crucial in the allocation of child benefits for children over the age of 18, and as this definition is increasingly diverging along regional lines, there is a strong argument to be made for competency in matters concerning child benefits for above-school-age children to be devolved to the regions.

We conclude that there are valid arguments for child benefits to remain a federal area of competence in the Belgian setting, particularly in a period when the system is undergoing necessary structural change. It is, after all, more rational to organise the necessary (but inevitably complex) integration of the regimes for employees, the self-employed and civil servants at a single level of decision-making. Moreover, any decentralisation of the system would give rise to severe negative externalities, especially in Brussels: given the European regulations on the opening of rights, the substantial commuting flows to Brussels, not only from other EU Member States but also from Flanders and Wallonia, would most likely generate a substantial burden for a separate child benefits system in the Brussels Capital region. There have moreover been indications that a transition to such a devolved system would not necessarily save costs. Still, that is not to say that a well-considered decentralisation might not be useful in some specific instances. First, one could introduce a system whereby the regional entities are held financially accountable for the consequences of any policy decisions impacting on child benefit payments. Second, one might wish to reflect on the appropriateness of transferring competence in matters concerning child benefits for above-school-age children to the communities so that a logical link would be established with already devolved education policy. Third, it may make sense to introduce regional benefits provided they are innovative in design and /or implementation.

6. Conclusion

The three systems we have considered in this article (retirement pensions, health insurance and child benefits) are in need of reform. Regional decentralization is not an essential part of these reforms, and it may even be counterproductive. On the other hand, there are inefficiences in the present allocation of competencies between the regions and the federal state and in each of the systems some changes in the overall design would be helpful. These changes can be realized without undermining the interpersonal solidarity, which is the core of our value system. In each of the three systems collaboration between the regional governments and of the regional governments with the federal state is necessary. An open discussion about these issues is badly needed in Belgium. The theoretical arguments that have been put forward in a cool and detached way by the economic literature are an extremely useful guide to structure this debate.

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