

Applied  
Christian Democracy:  
the  
**RHINELAND  
MODEL**



‘Never waste  
a good **crisis**’

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Towards another  
Rhineland model?

The financial-economic crisis in the Fall of 2008 was by far the biggest since the middle of the last century. Our entire financial system teetered on the verge of collapse. Our economy cracked at the seams. In the meantime, the skies have cleared, but to return to “business as usual” would not be very wise. The consequences of the crisis and the costs of anti-crisis management will be felt in the national budgets for some time to come. A shock of such magnitude forces us to fundamentally re-think the basis of our social-economic model. Was this an (extreme) accident that happened by chance or was something else going on?

The ability to reflect for a moment makes it clear that the crisis is not the origin of all our problems. But by increasing the visibility of our weaknesses it can result in hastening the necessary reformation. At this juncture, the axiom is also relevant: never waste a good crisis.

As in other continental European countries since the Second World War, in Belgium, the Rhineland Model contributed to a period of heretofore unimagined prosperity and stability. This model begins with the insight that by definition prosperity as well as welfare must be viewed over a long-term period. Short-term profit is always costly in the long-term. This lesson was once again demonstrated by the destructive consequences of mismanagement in the financial world. At the basis of a sustainable prosperity, one necessarily needs to construct a broad social consensus. Moreover, this consensus guarantees balance and stability. On the one hand, the individualistic approach of neo-liberalism might look attractive in the short-term, but it is a conflict model that does not guarantee long lasting success. On the other hand, absolute indifference towards individual expectations and

motivations is also bound for failure, a feature of the socialistic model.

Implicitly, the Rhineland Model assumes the existence of a direct relationship between welfare and happiness on the one side and the creation of wealth on the other. We realize that this relationship is not always clear cut. Often, the lack of prosperity makes people discontent; nevertheless, increasing prosperity does not necessarily create more contentment. Through a good social policy, the government can insure that both wealth and prosperity evolve in correlation with each other; nevertheless, only people can “create happiness”. In this sense, the Rhineland Model is part of a total vision on society.

The society of the Rhineland Model is a society that supports people in their search for happiness; it is a society where people are willing to help each other. Obviously, the economy is a very important link in the chain, but it is not the entire chain. Nevertheless, the total chain would be incomplete, when such an important link would be removed.

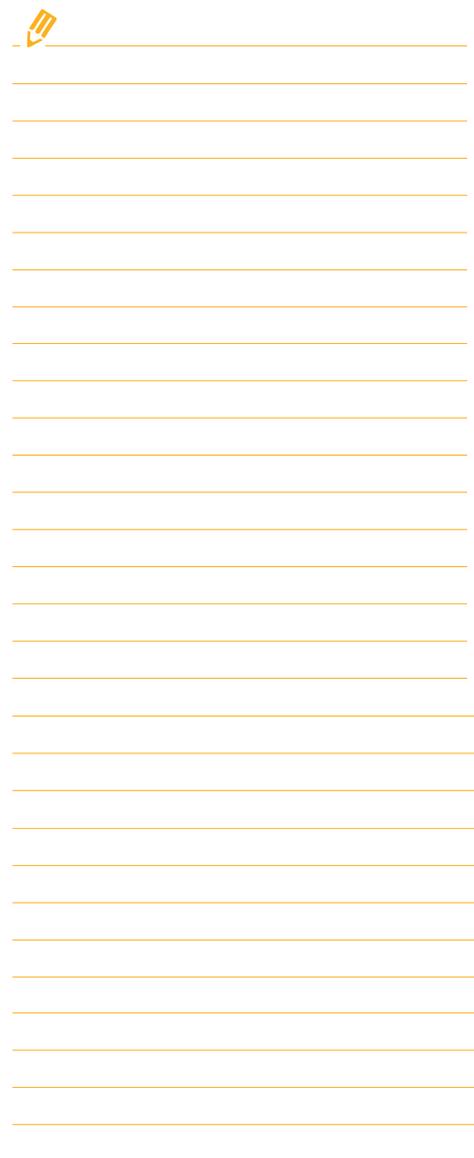
## Seven principles

In his book, *The Rhineland Model: for a Sustainable and Social Welfare*, Yves Leterme lists seven principles that characterize the Rhineland Model:

- 1 A strong belief in the free market to create wealth; nevertheless, governmental intervention is essential to ensure a fair result;
- 2 Private initiative must be linked to personal responsibility;
- 3 The tripartite consultation (workers, employers, government) significantly contributes to prosperity;
- 4 The government organizes social benefits, but at the same time, stimulates private initiative in its execution (the social profit);
- 5 Subsidiarity is a guiding principle;
- 6 Stability with respect to public finances, growth, social climate, etc... is pursued;
- 7 A long-term vision exists for the creation of value, with attention given to the interests of all stakeholders.



It is clear that some of these principles were blatantly ignored in the run up to the past crisis. There was often an obvious need for “more Rhineland.” It does not fit with the Rhineland Model when banks use savings in order to invest in abstract products and ignore the local economy, giving absolutely no consideration to an enduring balance between the interests of savers, consumers, entrepreneurs, banks and the State. In the crisis, individual freedom was totally disconnected from personal responsibility.



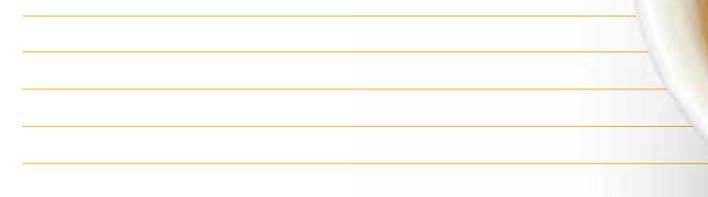
In the mean time, the steps, which were taken in order to better regulate the financial markets, have allowed the pendulum to swing back a bit. The crisis has put to an end – at least temporarily – to the calls for even more liberalization, self-regulation and deregulation. Even so, it is neither the State, nor the market, but the bankers and the shareholders themselves, who by taking responsibility and avoiding greed, can restore trust. Precisely the ability to exercise a sense of responsibility is a central tenet of the Rhineland Model. For that reason, the rapid return to the “bonus culture” is an unsettling signal. Profit is good, but without social responsibility, it becomes avarice.

An evaluation of the Rhineland Model goes beyond ticking off principles on a checklist. Questions about whether the Rhineland Model can still serve as an economic navigation system today is primarily a question about whether these principles are still relevant and, thereafter, an observation about the translation of these principles into policy. Without calling the foundation of the Rhineland Model into question, we can formulate serious concerns about their concrete application. For example, serving as an analogy, a ramshackle construction can be placed upon a strong foundation.

It is important to realize that the social environment in 2010 is not the same as in 1950. Society has been fundamentally altered. All we have to do is to think about the globalization of the world economy and of past demographic developments. Globalization and demographics are changes that imply consequences for the formulation of policy. Often the solution for new problems is not to be found in the solutions of the past. Even more: the solutions of the past have often created, in their turn, new problems.



The harmful impact of the economy on the environment is a clear example of how one solution can lead to another problem. As stated, the main objective of the Rhineland Model is to allow all people to participate in the general prosperity in order to improve welfare. This can be achieved through participation in the labour market or through a very good system of social protection for those who are unable to work. The objective is particularly achieved through the instrument of economic growth. Wealth is created in order to share. Nevertheless, insufficient attention was often given to the negative effects on the environment. Today, the environment has been put under pressure through economic and social activities. Flanders is a productive and industrialized, energy intensive, material intensive, densely populated region with a high concentration of traffic as well as agricultural activity. By extension, this is also the case for many developed regions in Europe and the rest of the world. These regions cause a great deal of ecological burdens, even outside of their own borders.



We have to recognize that the Rhineland Model, as we have applied it in the last six decades, has not always cohered with the Christian Democratic idea of stewardship. Each new generation has only a limited amount of time to live upon the earth and has the obligation to pass it on in a good condition to the next generation. Having said that, today, there is still a “supremacy of the social” in the concrete implementation of the Rhineland Model principles. Sustainability was and is very quickly pushed into the background. In the mean time, much environmental damage is irreversible. As in the financial world, we must ask ourselves the question whether this is a sustainable strategy. Climate change has already led to the impoverishment of the population in some developing countries, and there is a similar risk that these changes will also lead to the impoverishment of our own future generations, who will be required to intervene more drastically.



Hence, to fail to adjust to this new situation is contrary to the Rhineland Model principles. The reaction can be twofold:

### Option 1

We reject economic growth. We conclude that the limits of what the earth can bear have been reached and have even been exceeded. Therefore, we must find a way to wean ourselves from the need for economic growth. This is a position that finds fertile soil amongst ecological parties, but this position is not open-ended. A clear direction must be given to which model of social protection is to be followed. How will wealth be shared, when it is no longer created? In this model, there are obvious winners and losers: the pie does not grow, but is distributed differently. Do we now choose for a clear supremacy of the ecological over the social goals? First ecology and, thereafter, redistribution?

### Option 2

We choose for another, greener growth that coheres with the Christian Democratic idea of stewardship: “wisely green” is our guide. The government corrects the effects of the free market, but not only with respect to income distribution. Economic and human activity puts pressure on the environment and can, thus, harm it.

As the market economy can fail on a social level, it can also fail on an ecological level. The task of the government, therefore, should extend to the protection of the environment by carrying out environmental corrections. The government can use various types of policy instruments to achieve these goals. Through fiscal and social economic instruments (such as taxes and subsidies), necessary impulses can be given to create a change in behaviour. Normative instruments (such as energy performance standards) have a compulsory character. Nevertheless, we need to recognize that the economy will always have some negative impact on the environment. Hence, we attempt to limit this in so far as this is possible and make a proper assessment of the social costs and benefits, including the ecological aspects.



The second option is closely related to the concept of sustainable development or the type of development that meets the needs of the present generation without jeopardizing the ability of future generations to meet their own needs. Its implementation requires a process of change wherein the use of resources, the destination of investments, the orientation of technological development and institutional structures are adapted to both future and present needs. This implies another hierarchy of objectives that is in line with the Christian Democratic principle of stewardship. As was the case in the past, the social correction may no longer dominate the ecological correction. Sometimes difficult choices must be made: ecological corrections are not always social. For example, poor families might drive around in cars that are less environmentally friendly, or live in poorly insulated homes.

Sustainable development fits perfectly with the basis of the Rhineland Model. Economic growth is not seen as a capitalistic motive to exploit workers, but as an opportunity for everyone to be allowed to share in prosperity. Also now, growth can contribute to the realization of more sustainability. A clear illustration of this is the great potential for a so-called “green sector.”

With the EU2020 strategy – the successor of the Lisbon Strategy --, Europe has already chosen for the second option. Through an increase in the employment rate with quality jobs and a strengthening of the information economy, the EU strives towards a strong social cohesion. Indeed, more jobs means less poverty and more means for social support. At the same time, Europe wants to remain a leader in the international approach to solving climate problems, amongst other things by focussing on renewable energy, greater energy efficiency and lower emissions of pollutants.

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While the seven principles of the Rhineland Model are, in our opinion, more relevant today than ever before, their concrete implementation is crucial to policy. This translation must occur in a way that takes the significant social changes of the past decades into account. Maintaining what we have is not the same as maintaining the policies of the past.

In the remaining sections of these discussion notes, we will delve deeper into three important themes: the role of the government in the economy, the evolution towards a more contemporary social dialogue and the challenges for social security and employment.

At the end of the text, we will list a number of pertinent questions for debate.

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# What kind of **government** do we want?

A government that always stands on the sidelines and allows any and every private initiative? A government that limits itself to the defence of property rights? A government that only intervenes in order to put out fires, as was necessary in the recent banking crisis? Or, a government that takes the helm in as many domains as possible?

Government  
and Economy



**In short:** the Rhineland Models offers a government a guide to think about how to develop its own central mission, but the end result will be different in each country.

The Rhineland Model recognizes the added value of a government, which takes an active role in the economy and in society, but, at the same time, also recognizes what a it can or may not do and acts accordingly. It is a government that looks for strengths in the economic fabric and dares to take advantage of them. It is a government that is not blind to its own weaknesses, but, on the contrary, assists in the search for solutions and ensures that these solutions are made known.

This therefore implies that every government will act differently. Each country, each region has its own characteristics. Belgium is small, economically open and centrally located. Logically, having good logistical infrastructure is a trump card, but it is also a necessity. Furthermore, higher taxes are not self-evident: our neighbours are never far away to go shopping and to engage in business. Scandinavian countries, with their expansive land-masses and natural borders (sea, mountains, rivers), need to be less concerned with higher taxes. Nevertheless, in an open economy, the social demands of a good social security (and therefore also redistribution) are often greater: the economy is always strongly exposed to fluctuations in the global economy. For example, Belgium has few natural resources; therefore, we cannot but emphasize the importance of education and innovation. Belgium has a small national market: internationalization is a given.

In the Rhineland Model, the government is not a static concept. The purpose of the government is directly connected to its capacity to improve the long-term prosperity of a people. The Rhineland-government is a service-oriented government. This demands that a government remains vigilant for changes in order to quickly respond to them. Today's challenges are no longer the same as the challenges 60 years ago. In the same vein, today's government can no longer be similar to government 60 years ago.

## What should the government not do?

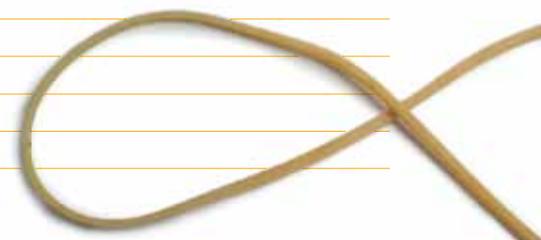


The government does not do business. It is not the “motor” of economic growth. Even though the government can lend support, entrepreneurial people, as business leaders and employees, create prosperity.

It is also not the role of the government to determine which sector to develop. It is the job of entrepreneurs to evaluate the opportunities which present themselves. The government mainly focuses on the creation of a good environment for private initiative. Not from an ivory tower, but by listening to and in consultation with those who want to build a business on those foundations. The government can create opportunities or stimulate those potentially profitable areas, where private initiative has not yet been or has been insufficiently developed. When there is an absence of self-initiative, in exceptional cases, government can provide an impetus.

Nevertheless, the government can and must support sectors by helping them search for solutions to concrete problems. It does this in the same way that it looks for existing strengths in the economy in order to reinforce them.

Still, a government must ensure that there is sufficient room for own initiative and creativity. It should never force the thinking of individuals into one particular direction, nor should it generate the expectation that it can solve all problems: inevitably, this leads to disappointment and even distrust.







because it delivers “good work.” The relevant question to ask is whether a level is in the best position to accomplish the work at hand. The Rhineland Model rejects a government that acts primarily to remain in power. A government is always an instrument, and never the goal itself.

The Rhineland Model is resolutely in favour of subsidiarity. Responsibilities must be given to the appropriate administrative level.

As many responsibilities as possible must be given to the local level, the closest layer of government to the people. For this, a competent municipal government is needed. However, the more tasks that are pushed towards the local government, the more capable it must be. Economies of scale and more flexible procedures for inter-municipal cooperation are therefore urgently needed. Stronger municipal governments will strongly question the rationale for intermediary administrative levels. Strong municipal governments and gains in efficiency can and must go together.

It goes without saying that an intensive cooperation across the levels of the various administrative departments is necessary.

Stability in public finances should be achieved in a thoughtful and sensible way. The first step is for the government to organize its main tasks as efficiently as possible. This is, however, not a plea for a “minimal state.” In Anglo-Saxon countries, all too often, there is a one-sided focus on the cost of government. The Rhineland Model maintains a more balanced approach and also pays attention to government output: the government may use taxes in order to carry out its main tasks in a qualitative way, that is, as long as it functions as efficiently and effectively as possible. Amongst its own organizations, it chooses a method that coheres with the available resources. A modern government exercises a sensible, carefully planned as well as future-oriented budgetary, IT and personnel policy. It makes use of an efficient personnel planning and uses labour forces where it needs them. It does not automatically replace those civil servants who retire. It also allows competition to flourish where and when possible. Certainly, the government needs to make use of necessary future-oriented proficiencies in order to fulfil its role as a strategic partner. Its position in a tight labour market (with a battle for talent) and in the information economy should not come under pressure; when this happens, then, its ability to serve suffers. Here too, a sustainable balance must be sought with the private sector.



THE GOVERNMENT AS REGULATOR IS CAREFUL NOT TO OVER-REGULATE. The ability to do business should be facilitated. Perhaps it is tempting to make rules that eliminate all possible transgressions, but when this happens, promising new initiatives can be stifled. We must have the courage to make a proper estimation about how much it would cost society to eliminate every little risk. It is impossible to guarantee for 100% that there will never be another banking crisis, that is, unless we want to reduce the banking sector to a simple conversion of savings into loans. If we would do this, then, we would have to pay a very heavy price: in the past, financial innovation was a powerful stimulus for business, even when certain financial activities were obviously insufficiently sustainable. Proper regulation ensures that the chance of a new crisis is drastically reduced and that financial services have a more sustainable character, without placing a too heavy burden upon the dynamics of the banking sector. The same is true for environmental policy: a sensible green policy can be far more fruitful than blind regulation. It is better to put a proper price on pollution than to put a very restrictive legislation into place, which cannot be controlled in practice. The government that makes better rules, with fewer administrative burdens, will strengthen the competitive position of our country and our businesses. The government should not become an excuse to avoid personal responsibility. It is not the mere fact that a government permits or does not punish an activity that makes that activity socially acceptable in all circumstances.

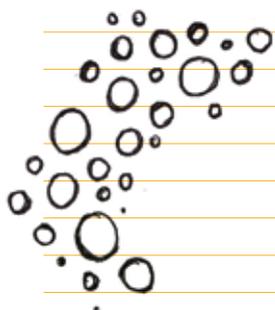


AS A PARTNER, THE GOVERNMENT CAN PROVIDE AN EXTRA BOOST. For example, it can do this by safeguarding the relationship between education and business. But even here, the government should prefer to take a secondary role. The obvious objective (e.g. in the case of entrepreneurship) is connected to financing and to targeted support. The government, as a financier of private projects, makes its criteria clearly known up front. There should be no financing without a promising and viable project. Governmental financing is not a synonym for subsidising; nevertheless, projects with high uncertainty, like high tech start ups, may especially require active participation by the government. Governmental investment should, however, always take place with an eye on the exit: once the government takes leave of a project, then, the private sector can step in as financier.

THE GOVERNMENT AS SOCIAL PROTECTOR ENSURES THAT PEOPLE DARE TO TAKE RISKS. For example, it is important that people are unafraid of falling into poverty when a project goes wrong. The government participates in the development of a social net that also functions as a spring board; not as a hammock. Redistribution is a real characteristic of the Rhineland Model. This covers, e.g. the organization of social security, minimum workers' benefits, minimum loans, etc... Next to the provision of social security is the individual obligation to contribute to the general welfare. Similarly, the principle of a just government must be guarded. Effective inspection services, a determined fight against social and fiscal fraud, etc. are necessary to build trust in the government and uphold social security. Countries where there is a high level of trust, such as in Scandinavian countries, perform better.

THE GOVERNMENT AS A PARTNER IS ACTIVELY INVOLVED IN THE SOCIAL DEBATE, EVEN WHEN THE MAIN RESPONSIBILITIES ARE WITH THE TRADE UNIONS AND THE EMPLOYERS' FEDERATIONS. Without a doubt, good working conditions, permanent education and investment in innovation are shared responsibilities. The government does not act alone, but in dialogue with all the stakeholders and interested parties. Broad public support for the government's policy (where social debate is only one element) increases the chances of success.

THE GOVERNMENT AS CONSUMER/TRENDSETTER TAKES RESPONSIBILITY AS A SOCIALLY RESPONSIBLE EMPLOYER. The government must become a role model as the largest consumer in the Belgian economy. For example, a quality government should not leave invoices unpaid or pay them late. A sustainable government should be an example to others by requiring its employees and (political) representatives to drive in environmentally friendly cars. By paying attention to innovation, it also creates a market for renewed business. The government guarantees equal chances for everyone, who participates in the selection process for a governmental job. As an attractive employer, the government promotes a strong employment policy.



# Social dialogue and the Rhineland Model are practically **synonymous.**

While other economic organizational systems start from the primacy of politics or the conflict between social classes, a dialogue between workers and their employers is the basis of economic and social organization in the Rhineland Model. Trade unions and employers' organizations attempt to find mutual interests and achieve goals together. Instead of agreeing to compromises, where everyone loses something, the goal is to find a win-win solution.

Social  
Dialogue

## In Belgium, **SOCIAL dialogue** is expressed on three levels:

- 1 Workers' input in individual businesses;
- 2 Dialogue about salary and working conditions at a sectoral and inter-sectoral level and, to a lesser degree, at regional and European levels;
- 3 Co-management of the social security institutions by the trade unions and employers' organizations.

The dialogue at the level of business was recently extended to small businesses; the management of social security institutions is made more professional by the introduction of management agreements.

Today, especially the inter-sectoral dialogue needs to be updated.

## Is **SOCIAL dialogue** coming up against its own **limits**?

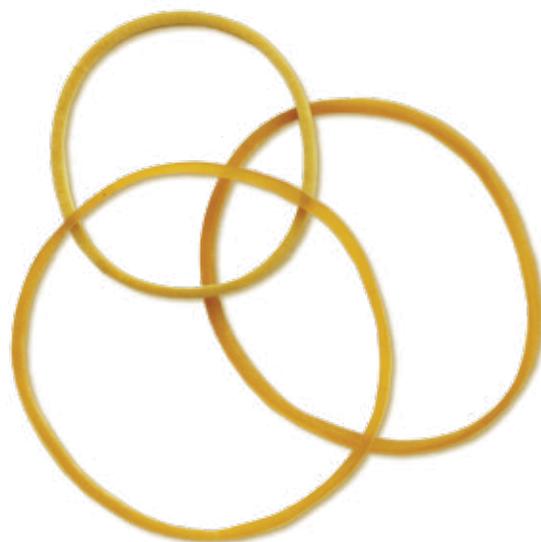
In the first decades after World War II, the basis for every agreement was an interchange between increasing productivity, wages and a strengthening of social security. The basis of social security in Belgium was the “draft agreement for social solidarity” from 1944. Central to this document is the text passage: “The opening of the way towards social progress must result, at the same time, from the prosperity of a world that has returned to peace and from a just redistribution of income from increased productivity.” This passage expresses the entire paradigm of a self-perpetuating social growth that benefited from the economic success of the period after the War. From the beginning of the mid-seventies, this model began to crack under the pressure of the petroleum crisis. From that moment on employers' organizations strongly advocated accords, which would safeguard competitiveness. Finally, this demand expressed itself in the 1996 legislation concerning competitiveness. After qualitative agreements about, e.g. employment, education and the equal treatment of women, since then, there have been continual agreements about salary development, based on the development of wages in neighbouring countries.

Throughout these years, the common thread of the social dialogue model was the cooperation of workers and employers at all levels in order to achieve economic progress together.

Nevertheless, in the past years, the classical model of dialogue has become increasingly more difficult. This has to do with effects of the intensification of globalization as well as the fact that the ability to maximize profits has reached its limits or has been slowed down. Without a doubt, other broader social developments play a role, such as the fading support for solidarity or the lack of trust in the ability to reform social and political institutions.

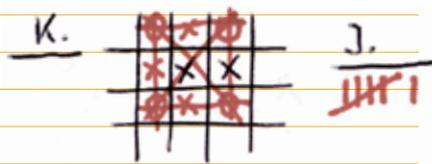
From the past, we learn that it is far easier for agreements to take shape when there is room for financial movement, but agreements are not possible, or are at least severely limited, when the economy is weak. This illustrates that even today economic growth is the preferred instrument to realize the objectives of the Rhineland Model.

In recent years, the classical inter-sectoral model of negotiation has lost credibility and efficiency. Recent agreements were insufficiently ambitious and ineffective. They were also paid for in cash by the taxpayer. The competitiveness of our enterprises hardly improved. Too little job creation made it impossible to substantially reduce labour costs, without passing the bill on to later generations. Moreover, the combination of fewer jobs and more spending has led to a sombre outlook for social security. Companies, employees and the State have ended up in an apparently lose-lose-lose situation.



The framework of the 1996 legislation seems to be too limited and limiting. The debate has been reduced to a discussion about salary norms, while no global strategy has been developed with respect to the evolution of employment, education, social policy, research and development, etc.. The 1996 legislation, globalization and economic development have allowed both employees and business to get used to a defensive posturing. Everyone tends to defend their own interests against the other, where the frontline of the debate has become the issue of wages. Both sides have lost sight of the fact that we have lost terrain in many other areas. An offensive, communal strategy would be far more beneficial for both parties.

Social dialogue strongly maintains national borders, while competition is growing increasingly more international. Although the national social partners' room for manoeuvring has decreased given international pressure, there is no social dialogue at an international level. The lack of international social dialogue creates a negative spiral that is comparable to the protectionism that blocked past economic progress. Is sustainable economic growth feasible with falling wages, low interest rates, monetary conflicts and international imbalances?



## Towards a contemporary SOCIAL dialogue?

**A DIFFERENT APPROACH TO SOCIAL CONFLICTS.** There are increasingly more social conflicts, where both sides tend to over-react. Despite clear agreements (the “gentlemen’s agreement” of 2002), employers make greater use of litigation in order to break strikes. Wildcat strikes and or unacceptable strike practices, such as hostage-taking, are becoming more prevalent. Social negotiators could take a more active and preventative role in order to obstruct these types of practices. The right to strike needs to be reconciled with personal responsibility. For example, actions that focus on public transportation almost automatically result in tremendous social and economic damage, while often the motives for the actions do not seem proportional to the damage caused. A sustainable social dialogue requires balance to return between the rights of those who take action and the interests of society in general.

### INTERNATIONALIZATION OF THE SOCIAL DIALOGUE.

International competition continues to increase, also in markets that heretofore appeared to be immune. For many problems, there is no real international approach; the ultimate example can be found in wage negotiation. For each country, this leads to a number of external factors, where people become trapped in a TINA-model (“there is no alternative”). Neither the social partners, nor the national governments are left with any choices. Whoever fails to resist must pay the high price of losing market share or labour opportunities. Ultimately, international income inequalities are thus “imported,” and the number of losers is high. Therefore, is it not in everyone’s interest to start a European-oriented consultation model? In the first phase, a European social minimum can be achieved (e.g. at the level of working hours and minimum wages). Furthermore, the approach towards the restructuring of multinationals can be better coordinated at a European level in order to avoid that countries are played off against each other.

### SOCIAL DIALOGUE AT A BELGIAN, FLEMISH OR EUROPEAN LEVEL?

As long as responsibilities become more fragmented, the idea of a “central” social dialogue sounds increasingly strange. The fragmentation of responsibility results in technical problems for negotiations: on the one hand, the possibilities are limited through internationalization; while on the other hand, the classical exchange becomes more difficult because the “means of exchange” find themselves at another level than where the original dialogue took place. The concept of subsidiarity pops up again with respect to the question of social dialogue.



**EXPANSION OF THE THEMES.** Today, the inter-sectoral, but also the sectoral social dialogue is limited to a discussion about wages. Qualitative themes such as training or procedural aspects of labour law are discussed, but these discussions remain for the most part at the level of general recommendations. Other themes like innovation, sustainability, etc. are scantily treated.

**A MORE ACTIVE ROLE FOR THE GOVERNMENT.** In an increasingly more international and complex society, a dialogue that limits itself to employers and employees will never achieve the desired results. Unlike the past, the government must enter into the dialogue as a full partner, and not only as a financier.

**CLEAR PRIORITIES AND MORE AMBITION.** Over the past years, too often, the social dialogue has been a “conference of redistribution,” where available resources were assigned a particular destination. There was no real vision behind the redistribution, let alone a communal vision of the social partners on how to execute social or labour policy. In contrast with some neighbouring countries, the social partners never spoke about a communal ambition concerning necessary structural reform, which was a big handicap for negotiations. When there is a common goal and ambition, far more is achievable. Precisely the ability to form a necessary consensus is the strength of the Rhineland Model.

**TOWARDS A NEW TYPE OF DEBATE CONCERNING WAGES.** Today, negotiations can also be held about a classical inter-sectoral wage norm, with an eye on establishing a “win-win-win” situation in the long term. Nevertheless, it is important to clarify and modernize the framework. Two premises are essential: First, labour cost reductions, which should restore competitiveness, should be replaced by income tax reductions, once competitiveness is restored. The instrument as well as the chronology must be reversed. Second, the government must become a full partner in the inter-sectoral agreement. This is to say: not as the one, who pays the bill at the end of the day, but as the facilitator and the guarantor of the partners’ return of investment through greater competitiveness. Hence, there is real wage control, with the guarantee that workers will benefit from the extra jobs that are created. In this way, it can be simultaneously avoided that ever increasing productivity gains are necessary to enable wage increases. Gains in productivity are increasingly difficult in the present economic reality. The service sectors, which have become relatively more im-

portant in our economy, are more susceptible to this reality than are the industrial sectors. Moreover, productivity needs to be increased through innovation. The margin for the imitation of better foreign technologies has been greatly reduced. Furthermore, the ambition to also use people with lower productivity in the labour process puts a brake on increases in productivity.

**FROM A DEFENSIVE TO AN OFFENSIVE DIALOGUE.** With a focus on wage control, for years, we have aimed our energies and means at the protection of existing employment in existing sectors with existing products. It costs ever more energy and funds to maintain the success of these initiatives. Structural labour market reform and strategies for economic innovation can lead to higher returns on investments, provided that they are broadly endorsed by the social partners.





**The ultimate objective** of the Rhineland Model is to enable all citizens to participate in the well being of society.

Social Security  
and the Labour Market



The ultimate objective of the Rhineland Model is to enable all citizens to participate in the well being of society. Whether through participation in a labour market with quality jobs or through the granting of decent benefits. There exists an important link between the labour market and social security. Social contributions resulting from labour are responsible for the bulk of revenues that provide for social security. Labour also often grants one the right to receive social security benefits. Moreover, one of the Rhineland Model's principles is that a good social security system requires people to not make unnecessary use of it. On the contrary, everyone is expected to exert him or herself to the maximum in order to contribute to the creation of the general prosperity. In other words: social security is meant to bridge the gap where there is a "lack of work."

Hence, the economic role of labour in the Rhineland Model is twofold. Labour not only provides for individual income, for production and for the value added of a company, but labour is also essential as a source to finance social security. More working people are, therefore, a means to improve the well being of both those who work and those who do not work. Labour market reforms should integrate both approaches to work (the intrinsic welfare component and the economic component). In this way, we can improve both the well being and prosperity of the working individual as well as that of society in general.

In light of the ageing of the population, the low participation of many groups in the labour market as well as the shortage of labour supply for certain professions and sectors, it is clear that a reinforcement of the labour supply is urgent. Without this reinforcement, we will never be able to maintain economic growth at the present level. Targeted economic immigration can resolve difficulties to fill certain job openings. Existing immigration flows should add more to the advancement of national prosperity. Unfortunately, immigration is often reduced to the problem of asylum seekers and to a too limited narrative about solidarity. That narrow perspective neglects the fact that the participation of immigrants in the labour market also contributes to the creation of prosperity. The government is needed to guide this process through an active labour market policy and by combating discrimination. The narrative about rights and duties needs to be pushed forward in the public debate. This will help to improve the social acceptance of immigration (in all its forms).

Labour should not be reduced to pure economic data. Human contact, individual development, human values, solidarity and cooperation with others are only a few of the values that employment helps to develop. The employee is therefore never only an economic factor, he is always still a human being, who through his labour contributes to the development of personal, ethical and social goals. The creation of prosperity, without the creation of well being, is a poor way to interpret labour and the economy.



At this juncture, we will now delve deeper into the organization of social security; hence, we frequently and without hesitation cross the borders of the labour market policy. As we have pointed out, these two factors are inherently connected to each other.



# The setting and risks

After the Second World War, our social welfare system was developed as a step-by-step response to a number of risks. In essence, the social welfare system must ensure financial stability, even when people experience bad luck. On the one hand, through income replacement benefits, which attempted to compensate for a person's loss of income. Pensions provided an answer to the risk that someone, who became very old, was no longer capable of earning a salary through labour. From the beginning, therefore, the retirement age was set at 65, barely differing from the average life expectancy. The risk of loss of income through illness, disability or loss of employment was also offset. On the other hand, as a supplement to salary, compensatory payments were provided to avoid those (often unforeseeable) costs -- linked to the rearing of children or medical care -- that could result in a life of poverty.

From the beginning, it was explicitly decided for a system of social security where there was, on the one hand, a clear link between the advancement of social rights and, on the other hand, work. This was different than, for example, the United Kingdom, where the starting point was universal social rights. Nevertheless, the relationship between work and the development of social rights cannot be perceived as a one-to-one ratio. Child benefits and health care are, for example, universal rights. On the side of financing, taxes now account for more than one third of the means of social security; therefore, social security is no longer a concern of the employees and employers alone. The government has also become a full partner.

Social protection must be conceived in broader terms than social security. Outside of social security, a number of assistance mechanisms have been developed that are entirely financed from the national treasury. There are also other social allowances for education through scholarships and grants. Often allowances, which fall outside of social security, are subject to a prior income test (means tested). The same is true for subsidized services like childcare and homes for the elderly.



Therefore, the specificities of our social security system are concerned with a number of outside factors; factors that have not remained stable over the last decades.

1 In the past, new generations were systematically larger in size than their predecessors. In the past, financing through repartition was self-evident. Due to hyperinflation after WWII, repartition became a necessity: wealth that had been previously accumulated was no longer of any value. Now, however, the phenomenon of ageing and low birth rates put financing through repartition under extreme pressure. In a few years, for every person who is active in the labour market, there will be someone, who is inactive. Connected to this, low and relatively predictable inflation figures have led to a renewed interest in capitalization.

2 The typical family situation after World War II, the so-called "bread winner's model," stood central in the construction of social security. The husband went to work, while the wife cared for the family. Today, however, familial forms are now more diverse and less stable; hence, it is more difficult to fall back upon the kind of solidarity that was once found within the family. This development has led to the call for individual and fragmented rights: social rights are demanded irrespective of the rights of the partner.

3 The average career was relatively stable. A person, who began as an employee in the private sector, or were self-employed or became a civil servant, remained so until his or her retirement. This led to the development of various parallel systems of social protection, without any regard for the problems of transition. Unlike today, jobs were

for life. Today, mixed careers and job changes are rather the rule than the exception. This means that there is a necessity for a type of social security that does not hinder the mobility of the labour force. This applies in particular to those workers with international careers (e.g. expatriates and cross-border workers), a reality that is becoming increasingly more prevalent.

4 Competition in the global market was for the most part limited so that labour costs were less problematic. Moreover, industry dominated economic activity, so that there were fairly many jobs for low skilled workers. Nevertheless, globalization implies that there is more pressure to decrease wages, therefore, making it more difficult to finance social security. This is especially true for low skilled workers. Insofar as we continue to focus our economy on products with a higher added value -- where competitive pricing is less important --, education becomes even more important.

5 European integration is being felt. Social security arrangements can not impede the free movement of workers, goods and services. To limit social security on the basis of (sub)nationality is, for example, not possible.

Society in 2010 has fundamentally changed from the society that existed directly after the Second World War. Even so, the “old dangers” are still present. People still want to protect themselves against the loss of income and against extensive and unpredictable costs.

But are we really able to adequately protect ourselves against the old risks in the now changed environment?

1 The understanding of a pension or a retirement has been fundamentally altered. Originally, people expected that the average career path lasted “until death.” The pension was a buffer in case ageing outlasted this scenario. Today, we expect much more out of the same pension. A pension is expected to maintain a person’s standard of living after he or she has completed his or her time of active work. Although the retirement age has remained the same, due to progress made by medical science, life expectancies have dramatically increased. It is for this reason that the active time of work has been -- relatively speaking -- shortened. Furthermore, there are relatively less resources available in comparison to relatively more expenditures. Connected to the ageing of the population and lower birth rates, the financing of pensions in particular and social security in general is heavily under pressure. The objectives of social security must be brought into line again with the available means.

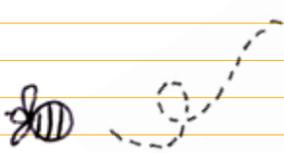
2 Thanks to the broad distribution of trustworthy means of anti-conception, the costs of child rearing are less unpredictable than in earlier times. Even so, child support hardly covers all costs that are related to the bringing up of children. This example shows that a permanent monitoring of the objectives, i.e. the input and output of our social security, is essential. Where necessary, the system will have to be fundamentally revised in order to maintain the desired level of social protection.

3 Our social security (and social protection in general) system is less successful in keeping certain groups out of poverty, for example, single-parent households and people, who have had to live from an allowance for a long time. Are we using our limited resources in a sufficiently effective and selective way?



Besides these “classic” risks, a number of new risks have emerged:

- 1 Whoever has received a low or a poor education has difficulty in finding work. Those who remain unemployed for a long time, run a higher risk of falling into poverty. The evolution towards an information economy requires workers to have other capacities (e.g. the evolution from hand to head work, thorough-going computerization). In other words, the lack of a (proper) education is a new risk.
- 2 Trying to combine the demands of a family with work has become increasingly difficult. There are significantly more two-income households/single parents. The lack of time for both responsibilities is a new risk.









**A SOCIAL SECURITY SUITABLE FOR ALL FAMILIES.** One question remains at the forefront: What is social responsibility? As a society, in which situations do we want to be in solidarity? For example, a question pertinent to the pension rights for both partners: should society pay, when one partner has not built upon his or her rights, or is that (partially) a responsibility of the partner?

**PREVENTION AND SUPPORT.** The days that social security was synonymous for benefits are now gone. We need to avoid the situation where people become dependent (long-term) on social welfare payments. This means, for example, an accelerated movement towards service. For example, permanent education ensures that the risk of unemployment at an older age is drastically reduced. Also career guidance, advice, coaching and outplacement are included in this list of services.

**EXPECTATIONS NEED TO BE REALISTIC.** Neither social security, nor the government can solve all . problems. When people want to combine a family, and work, and sport, and culture, and travel, and, and ....., then, there would never be enough leave systems. The same is true for health care: research leads to new therapies and medicines, often at a higher price. Is it feasible to continue to recover medical expenditures from social security? At once, very difficult questions are pushed to the foreground: what is an acceptable cost price for one extra year of life? Should we prefer to put resources into covering a large group of patients than into disorders that rarely occur? Or, should we opt for more selectivity?









