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## Matthew Runs Amok: The Belgian Service Voucher Scheme

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The Belgian Service Voucher Scheme**

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December 2014

# **Matthew Runs Amok: The Belgian Service Voucher Scheme**

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## ABSTRACT

### **Matthew Runs Amok: The Belgian Service Voucher Scheme<sup>1</sup>**

In response to structurally poor job prospects for the least skilled, a number of European countries have introduced measures to boost domestic services employment. No country has done so with more fervor than Belgium. Belgian consumers can use the so-called “Service Vouchers” to pay for a limited but high volume range of domestic services like cleaning, washing and ironing. It is probably the most heavily subsidized scheme of its kind in Europe – more than 70 per cent of the cost of services rendered to individual consumers is borne by the state. Not surprisingly, the scheme has proved tremendously popular. This contribution argues that the scheme is facing a number of particular problems and challenges. While initially many of the people employed under the scheme had experienced past unemployment spells, new recruitment has increasingly drawn on the ranks of those already in work. Furthermore, entrapment in service voucher jobs is rife, going against the purported objective of the scheme in offering a stepping stone to the regular market. Another worrying aspect is that there is some evidence of partial displacement of regular skilled workers. The principal winners are the generally highly educated, relatively well-earning service voucher users who can now outsource domestic chores at a bargain price in the regular market, gaining leisure and care time as well as getting in return more trustworthy, reliable and better quality services than would otherwise be obtainable.

JEL Classification: J22, J23, J38

Keywords: domestic services, active labour market policies

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## INTRODUCTION

The Belgian Service Voucher Scheme, in its current form, has been in place since January 2004. Consumers use the service vouchers to pay for a limited but potentially high-volume range of domestic services that are deemed to have been priced out of the regular market due to the high cost of labour, including cleaning, washing and ironing. The principal objective of the scheme is to raise employment levels among the less skilled and to reduce informal economy activity. Another objective is to help workers achieve a better work-life balance, potentially also increasing their effective labour supply and productivity. Within the European context it is probably the most heavily subsidized scheme of its kind - more than 70 per cent of the cost of the services rendered to consumers is borne by the state. As a consequence, the scheme has proved tremendously popular, probably making it the biggest scheme of its kind in relative terms. The growth in the number of users and people employed through the scheme has been nothing short of explosive, be it with some leveling off over recent years. It is routinely hailed as the most successful employment scheme ever devised in Belgium, a country that has not seen a shortage of ambitious employment schemes and spending to match.

This contribution argues that the scheme is facing a number of particular problems and challenges. While initially many of the people employed within the scheme had experienced past unemployment spells, new recruitment increasingly draws on the ranks of those already in work. Furthermore, entrapment in service voucher jobs also appears to be getting stronger. One of the aims of the scheme was to act as a stepping stone to regular non-subsidized jobs. Now the reverse is happening: people are increasingly making the transition from the regular labor market to the subsidized sector. Another worrying aspect is that there is some evidence of partial displacement of regular skilled workers. Elderly, sick and child care work in particular is being displaced to some extent by mostly unskilled service voucher work although the exact scale remains unclear.

This contribution argues that the scheme cannot be seen as a cost-efficient use of scarce public resources, especially from the perspective of the labour market integration of those furthest away from the regular labor market. There is also little evidence that the scheme has significantly boosted participation rates or working hours among the mostly highly skilled prime users, another objective of the scheme, be it a secondary one. In effect it appears to amount to a leisure and care time subsidy to (relatively) affluent dual earners. In that sense it is a prime and perhaps classic case in point of how well intentioned schemes can end up producing massive unintended Matthew effects<sup>2</sup>, as the title of this paper suggests.

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<sup>2</sup> The Matthew effect takes its name from a Bible passage: "For to all those who have, more will be given, and they will have an abundance; but from those who have nothing, even what they have will be taken away." Matthew 25:29. It was introduced in the social sciences by Robert K Merton in 1968. The founder of the research center to which the authors are affiliated, Herman Deleeck, published an eponymous book in 1983, describing rampant middle income biases in the Belgian welfare state.

## GENESIS OF THE SCHEME AND POLITICAL FRAMING

The Belgian Service Voucher Scheme came into existence in 2004. It was implemented under the second Verhofstadt cabinet, a coalition of the Socialist and Liberal Parties on both sides of the language divide.

The service voucher scheme had a precursor in the form of the so-called 'local employment agencies' (ALE/PWA) which were put into place in 1994. Under this scheme registered unemployed people got allowed to carry out a limited range of activities that had largely ceased to exist as regular market activities, for example gardening and small repair work, but also neighbourhood patrolling. Also some care services were included, more specifically helping in the care of children, elderly and handicapped. This scheme was restricted to the long term unemployed and people on social assistance. Under this scheme they could perform such activities while keeping their entire benefit entitlement and while receiving an income supplement of €4.10 per hour worked paid via ALE/PWA vouchers obtained by the service users, for up to 45 hours a month. The idea was that these jobs would offer those at risk of chronic entrapment in unemployment a link to the formal labour market. However, since the activities that were allowed under the scheme were almost by definition not part of the formal labour market, that objective was not realized. Moreover, the income supplements greatly reduced the financial incentive to move from unemployment to a job in the regular labour market (Sanson, 2009). For these reasons the scheme was phased out.

The subsequent Service Voucher scheme was in many ways more ambitious. A first objective was the creation of extra jobs, especially for people with no or little formal qualifications. Less skilled women, for whom employment rates were and remain very low were the prima target group. In contrast to the ALE/PWA scheme, the Service Voucher scheme was not solely aimed the unemployed. A second objective was to reduce informal sector activity. By all accounts Belgium had and still has a large informal sector. This thrives in construction and parts of the services industry, for example restaurants, bars and hotels. Prior to the introduction of the Service Voucher Scheme domestic work was almost exclusively performed in the informal sector. Needless to add, while work without a written contract is not necessarily illegal, informal workers are badly protected, have few formal rights, and generally they do not accumulate social security rights. If they perform informal work while receiving benefits, they are liable to being (severely) sanctioned. A third major objective was to contribute to people's work life balance. Since service vouchers can be used for such activities as cleaning and ironing, consumers are partially freed from some such daily chores. This opens up more time for leisure and child care, and a possible effect is also that workers are able to put in more paid hours than they would otherwise.

Thus the political framing takes its cue from several discourses. In part, the service voucher scheme is presented as an answer to the perceived challenge facing advanced economies that good jobs for less skilled people are becoming structurally and inexorably scarcer in advanced economies, while the demand for higher educated workers remains strong. This idea is well illustrated by a quote from 'A new welfare architecture for Europe', by Esping-Andersen, Gallie, Hemerijck and Myles (2002):

'We no longer live in a world in which low-skilled workers can support the entire family. The basic requisite for a good life is *increasingly* strong cognitive skills and professional

qualifications... Employment remains as always the sine qua non for good life chances, but the requirements for access to quality jobs are rising and are likely to continue to do so.' It is interesting to note here that this report, which later became a highly cited book published by Oxford University Press, was commissioned by the Belgian EU Presidency in 2001, notably by then Social Affairs Minister Frank Vandenbroucke, who would later be a major driving force behind the service voucher scheme.

The view espoused in this report continues on a theme developed earlier by Esping-Andersen and others: "As servicing becomes the life-blood of our existence, privilege is bestowed upon the knowledge strata. Yet, there are huge areas of servicing which are labour intensive and low-skilled. The lower end of servicing society is where we must pin our hopes for mass-employment. Unfortunately, because of their sluggish productivity, low-end service jobs are threatened by a long term 'cost-disease' problem. Tertiary employment is therefore likely to stagnate unless wages slide downwards" (Esping-Andersen, 1999, 96). Iversen and Wren (1998) made very similar arguments around that time, claiming that advanced economies are faced with a sharpening trade-off between unemployment and low pay or. Thus the service voucher scheme is seen as a way of partially bypassing this trade-off, that is to say to have service sector job growth to the benefit of the less skilled without having to accept higher wage inequality, particularly wage erosion at the bottom end of the earnings distribution. This problem was seen to be particularly acute in Belgium in view of the comparatively high degree of wage compression – the product of relatively high minimum wages and strong collective bargaining, including universal coverage of collective agreements through legal extension.

A more peculiarly Belgian contextual factor that was conducive to the implementation of the scheme was that Belgium really epitomized continental Europe's 'Welfare without work' predicament (Hemerijck and Marx, 2012). Even within the continental European context Belgium remained around the turn of the millennium a notable underperformer in terms of employment levels and employment growth. Belgium's employment rate in 2000 was around 65 per cent, 4 percentage points below the EU-15 average at the time and almost 15 percentage points below the best performing countries in Europe (OECD, 2014). This translated into benefit dependency levels among the working age population that were among the highest in the OECD area. Looking for example at unemployment insurance caseloads calculated by De Deken (2011, 355-371), Belgium can be seen to have the highest share (6.4 per cent) among the twelve European countries included in the study. Such levels of chronic benefit dependency were widely deemed undesirable and even unsustainable - for economic, fiscal and political reasons.

Three major factors are seen to account for Belgium's notable underperformance on the job creation front.

First, even in a context in which institutionalized wage compression is seen to hamper low skilled employment growth, Belgium stands out in having a particularly compressed wage structure, especially at the lower end of the distribution. Belgium has a comparatively high minimum wage, relative, that is, to median earnings (Marx, Marchal and Nolan, 2013). The minimum wage in Belgium is not a legal minimum wage as exists in some countries, but it is the minimum wage on which employers and trade unions have agreed at the national level. It applies to all workers (collective wage agreements are legally binding, i.e. they also cover

non-unionized workers). This minimum wage has more of a benchmark purpose than anything else – it constitutes the absolute base of the wage building. "Real" minimum wages (i.e. pay scales for the youngest, least qualified and least experienced workers) are collectively negotiated at the industry level and these tend to be considerably higher than the nation-wide minimum wage. Industries where the lowest pay scales are 20 to 30 per cent higher than the nation-wide minimum are not exceptional. In the services sector, minimum wages tend to deviate less from the nationwide minimum but it is difficult to make general statements as wages are set in dozens of separate collective agreements. All the available evidence suggests that very few people actually work – or can work - for the nation-wide minimum. The OECD data base on earnings suggests that relatively low paid work is considerably less prevalent in Belgium than in most other comparable countries, including the Netherlands and Germany.

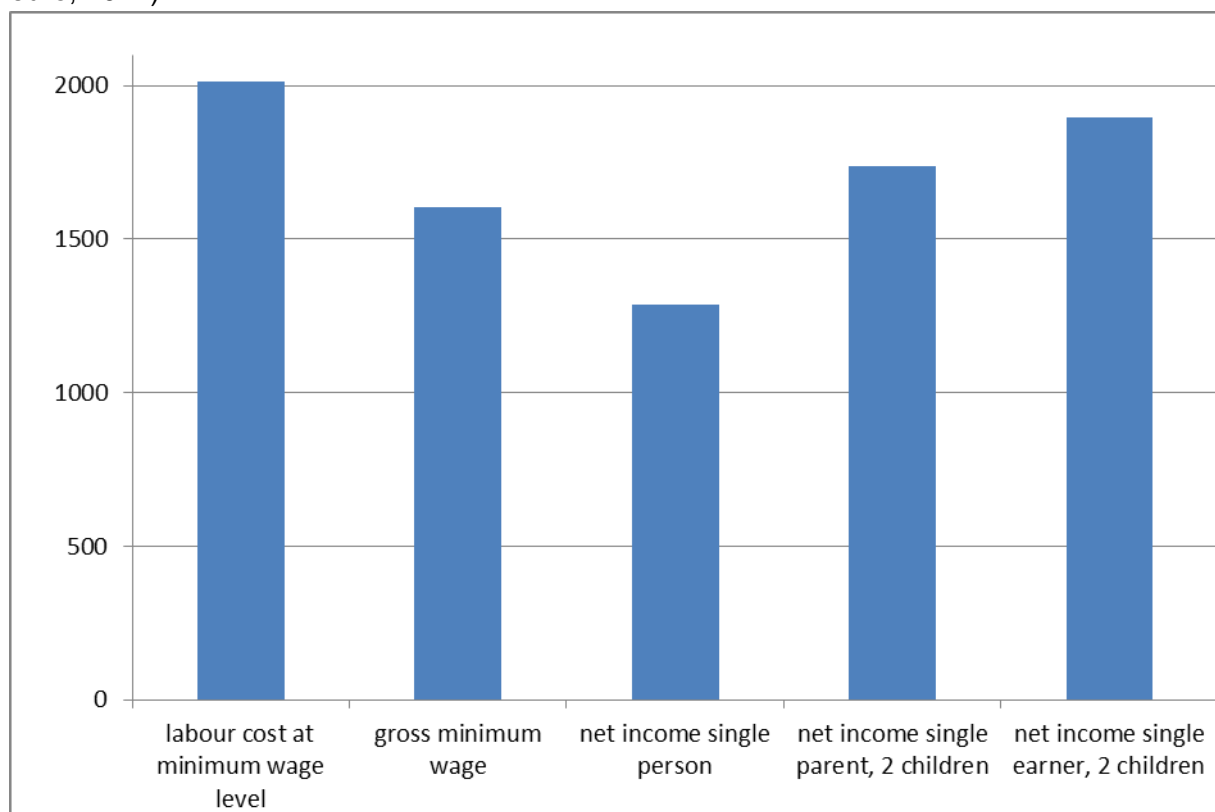
Second, while the minimum wage is high by itself the total wage cost to the employer is even significantly higher due to the cost of the social security system, which is co-funded by employers and employees. Employers' contributions for the basic system (called the first pillar) are proportional to wages and amount to about 25 per cent of gross wage. In addition, employers pay extra contributions for funding general non-social security provisions like child care, educational leave, paid holiday etc. The total bill for employers amounts to around 40 per cent of the gross wage, depending on the category of worker. Furthermore, employers usually pay contributions to industry funds which exist for various purposes (industry-wide training schemes, early retirement benefits, etc.) These are what are called the second pillar provisions, but their generosity and cost vary quite considerably from industry to industry. The extra cost to employers tends to be substantial however.

A third factor that is thought to contribute to low employment among Belgium's less skilled is that the net income of employees working around the minimum wage is perceived to be low relative to benefits, particularly social security benefits. Belgium is atypical in the OECD context in that unemployment benefits can be unlimited in time. Additional income from informal sector activities can be financially more attractive than making the transition to a regular low-paid job, although there is the potential cost of a sanction.

Figure 1 shows, for illustrative purposes, the gross labour cost at minimum wage level (that is including social security contributions payable by the employer), the gross minimum wage itself, and net incomes for various household types (that is after social security contributions payable by the employee and personal income taxes and with possible child benefits included). Clearly, the discrepancy between the gross cost of labour and the take-home income of employees is quite considerable.



Figure 1: Minimum wage level labour cost and net incomes (Belgium, monthly amount in euro, 2012)



Source: MOTYFF, 2014, own calculations.

The service voucher scheme was supposed to provide an answer to these perceived barriers to low skilled employment in several ways. First, service voucher work comes at a much cheaper overall cost because consumers and employers pay no direct social security contributions. Furthermore, the voucher was initially prized at such a level that it effectively prized informal work out of the market, making it less attractive to combine benefits and informal sector income. Moreover, around the same time as the introduction of the service voucher a new administrative protocol called “Dispo” was implemented to ensure a tighter monitoring and sanctioning of unemployment insurance beneficiaries. This resulted in an increase in the number of (mostly temporary) benefit suspensions over reporting irregularities (Bogaerts et al, 2010, 4-7).

## HOW THE SYSTEM WORKS

A first version of the Belgian Service Voucher Scheme came into existence in July 2001. Between 2001 and 2004, this scheme was a regional competence. In 2004, the scheme changed drastically and both its implementation and financing became federal. In this paper, we only look at this second period (Hoge Raad voor de Werkgelegenheid, 2005, 118).

The Belgian Service Voucher Scheme has three important objectives: i) raise the employment level of less skilled people; ii) reduce informal sector activity; iii) help people in achieving a better work-life balance.

Five actors are involved.

The consumer uses the service voucher to pay for a limited range of domestic activities that are deemed to have been priced out of the regular market. Activities can take place both inside the consumer's house (cleaning, ironing, preparing food and doing occasional sewing work) and outside (ironing, shopping, supervised transport of persons with reduced mobility). Service vouchers can only be used for this limited set of tasks. Each adult living in Belgium can buy up to 500 service vouchers per year<sup>3</sup>. Each family (persons living in the same household) can buy a maximum of 1,000 service vouchers per year. The first 400 vouchers each cost 9€, the remaining 100 vouchers 10€. The consumer buys the service vouchers from a private contractor called Sodexo. Once received (either on paper or digital), they have to be used within the next 8 months. Each consumer is eligible to a tax credit of 30 per cent on his personal income tax, reducing the real consumer cost per voucher to 6.3€ for the first 400 vouchers, and to 7€ for the remaining ones<sup>4</sup>.

The second actor is Sodexo, the private company issuing the service vouchers. Per service voucher, Sodexo receives an amount of 22.04 euro, 9 euro paid by the consumer, the rest (13.04€) subsidized by the Federal Government. Sodexo also receives a cost covering subsidy of 0.0852€ per voucher from the Federal Government (Pacolet et al, 2010, 22).

A third actor is the Federal Government, which subsidizes the Service Voucher system in two ways. The Federal Government subsidizes the issuing company Sodexo to the tune of 13.04€ per service voucher. Second, each consumer can deduct 30 per cent of the price of the service voucher from his or her personal income tax. This costs the government 2.7€ per service voucher. Adding up both elements, the Federal Government subsidizes 15.74€ per service voucher. Since the total cost of each voucher is 22.04€, this means that the government subsidizes 71.4 per cent of the total cost.

The service voucher employee is the fourth actor. When formally contracted as service voucher employee, she becomes a regular employee. The labour conditions of service vouchers employees are set in a specific parity committee (PC 322.01) and are made to apply to all workers through legal extension of that agreement. They can work for a maximum of 3 months in a fixed-term contract. After this period, the employee can only work with an open-ended contract of minimum 10 hours per week. They receive a gross wage of minimum 10.28€ per hour worked, paid by the employer<sup>5</sup>. In reality, this wage can be higher, depending on the terms of the contract as negotiated between employer and employee. In 2012, the average gross wage was equal to 10.82€ per hour (Idea Consult, 2013, 45). Thus a full-time working service voucher worker earns a wage that is well above the minimum wage.

The last actor is the employer – the service voucher company – who establishes a contract with the employee for a number of hours of work per week at a negotiated wage per hour.

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<sup>3</sup> A limited number of categories are allowed to buy 2,000 service vouchers per year, at a price of 9€ per voucher. This applies to single parents, disabled users and parents with a disabled child (RVA, 2014).

<sup>4</sup> Since July 2013, the amount of the tax credit is limited to 1,380€ per person per year..

<sup>5</sup> The minimum gross wage increases with the employees' seniority. The minimum gross wage for employees without seniority is 10.28€ per hour. This increases to 10.93€ for employees with 3 years seniority. There is no extra increase of the minimum gross wage for employees with more than 3 years seniority (ABVV, 2014).

The employer receives 22.04€ from Sodexo per submitted service voucher. Both the employee's wage and the service company's operating costs have to be covered by this amount. Employers can be either public or private organizations, and both profit and non-profit organizations are active actors in this market. In 2012, there were 2,753 active service voucher companies with a total of 151,000 employees working for them. Around 65 per cent of the employees are working for profit organisations (either private companies, temp agencies or private persons). The remaining 35 per cent is working for non-profit organizations.

## SUCCESS OF THE SCHEME

The Belgian Service Voucher Scheme has become extremely popular. In 2012, there were almost 900,000 active users, who used no less than 114 million service vouchers (RVA, 2013, 109-110). Around one in five Belgian households used service vouchers at least once in 2012. In the first years of its existence, the Service Voucher Scheme experienced its greatest growth in Flanders, although both Brussels and the Walloon Region have been catching up since 2010. If we look at the coverage rate – the share of users divided by the total population older than 20 – per region, Flanders still scores highest (10.9 per cent in 2012, compared to 9.9 per cent in Wallonia and 9.8 per cent in Brussels) (Idea Consult, 2013, 16).

Users in Brussels buy relative large amounts of service vouchers (163 vouchers per user in 2012, in comparison to 138 in Flanders and 124 in Wallonia) (Idea Consult, 2013, 18). Table 1 shows that the explosive growth in the number of users has gone hand in hand with both a rise in the number of active companies and employees working within the system (Idea Consult, 2005/2013 & RVA, 2013, 106-109).

**Table 1: Growth of the Belgian Service Voucher Scheme, 2004 – 2012.**

	Number of users	Number employees	of Number employers	of
<b>2004</b>	98,814	15,077	504	
<b>2005</b>	190,734	28,933	840	
<b>2006</b>	316,101	61,759	1,162	
<b>2007</b>	449,626	87,152	1,504	
<b>2008</b>	557,482	103,437	1,892	
<b>2009</b>	665,884	120,324	2,292	
<b>2010</b>	760,702	136,915	2,576	
<b>2011</b>	834,959	149,827	2,708	
<b>2012</b>	899,558	151,137	2,753	

Source: Idea Consult, 2005/2013 and RVA, 2013.

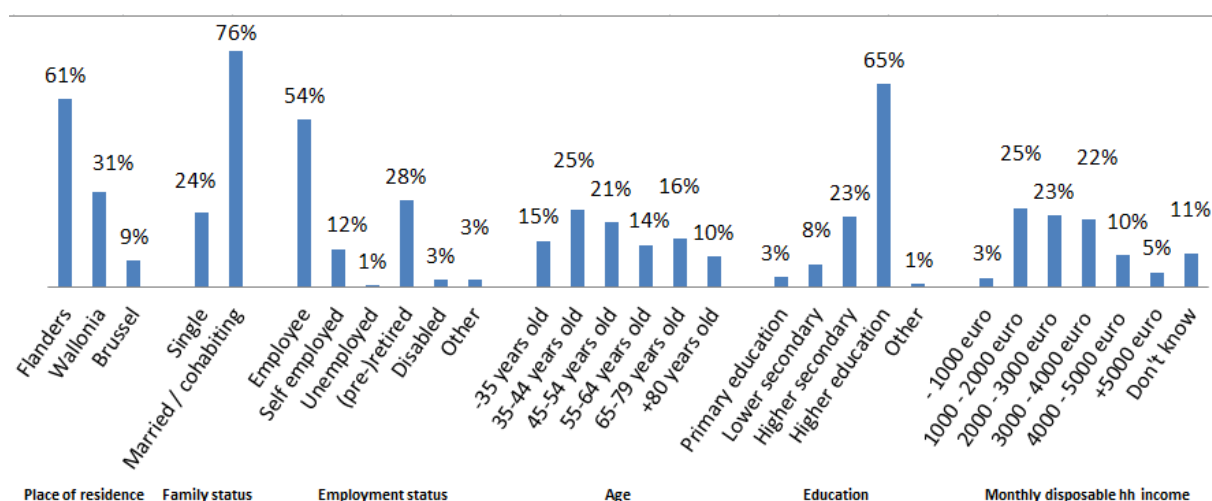
The original objective to 'create' 20,000 jobs was reached one and a half year after the implementation of this system. The number of people employed under the scheme vastly exceeded this number a couple of years further into the scheme. Even during the financial crisis, the Belgian Service Voucher Scheme has kept on expanding. Pacolet et al (2010, 7)

argues, but does not empirically corroborate, that during the crises, the Belgian Service Voucher Scheme provided a buffer against unemployment and that it was one of the factors that kept the loss of employment in Belgium relatively limited.

The service voucher is predominantly used by two adult, full-time working households (Figure 2). A second, and expanding group are users above 65 years old with often specific care needs.

Figure 2 further shows that the majority of users is highly educated. The service voucher is used by families at different disposable income levels. Research done by Haigner et al (2010, 17), however, indicates that the use of Belgian Service Vouchers increases with the household income level. Around 20 per cent of the lower income households (monthly disposable household income below 1,000 euro) uses service vouchers. This increases to 35 per cent for households with a monthly disposable household income between 2,000 and 3,000 euro and even to 46 per cent for households with an income above 4,000 euro.

**Figure 2: Selected characteristics of the users of the service voucher scheme, 2010.**



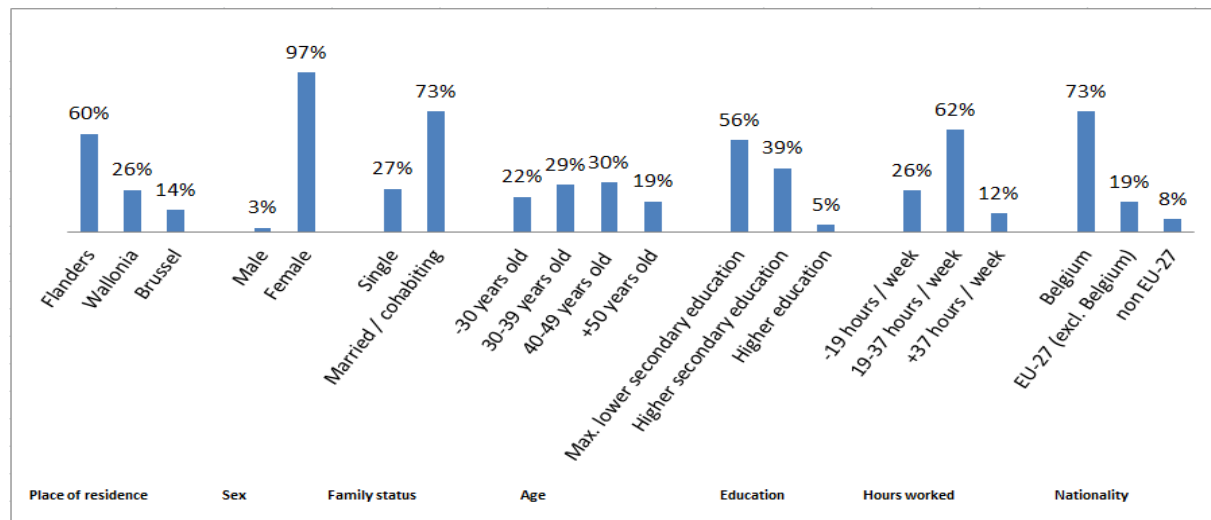
Source: Idea Consult 2011

Looking at the employees' profile (see figure 3)<sup>6</sup>, we see that almost all employees are female. Around 20 per cent is older than 50 years old, which is close to a doubling of this percentage in comparison to 2007 (10.7 per cent) (Idea Consult, 2012, 35). Most employees have attained no more than lower secondary education but this is certainly not the case for all. A significant proportion has higher education degrees. In most cases, a service voucher job is not a full time job. Most employees are working either half time (19-37 hours per week)(64 per cent) or part time (less than 19 hours per week) (24 per cent). Most employees have the Belgian nationality. 19 per cent has a nationality from a country within the EU-27 and around 8 per cent from a country outside the EU-27. In Brussels, only one fourth has the Belgian nationality. There has been an increasing inflow of foreigners (from 24 per cent in 2007 to 27 per cent in 2011). The biggest group of foreign employees are coming from

<sup>6</sup> For this we have to rely mainly on detailed information provided by the Federal Employment Office, completed with two additional variables (family status and work status of the partner) from an Idea Consult Survey for 2011 done among almost 3,000 employees (Idea Consult, 2012, 37)

Poland (13,669 employees in 2012), followed by employees from Romania (2,942 employees) and Portugal (2,912 employees).

**Figure 3: Selected characteristics of the service voucher employees, 2011.**



Source: Idea Consult, 2012 & RVA, 2013

All these employees are working for one of the 2,753 active service voucher companies. Over the ten years that the scheme has been in existence the role of private companies has increased strongly, from 16 per cent in 2004 to 47 per cent now. This has happened at the expense of employment via non-profit organizations and public welfare offices. In 2012, around 65 per cent of service vouchers employees was working for a profit organization (either private companies (50 per cent), interim work (13 per cent) or natural persons (3 per cent). The remaining 35 per cent was working for non-profit organizations (Idea Consult, 2013, 27).

At first sight, the Belgian Service Voucher Scheme seems to be a success story. It is very widely used throughout Belgium and some 150,000 people are employed under the scheme.

As mentioned before, one hour of service voucher employment costs 22.04 euro. The consumer pays only 6.3 euro, implying that the remaining 15.74 euro, or 71.4 per cent of the total cost, is publicly funded. In 2012, the total cost amounted to 1.86 billion euro. According to one calculation, taking into account payback effects in the form of reduced unemployment benefit payments, additional revenues from social security contributions and personal income taxes, reduces the total cost to 1.05 billion euro (Idea Consult, 2012, 147-150). Idea Consult, the firm that won the tender to evaluate the scheme on behalf of the government, employs not entirely realistic optimistic assumptions for this calculation. The Belgian Court of Audit (2009, 61) has also been critical of the estimates, especially of the assumed payback effects.

One extra element usually not taken into account in official cost estimates is the fact that service voucher employers are often eligible for extra government subsidies. These usually take the form of structural or targeted employers' social contribution reductions. There exists a structural reduction for workers working at or around the minimum wage, and there are

many temporary targeted reductions, for example for employees older than 50, extremely low skilled workers, or workers with a work disability. Employers received in 2012 on average 2,500 euro in targeted subsidies and 1,500 euro in structural subsidies per service voucher employee (Idea Consult, 2013, 95).

## **IS THE SERVICE VOUCHER SCHEME DELIVERING ?**

### **Is the scheme employing new workers ?**

The Belgian Service Voucher Scheme was originally targeted to employ 20,000 people. With more than 150,000 people employed, the scheme has vastly exceeded expectations.

Yet there are good reasons for a healthy dose of skepticism as to the net employment impact. Looking first at the workers flowing into the scheme, we see that their profile has become markedly stronger in terms of their chances on the regular labour market. In 2007, 46 per cent of the persons flowing into the Service Voucher Scheme had come out of unemployment; in 2011 this percentage had decreased to 37 per cent (In Flanders even to 25 per cent). Also their unemployment duration diminished strongly. In 2007, 28 per cent per cent of the entrants out of unemployment had been unemployed less than 1 year; 58 per cent had an unemployment duration of more than two years. In 2011, of the entrants out of unemployment, 40 per cent had been less than 1 year unemployed and 43 per cent more than 2 years. On the other hand, an increasing share of entrants have come out of another paid job (often with an open-ended contract) before entering the Service Voucher Scheme (an increase from 45 per cent in 2007 to 50 per cent in 2011; in Flanders even 60 per cent) (Idea Consult, 2012, 46-50).

We can at least partly link this to the strong commercialization of the system. There has been a strong growth of profit companies operating within the system (from 20 per cent in 2004 to 63 per cent in 2012). These companies are often looking for employees with better skills and with past experiences in similar jobs. They feel this need because there is heavy competition for business among demanding consumers. This in contrast to the non-profit employers who more often activate persons with weaker skills and experience profiles (Idea Consult, 2009, 70 & Idea Consult, 2012, 113). The profit companies indicate that the existing temporary wage subsidies for specific target groups do not affect their recruitment very strongly: they expect higher profits when employing someone with a better profile (and without receiving the wage subsidy) than when employing someone with a weaker profile and receiving the wage subsidy. In 2012, non-profit organizations received, on average, more than 4,000 euro in temporary wage subsidies per employee. Natural persons and interim work employers received around one third of this amount (Idea Consult, 2013, 94). Especially when an employee with a weaker profile is staying for a longer time in the system, he or she becomes more expensive because of the degressive nature of the wage cost subsidies (Pacolet et al, 2010, 76). Another downside to this story is that employees working for private companies work with temporary contracts more often<sup>7</sup> and that they are less happy in their job in

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<sup>7</sup> Service voucher employees can only work in fixed term contracts for a period of 3 months. Afterwards, they can only work in the service voucher scheme with an open-ended contract of minimum 10 hours per week.

comparison to employees working for non-profit companies.<sup>8</sup>(Idea Consult 2012, 62 & 90). Conversely, the service voucher companies with social objectives appears to provide the best quality guarantees with respect to work conditions (Pacolet et al, 2010, 76).

Idea Consult (2012,96) data also shows that employees are remaining increasingly longer in the Belgian Service Voucher Scheme - 70 per cent of the employees in 2011 had been active in the scheme for more than 3 years active. They increasingly see a service voucher job as a stable, proper job, which goes contrary to the original objective of the system to act mainly as a stepping stone to regular work. In the first years of the scheme, service voucher work was more often combined with another job and it had a more temporary character. If we look for example at the average number of contracts per employee, we see a strong decrease from 11.4 contracts in 2004 to 1.5 contracts in 2011 (Idea Consult, 2012, 63). The perception of service voucher employees has also changed the last 5 years: in 2007, a majority regarded the service voucher job as a temporary one and as an opportunity to gain work experience. In 2011, they see the service voucher job as a stable job for the longer term. Gaining work experience or flowing towards another job is seen of lesser importance (Idea Consult, 2012, 53). An element that explains this trend is the growing inflow of relatively older employees into the service voucher system.

The strongly reduced mobility from the system towards regular non-subsidized jobs goes contrary to the objective of the system as offering a stepping stone onto the regular labour market. There now is a yearly outflow of only around 20 per cent, of which a fifth is towards other paid work (Idea Consult, 2012, 95). Mainly employees from outside the EU-27 indicate not having enough alternative regular job opportunities (Idea Consult, 2012, 140-142).

The limited outflow may be partly due to the underutilization of training and education opportunities available to workers active within the scheme. In 2010 only 2.6 of the available 7.3 million euro was used for training<sup>9</sup>. Only 29 per cent of service voucher employees received at least one hour of training in 2010. Workers working for non-profit organizations score better with around 45 per cent taking up at least some training, as compared to workers working for profit organisations (around 15 per cent) (Idea Consult, 2012, 75). Research by the Christian trade union (ACV, 2009) and Defourny et al (2009, 132) also suggests that for profit firms often provide little or no training. There is however a positive trend in both the amount of money spent for training purposes (from 718,000 euro in 2007 towards 2.6 million euro in 2010) and in the percentage of employees receiving some training (from 8 per cent in 2007 to 29 per cent in 2010) (Idea Consult, 2012, 75). Looking at the need for training as expressed by the employees themselves, we see that only 20 per cent indicate that they would wish to have more training.

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<sup>8</sup> The number of contracts concluded per employee in 2011 equals 3.9 in the temp agency sector and 1.5 for private companies. In the non-profit companies it equals 0.5 (Idea Consult, 2012, 62). When asked at a representative sample of service vouchers employees how happy they are in their job, employees working in profit companies give a score of 3.08 (out of a maximum of 5). Employees in non-profit companies give a higher score of 3.3 (Idea Consult, 2012, 90).

<sup>9</sup> In 2007, the Federal Government established a Training Fund for the Service Voucher Sector, in order to support education and training efforts in this sector.

### **Has the scheme helped improve the work-life balance of its users?**

One of the primary objectives of the service voucher scheme is to help people achieve a better work-life balance. No doubt the system is a significant help in this respect. But what do users do with the extra time they get from outsourcing domestic work ? The majority of users (78 per cent) indicate that it has no effect on their working hours. Around ten per cent indicate that they work more hours. There is no concrete proof that the service voucher scheme has positive effects on the employability of its users. The extra time received from outsourcing domestic work goes mainly towards the family (23 per cent), housekeeping (22 per cent), free time (20 per cent) and other activities (18 per cent) (Idea Consult, 2011, 110-112). We already mentioned that service voucher use increases with disposable household income. The Belgian Service Voucher Scheme can thus be seen as predominantly subsidizing additional care and leisure time for relatively affluent households.

### **Has it helped to reduce informal sector activity ?**

Another major objective of the Belgian Service Voucher Scheme was to reduce informal sector activity. By all accounts Belgium had and still has a large informal sector, especially in domestic work. It is very difficult to get an anywhere near accurate picture of how the service voucher scheme has affected the informal labour market. An Austrian research project attempted to estimate the effect of the Belgian Service Voucher Scheme on the Belgian Shadow Economy. It concluded that “the fraction of people switching from unofficially employing household help to the service voucher system will be between 10 and 15 percent (Haigner et al, 2010, 83)”. Also Homburg & Renooy (2007, 375) claim that the impact on reducing informal activities is very limited. Renooy (2008, 252) states that “it is difficult to conclude that the service voucher scheme has made significant inroads into tackling undeclared work”. The yearly surveys of Idea Consult indicate a shift of unofficial to official work from around 10 to maximum 20 percent (Idea Consult, 2005-2009). As Pacolet et al (2010, 143) also note, that appears to be a poor result relative to the budgetary cost of the system

### **Net employment impact of the system**

Around 150,000 employees worked in the Belgian Service Voucher Scheme in 2012. As mentioned earlier, most are working either half time (19-37 hours per week) (64 per cent) or part time (less than 19 hours per week) (24 per cent). With employees working on average 19 hours per week, the Service Voucher Scheme in 2012 accounted for 55,000 - 75,000 full time equivalent (FTE) jobs. The scheme also created around 4,600 jobs for managerial staff (Idea Consult, 2013, 55). Accepting for a moment the upper bound of the FTE jobs estimation (75,000) and assuming that all these people would not have found work otherwise, the cost per FTE job created is about 1,86 billion / 75,000 = 24,800 euro per year. If we assume that only half were really new jobs<sup>10</sup>, still an optimistic guess, the cost per FTE job created equals nearly 50,000 euro per year. As we already discussed, it is very hard to

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<sup>10</sup> Empirical evaluation studies of job creation schemes estimate deadweight and substitution losses to be considerably higher than 50 per cent, especially schemes that do not target very narrowly delineated groups like the long-term unemployed (Marx, 2001)



provide anywhere near accurate estimates of the net employment impact of the service voucher scheme because no evaluation study of any level of econometric sophistication has ever been done. As we have indicated, there are clear indications however that not all jobs created within the service voucher scheme are new jobs as there has been an increasingly substantial inflow into the system from paid work rather than unemployment or non-employment.

More worryingly, there is also evidence that service voucher work is displacing work already performed in the regular labour market. Almost one in ten service voucher employees admits performing non-allowed activities (in Brussels even 15.5 per cent). These activities are mainly child care (2.7 per cent), care of elderly and disabled persons (2.5 per cent), gardening (2.5 per cent) and repair work (1.8 per cent) (Idea Consult, 2012, 58). This implies that service voucher workers sometimes do work that is normally performed in the regular labor market by skilled workers at higher wages. Potentially the largest displacement is in the segment of the elderly with specific care needs. In theory, service voucher employees are not allowed to perform any care tasks. Both Pacolet et al (2011) and the worker's organisation ACW (2014) claim that in practice service voucher employees increasingly perform care tasks, especially for elderly and disabled persons. The ACW fears displacement of existing systems of paid family care and additional home care, with a possible loss of quality.

## **RECENT ADJUSTMENTS AND PROSPECTS**

There is widespread political agreement that for the Belgian Service Voucher Scheme to be sustainable in the longer run, the system needs further adjustments, in addition to the ones already implemented. With the 6<sup>th</sup> state reform, the Service Voucher Scheme will become a regional competence from the 1<sup>st</sup> of July 2014. This is seen as a window of opportunity to effectively make additional adjustments. We now briefly discuss on which points action has been taken recently and where further adjustments are planned.

First, as already indicated, the scheme remains very heavily subsidized: an hour of work costs the government 15.74€, or 71.4 per cent of the total hourly cost. This amounts to a total cost of 1.86 billion euro in 2012 (1.05 billion euro when taking possible returns on investment into account) (Idea Consult, 2012, 147-150). To keep the system sustainable, adjustments to 'who pays what' are seen to be necessary. Several adjustments have already been made: the percentage of governmental subsidies in the total cost decreased from 81 per cent in 2004 to 71 per cent in 2011. The consumer cost per service voucher increased from 6.2 euro in 2004 to 9 euro in 2011, which is the gross price before the tax credit of 30 per cent. Recent changes were also made to the maximum deductible tax amount – this has been lowered to a maximum of 1380€ per person per year. A cap was put on the number of service vouchers usable per household per year (maximum 500 per person and a maximum of 1000 per household). A 2010 Idea Consult survey (2011, 123) suggests that users, on average, are willing to pay a maximum amount of around 8€ per service voucher<sup>11</sup>. Users indicated that beyond this price they would again do more household work themselves or turn towards the black market. We can observe however that the use of service vouchers did

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<sup>11</sup> This is the price before the tax credit.

not diminish when the price went up to 9€ per service voucher, although the growth of the system has stalled. One of the options to lower the subsidy cost for the government is to further increase the user price. Another option is to abolish the 30 per cent tax credit, so that the real user cost is 9€ per service voucher and not 6.3€. The user cost could also be made dependent on household income. In 2009, the then federal minister of work Milquet proposed to introduce the social service voucher, so that families with a low income could buy the service voucher at a lower cost (around 4€). However, this social service voucher was never implemented (FOD WASO, 2014). A final option is to reduce the subsidies provided to employers. Idea Consult research however suggests that the profit margin is already very limited. The average amount of for-profit per service voucher for employers diminished from 3.4€ in 2006 to 0.3€ in 2012. The main reason is the growing wage cost. Bel-first data<sup>12</sup> indicate that the average total employer cost for one hour of service voucher work was equal to 22.2€ in 2012, higher than the direct subsidy received from the government (22.04€). Only by charging extra costs to users and by making use of wage subsidies, are service voucher companies said to be able to make a small profit of on average 0.3€ per service voucher (Idea Consult, 2013: 86-94). Research (PWC, 2006; Idea Consult, 2013; Pacolet et al, 2010) shows that mainly the non-profit service voucher companies expect problems if employer subsidies were lowered. An even stronger role for the for profit companies might further jeopardize the initial objective of the system as an employment scheme for people with fewer chances in the regular labour market.

A second point that is seen to require attention is the growing influx into the scheme of people from regular jobs or from short unemployment spells. In 2012, federal minister of work De Coninck introduced a new rule requiring that 60 per cent of new entrants into the system either have to be long term unemployed or living on social assistance (RVA, 2014). If employers do not fulfill these criteria they risk a fine or even (theoretically) suspension of their permission to operate as a service voucher company. During the last three months of 2012, only 40 per cent of the new entrants had been either long term unemployed or living on social assistance. Non-profit organizations were able to reach the 60 per cent target, for-profit companies only reached 36 per cent (Idea Consult, 2013, 42-43). In 2012, employers not complying to the 60 per cent rule only received an administrative caution. The new federal government, in place since 2014, has abolished this rule.

A third focus of attention at present is entrapment in the system. In 2011, less than five per cent of all service voucher employees made the move to regular employment. Training and education are seen as key to boosting mobility from the system. For that reason, since 2012, an extra element has been added to the collective labor agreement between service voucher employers and employees, namely that every full time working employee must receive at least 11 hours of schooling per year (Sectoraal Vormingsfonds Dienstencheques, 2014)<sup>13</sup>.

Finally, policy makers are looking with some concern at the use of service vouchers by elderly with specific care needs. As mentioned before, there is a fear that service voucher employees are taking over more and more care tasks. By doing so, they risk displacing existing systems like both formal paid family care and additional home care, with a possible

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<sup>12</sup> All Belgian Companies are required to provide publicly available information about their accounts.

<sup>13</sup> If the employee works 80 per cent of a full time employment, she will receive minimum  $11 \times 0.8 = 8.8$  hours of schooling per year.

loss of quality (the service voucher employees only receive basic training and are not qualified to perform these care tasks). Pacolet et al (2011) argues that one option is to fully orientate the service voucher system towards the group of elderly with specific care needs. If and when doing so, it is deemed necessary that service voucher employees receive appropriate training. Even without orienting the service voucher system towards the elderly, the Christian worker's organisation ACW (2014) argues that it is necessary to achieve more consistency between the federal competence of work and the regional competence of well-being<sup>14</sup>. In that sense the service voucher scheme risks becoming an issue in politically sensitive discussions about state reform and further devolution of competencies towards the regions.

## CONCLUSION

The Belgian Service Voucher Scheme has been remarkably successful in terms of relative expansion and size. This is perhaps not surprising in view of the fact that it is one of the most heavily subsidized schemes of its kind. Around 70 per cent of the cost of the domestic services provided under the scheme to private consumers is subsidized.

The scheme emerged as a response to worries about post-industrial labour markets, sluggish employment growth, Belgium's continued entrapment in 'welfare without work' and the perceived need for better public policies in support of the work-life balance.

The growth of the number of people formally employed under the scheme has been impressive, in absolute and relative terms. Politicians like to throw around the numbers for obvious reasons. Some have even hailed it as the most successful job creation scheme ever implemented. Yet gross employment growth does not equal net growth, as deadweight, substitution and displacement effects need to be accounted for. No evaluation study of any degree of econometric sophistication has ever been attempted so we do not have net employment estimates. However, all indications are that the net employment effect is likely to be far lower than the gross numbers suggest, especially due to deadweight and substitution effects. Recent figures show that much of the influx into the scheme has come from people already in regular employment. While initially the scheme did recruit to a significant extent among the ranks of the unemployed and the (formally) non-employed, the scheme became increasingly attractive to people already in work. There has also been an increased influx of people coming in from elsewhere in Europe to work in the scheme.

Compared to many other jobs held by people with few marketable skills, service voucher jobs are relatively attractive since they usually offer regular hours on weekdays. By contrast, for less qualified people employed in retail, restaurants etc. non-standard, irregular hours are quite common. Service voucher workers working in people's residences usually have reasonably high levels of autonomy and control. The sector is relatively well regulated and there appear to be fewer instances of late payment or other infringements. Service voucher workers themselves appear to be relatively satisfied with their work conditions.

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<sup>14</sup> Social security remains by and large a competence of the federal government while welfare and labour market policy is a regional competence.

But the key issue here is whether it is good public policy to draw people away from non-subsidized jobs towards jobs in a sheltered, heavily state subsidized sector. This is not just a matter of effectiveness in the use of public resources, it is also a matter of equity vis-à-vis workers and employers in the non-subsidized service sectors. A further complication here is that there is some evidence of displacement of regular qualified workers in areas such as child and elderly care by less qualified but cheaper service voucher workers.

Another major objective of the scheme is to help people combine work and care. The idea is that the scheme thus supports the potentially most productive and creative segments of the work force, possibly yielding wider benefits in terms of economic growth and taxable revenue. Since service vouchers can be used for such activities as cleaning and ironing, consumers are partially freed from such daily chores. This opens up more time for leisure and child care, and a possible effect is also that workers are able to put in more paid hours than they would otherwise. Yet there is little direct evidence that this is the case. In one survey a small percentage of users state that thanks to the scheme they put in more working hours than would otherwise be the case. The largest gain, however, seems to be in terms of leisure and care time.

With more than three quarters of the consumers having obtained higher education degrees, the scheme appears to amount for the most part to a leisure time subsidy to people relatively high up in the income distribution. In that sense it is a textbook example of a Matthew effect in social policy: a scheme purportedly designed to help the poor effectively catering to the middle class, and even the more affluent parts of the middle class in this particular case. It is also a classic case of a scheme that has become subject to median voter political capture: politicians are very hesitant to modify let alone abolish the scheme because it is so immensely popular among the middle class segments that mainstream politicians compete for most intensely.

In short, the principal winners are the mostly relatively affluent consumers who thanks to the scheme are able to outsource domestic chores at a bargain price, getting in return more trustworthy, more reliable and better quality services than is possibly obtainable in the grey or irregular market. The scheme thus overcomes problems of trust and reliability inherent to one-on-one provisions in the irregular market, which arguably constitutes a large premium value (De Ruijter and Van der Lippe, 2009; Raz-Yurovich, 2014).

The scheme can also be seen as a case in point of state initiated and effectively subsidized dualisation, as is argued in Carbonnier and Morel (forthcoming). While the scheme was envisaged as an employment scheme that would offer low skilled people with few marketable qualifications a stepping stone onto the regular labour market, exactly the reverse is happening. The scheme is increasingly drawing away people from regular jobs. There is also clear evidence of deepening entrapment in service voucher work. This is not surprising in view of the relatively high levels of reported job satisfaction. Still it remains a reality that relatively isolated work in people's homes does not offer much prospect of upward mobility and full integration in the regular labour market. The work, while perhaps not of the worst kind compared to other low skill jobs, is monotonous and offers little potential for skill enrichment, especially since few workers take up the training opportunities theoretically open to them. The scheme can thus be considered as effectively promoting and reinforcing a societal structure increasingly marked by a clear demarcation between a thriving segment of

highly skilled workers on the one hand and a plodding segment of less skilled workers effectively relegated to a supporting role.

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