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Labor Market Issues in Belgium: An International Perspective

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Abstract

The characteristics of the Belgian labor market are examined using international comparisons in order to assess the government's recent labor market initiatives. The labor market in Belgium is found to suffer from a number of structural problems compared to other industrial countries: the non-employment rate is very high, there are large regional disparities in unemployment, female and youth unemployment are prevalent and there is an unusually pronounced incidence of long-term unemployment. The causes of these problems are investigated. The empirical results, using cross section data from 15 industrial countries, show that the generosity of long-term unemployment benefits helps to explain the prevalence of long-term unemployment. Unemployment compensation also appears to be paid to many who are not actively seeking work. The recent labor market initiatives in Belgium will help to ameliorate some of the underlying problems but they are unlikely to completely address the underlying structural problems.

JEL Classification Numbers:
E24, J64, J65

1/ The author is in the European I Department, and would like to thank the National Bank of Belgium and the Ministère de l'Emploi et du Travail for providing valuable data and insight. Helpful comments and suggestions by Marc Huybrechts, Paul Masson and Caroline Van Rijckeghem are gratefully acknowledged.

Table of Contents

Tables

Charts

Contents Page

Charts (continued)

Summary

In Belgium, underutilization of labor imposes a heavy burden on government expenditure. The labor market displays a lack of flexibility, suggesting not only policy-induced distortions but also structural problems. The number of persons receiving some form of unemployment benefit has been rising steadily since 1980; the nonemployment rate is very high; there are large regional disparities in unemployment; female and youth unemployment are prevalent; and long-term unemployment is significantly higher than in other industrial economies. This paper assesses the effectiveness of recent labor-market initiatives in Belgium in the light of these characteristics.

Cross-country evidence suggests that the generosity of long-term unemployment benefits helps to explain the prevalence of long-term unemployment. High, long-term unemployment in turn helps to explain low participation rates. Many more people receive unemployment insurance than are unemployed and actively seeking work, yet unemployment benefits are not means-tested, whereas the income support system is. Employee and employer tax wedges in Belgium are also higher than in other industrial countries. In addition, there is some evidence of a mismatch in the labor market. Relative to other industrial countries, Belgium spends a higher proportion of its labor market expenditure on passive measures, such as unemployment compensation, and less on active measures, such as training.

Recent government measures to limit the duration of unemployment benefits and tighten eligibility have helped to alleviate the labor market problems. The initiative that could have the most significant impact on the labor market is the plan d'accompagnement. By providing and monitoring an action program for those who are on the verge of becoming long-term unemployed, the plan could help to prevent long-term unemployment and reduce the nonemployment rate. Furthermore, by providing targeted training, this initiative could help to reduce mismatches in the labor market.

However, these initiatives are unlikely to rectify the underlying problems. Further measures are needed to ensure that Belgium will not face a supply constraint when the economy recovers. Such measures could include separating the unemployment compensation system from income support; reducing the generosity of long-term benefits; tightening the provisions for claiming part-time unemployment compensation; extending the plan d'accompagnement to more of the unemployed and making its provisions more specific, particularly with regard to training; and reducing employee and employer tax wedges.

I. Overview

In June 1992, the Belgian Ministry of Finance announced a convergence plan for reducing the general government fiscal deficit to 3 percent of GDP by 1996. This was in accordance with the agreement reached in December 1991 at Maastricht on economic and monetary union (EMU) among EC countries. Meeting this objective requires a major policy effort as the deficit (excluding net lending) stood at 6.9 percent of GDP in 1992.

The government's budgetary problems are clearly associated in part with problems in the labor market. The under-utilization of labor imposes a heavy burden on government finances, both through lost tax revenue and increased social security expenditure. For example, in 1991 about 973,100 people, equivalent to 23 percent of the labor force, received some form of unemployment benefit, while only 368,732 of those were considered full-time unemployed and seeking work (chômeurs complets indemnisés). In the same year Belgium spent about BF 233 billion (3.4 percent of GDP) on unemployment benefits and special public works programs aimed at creating jobs for the unemployed.

The slowdown in economic activity has led to a worsening of labor market conditions in Belgium. However, there are good reasons to believe that the poor state of the labor market cannot be attributed simply to a deceleration in economic activity. Even in 1989, when employment growth was at its highest for twenty years, Belgium spent about the same percentage of GDP on unemployment benefits and special job creation schemes as it did in 1991.

The labor market displays a lack of flexibility, suggesting structural problems as well as policy-induced distortions. For example, the number of persons receiving some form of unemployment benefit has been rising steadily since 1980, although the number of full-time unemployed receiving benefits fell sharply between 1984 and 1990 (Chart 1).

This paper examines the characteristics of the labor market in Belgium. Wherever possible the experience of Belgium is compared with that of other countries. The aim is to understand the causes of imperfections in the labor market in order to assess the government's labor market policy and consider other potential policy responses. The paper is organized as follows: section 2 describes Belgian labor market developments over the last two decades, section 3 compares Belgium's experience with that of other countries, section 4 examines unemployment in some detail, section 5 explores the underlying causes of labor market difficulties in Belgium, section 6 describes recent government policy initiatives, and section 7 assesses these initiatives.

II. Historical Perspective

Over the last 20 years Belgium has seen a relatively large increase in its labor force. In spite of a virtually stable population (Chart 2), the labor force increased by 427,000 people between 1970 and 1991, a rise of 11 percent. This growth can be explained by a large increase in the population of working age--those aged between 15 and 64 years--as the post-war "baby boom" generation entered the labor market (Chart 2). It is interesting to note that, unlike in many other industrial countries, only a small part of the rise in the labor force can be attributed to an increase in the participation rate. 1/ Although the participation rate of women has risen appreciably, it has been offset by a drop in male participation (Chart 3).

The expansion of the labor force over the last two decades has presented Belgium with the challenge of providing employment for an enlarged labor force. Employment growth, however, has been disappointing. During the period 1970-1990, total employment grew by merely 106,000, or 2.9 percent (Chart 4). Between 1974 and 1984 employment declined almost continuously while the labor force grew, leading to a large increase in unemployment. The revival of employment begun in 1984 has been arrested by the recent slowdown in economic activity.

The aggregate employment figures conceal a very disparate picture for male and female employment. Female employment has increased dramatically (by some 300,000 since 1970) whereas male employment has fallen considerably (by about 100,000 over the same period). The principal reason for this deviation is that employment has been lost, in some cases permanently, in the predominantly male sectors of shipbuilding, iron and steel, etc., while sectors such as services, which provide more opportunities for women, particularly for part-time work, have been expanding (Chart 5).

The growth rate of employment in the public sector has outpaced that in the whole economy. Consequently, the share of public sector employment has risen from 12 percent in 1970 to 16 percent in 1990, while the share of those employed in the private sector has declined.

III. International Comparison

Although there have been similar demographic developments throughout the OECD, labor markets in other industrial countries have proved, on average, more able to adjust to these and other structural challenges as well as to demand shocks (Table 1). Over the last two decades or so the average rate of growth of the population of working age in both the EC and the OECD has been higher than that in Belgium, while the labor force has

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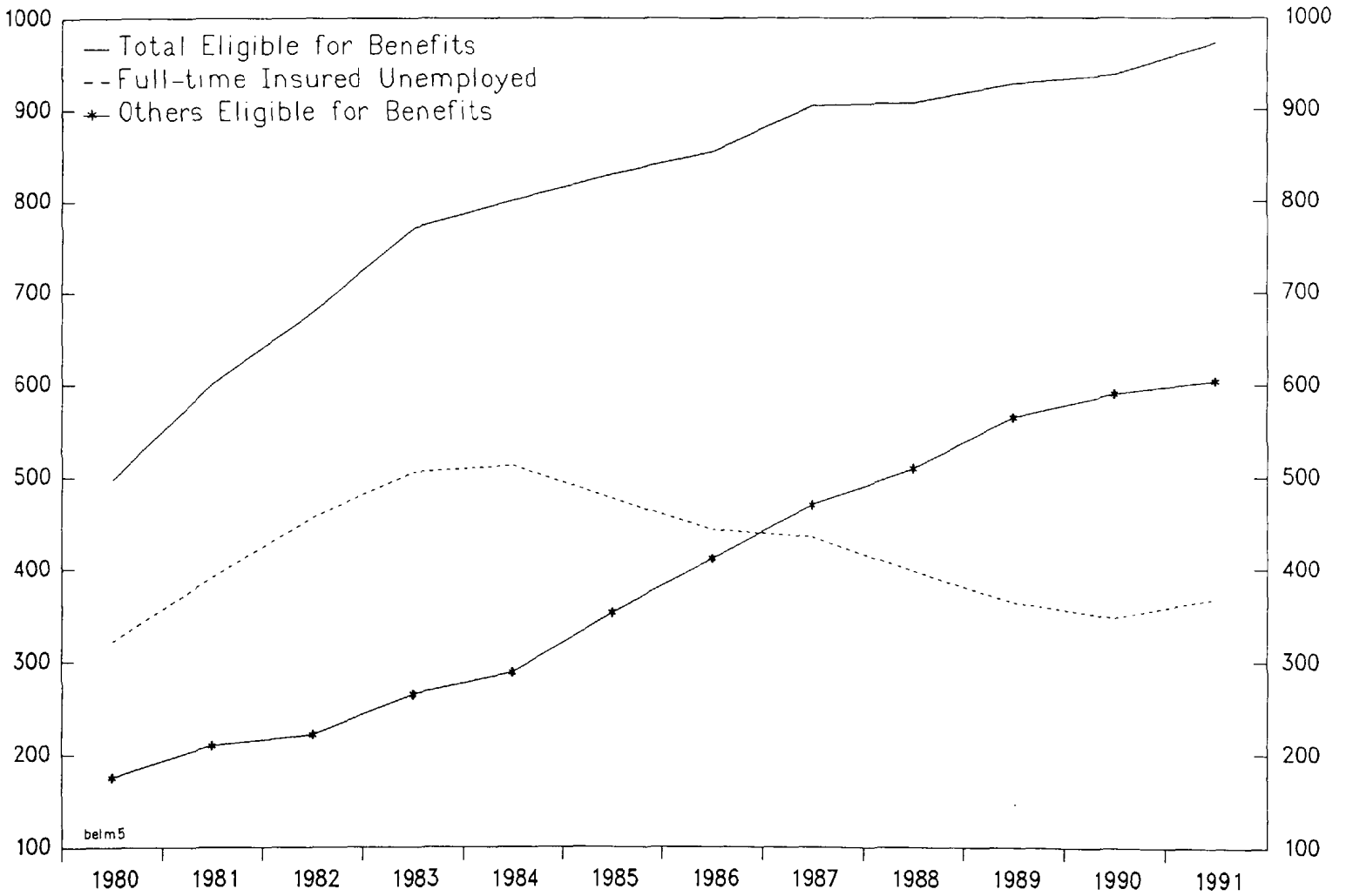
1/ Defined as LF/PW=(E+U)/PW, where LF is the labor force, E employment, U unemployment and PW is the population of working age.

CHART 1
BELGIUM

Unemployment Benefit Eligibility

(Annual average, in thousands)

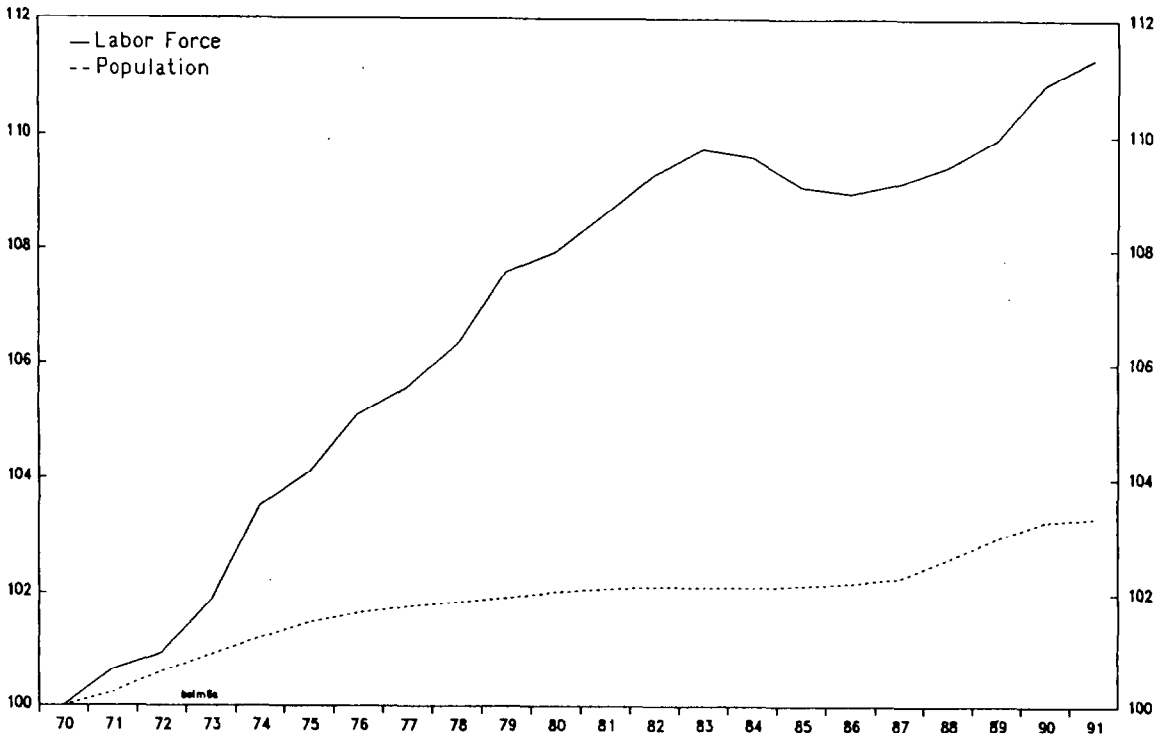


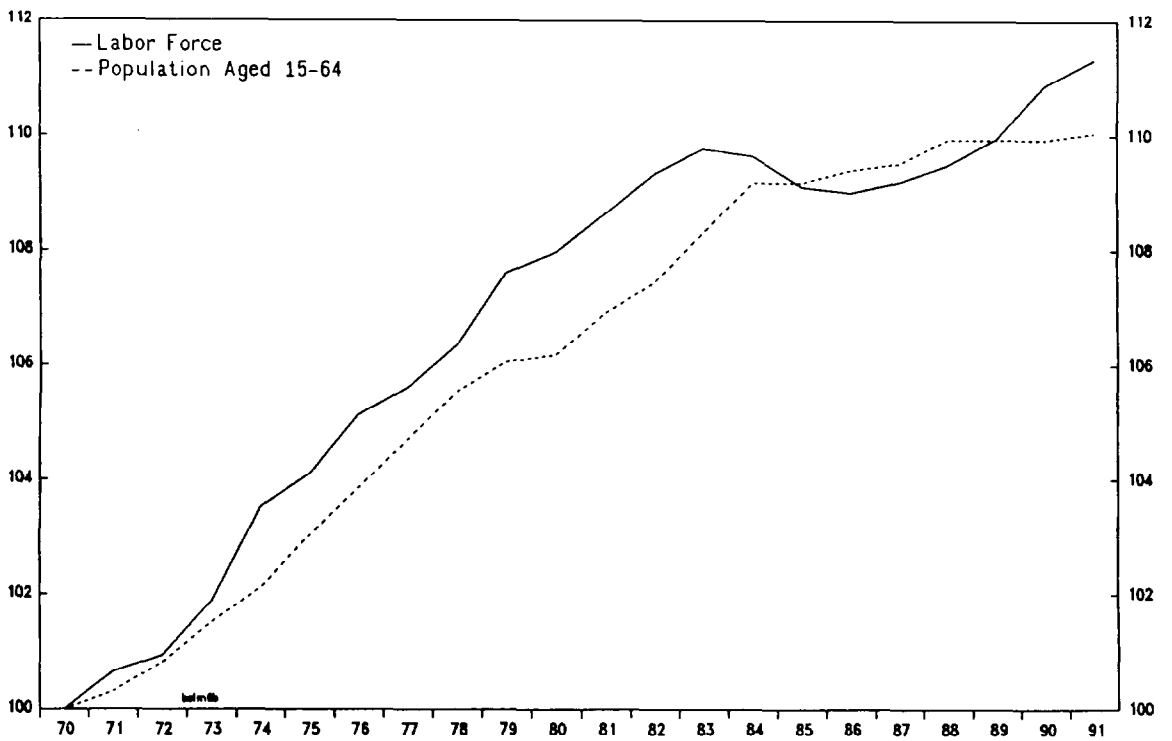
Source: Data provided by the authorities.

CHART 2
BELGIUM

Labor Force and Population

(1970=100)



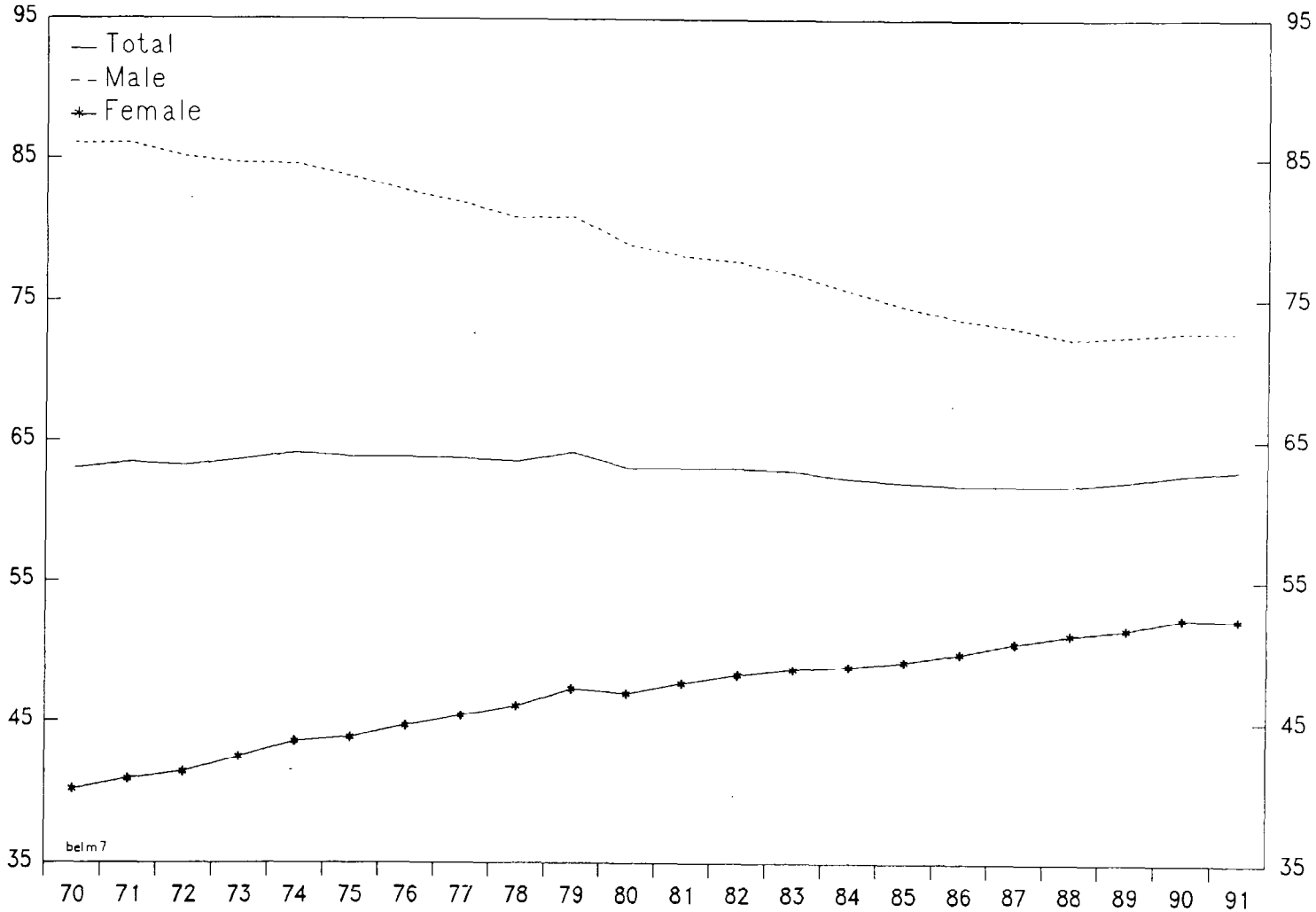


Source: Data provided by the authorities.

CHART 3
BELGIUM

Participation Rate

(In Percent)

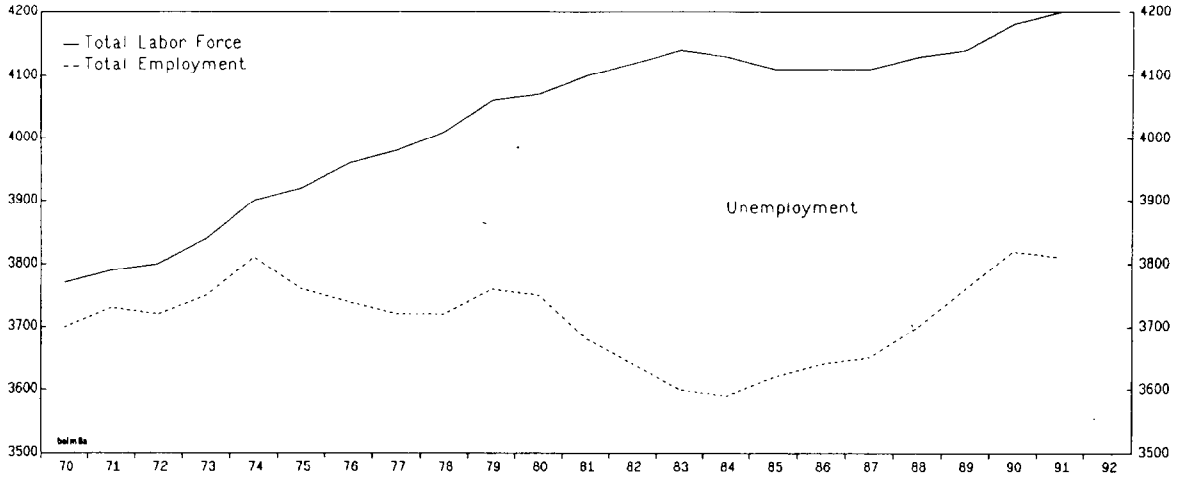


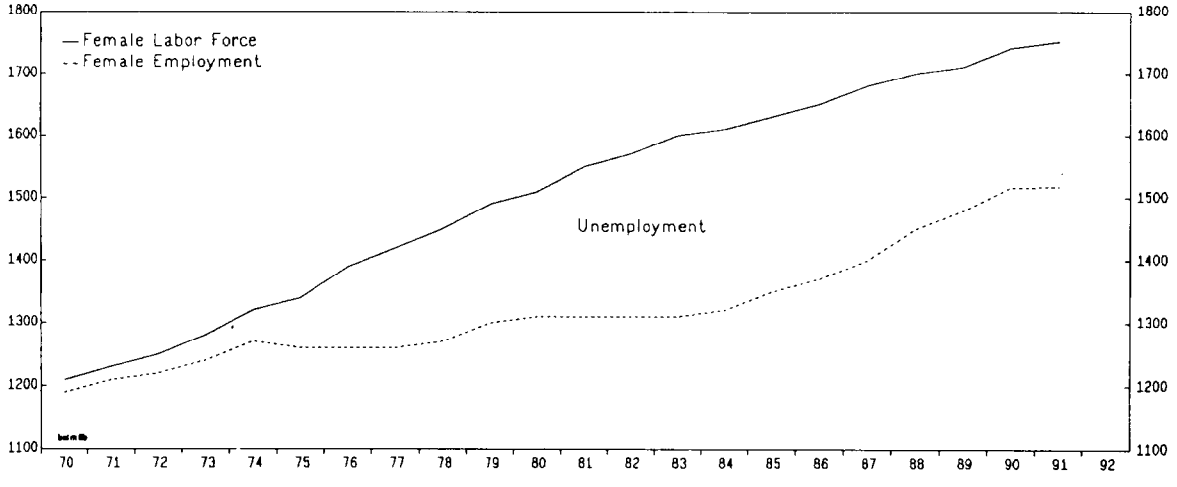
Source: OECD, Historical Statistics.

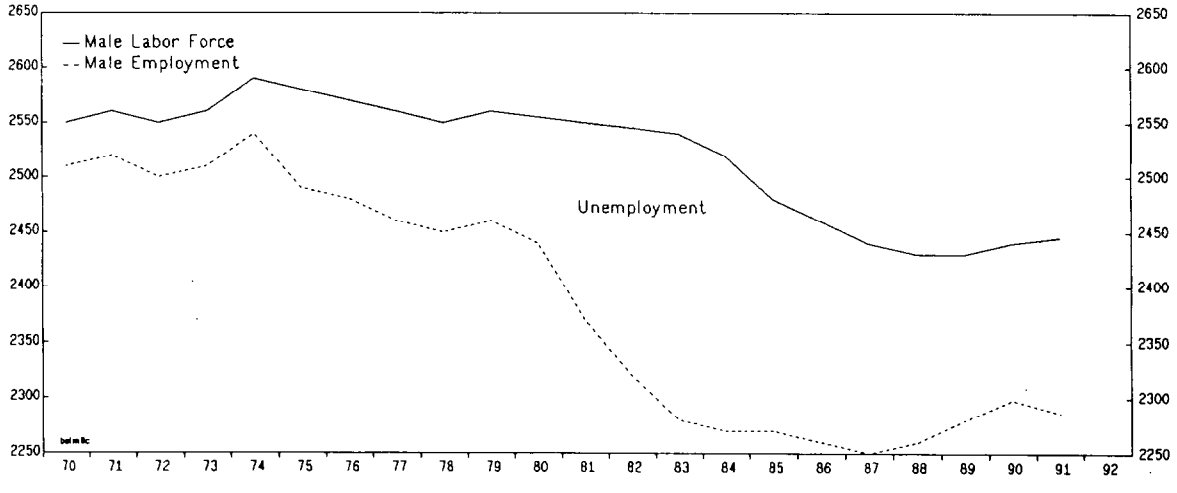
CHART 4
BELGIUM

Labor Force, Employment and Unemployment

(Thousands)







Source: Data provided by the authorities.

CHART 5
BELGIUM

Source: Data provided by the authorities.

grown in Belgium more or less in line with the EC but below the OECD average. Yet, the rate of growth of employment has generally been lower in Belgium, particularly relative to the OECD average. Furthermore, the unemployment rate in Belgium was higher than the EC and OECD averages between 1974 and 1990 (see the discussion of unemployment below).

Table 1. Key Labor Market Data

(Average annual percentage growth rates, unless indicated)

		1968-73	1974-79	1980-90	1990	1991
Population of working age	Belgium	0.4	0.7	0.3	--	--
	EC	0.6	0.7	0.7	0.3	0.2
	OECD	1.2	1.2	1.0	0.7	0.6
Labor force	Belgium	0.5	0.9	0.3	0.8	0.4
	EC	0.5	0.7	0.8	0.9	0.6
	OECD	1.3	1.3	1.3	1.1	0.8
Employment	Belgium	0.6	--	0.1	1.4	-0.3
	EC	0.5	0.2	0.6	1.6	0.1
	OECD	1.2	1.1	1.2	1.3	-0.1
Standardized unemployment rate (level)	Belgium	2.5	6.3	10.4	7.3	7.7
	EC	2.9	4.8	9.5	8.4	8.7
	OECD	3.2	4.9	7.2	6.1	6.8

Source: OECD, Historical Statistics

A more detailed examination reveals a worrying picture. An international comparison of the non-employment rate 1/ shows that relative to other industrial countries, Belgium suffers from a significant under-utilization of labor, particularly among men (Chart 6). Cross-country evidence suggests that the higher the non-employment rate, the higher is budgetary expenditure on the labor market (Chart 7). The high non-employment rate means that either the participation rate in Belgium is low, unemploy-ment is high, or both. From an international perspective, the participation rate in Belgium is very low (Chart 8). This has persisted over the last two decades and is especially conspicuous among men: Belgium has the lowest male participation rate in the OECD. Though low participation may simply reflect a greater preference for leisure than

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1/ The non-employment rate is defined as:

$$\frac{U+(PW-U-E)}{PW} = 1 - \frac{E}{PW}$$

where U is unemployment, E is employment and PW is population of working age.

elsewhere, it may also reflect the incentives built into government programs.

IV. Composition of Unemployment

The first task is to define a suitable measure of unemployment in Belgium. This is not as easy as it may appear since a number of unemployment rates are currently published for Belgium. For example, the official unemployment figures published in the Bulletin de Statistique are usually considerably higher than the "standardized" or "harmonized" figures provided by the OECD and the EC (Chart 9). The main reason for the discrepancy is the method of compiling the figures. The OECD and EC measures are based on surveys of the labor force whereas the official Belgian data are based on the number of claimants of unemployment benefits.

The surveys are compiled by interviewing a representative sample of individuals. The surveys usually ask a range of questions concerning whether the interviewees have a job, and if not, whether they are available for work and what steps they have taken to find employment. Those counted in the official unemployment statistics do not have to exhibit active job-search, though they have to be available for work 1/ and may be offered vacancies by the unemployment office. The official unemployment rate depicted in Chart 9 is based on those registered and eligible for benefits who have been employed full-time previously (chômeurs complets indemnisés). There are many others receiving unemployment benefits (see Chart 1 and Table 4, and the discussion below) who are not even expected to be available for work. Therefore, many who are officially classed as unemployed in Belgium are not in fact active in the labor force. Given that the standardized rate of unemployment is consistently below the official unemployment rate, one may conclude that even some of those registering as unemployed, available for work and receiving benefits are not in fact actively seeking work.

The standardized unemployment rate in Belgium has usually been higher than the EC average, indeed it was appreciably higher during the 1979-1985 period. Since 1988 this rate has fallen below the EC average. Therefore, at least in recent years, the high non-employment rate in Belgium is due to a low participation rate rather than to high unemployment.

A more detailed look at unemployment reveals considerable variation by region, age, sex and duration. One of the unusual features of unemployment in Belgium is that there are many more women unemployed than men, both in absolute numbers and in terms of the unemployment rate. In July 1992, 59 percent of the unemployed were women. The unemployment rate for women was about 15 percent, compared to 7.5 percent for men. This disparity

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1/ See discussion of eligibility for unemployment benefits below.

CHART 6
BELGIUM

Source: OECD, Historical Statistics

CHART 7

BELGIUM

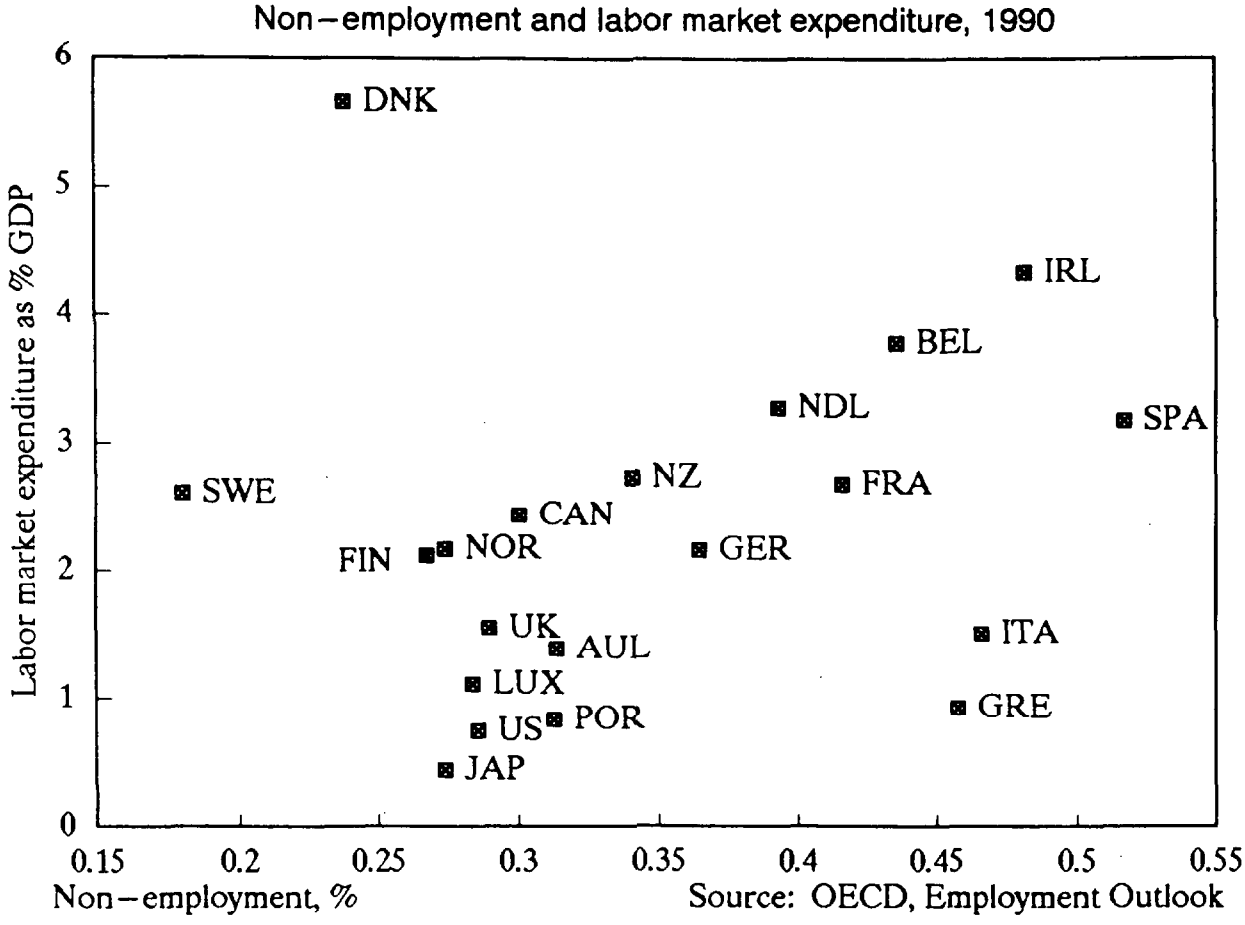
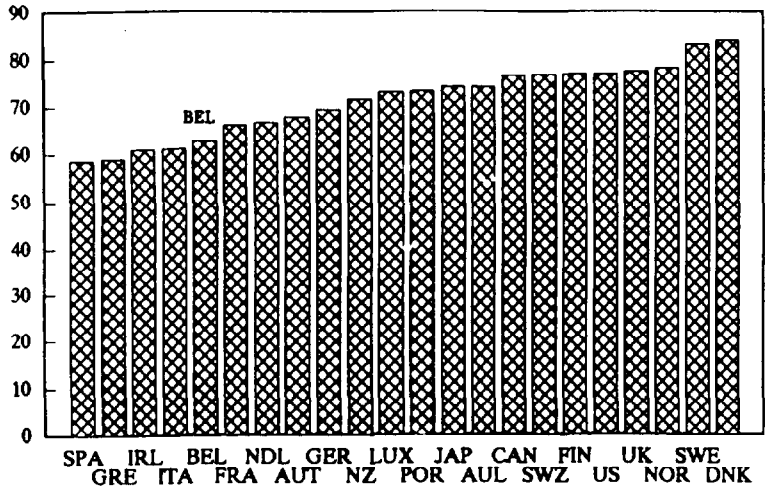


CHART 8

BELGIUM

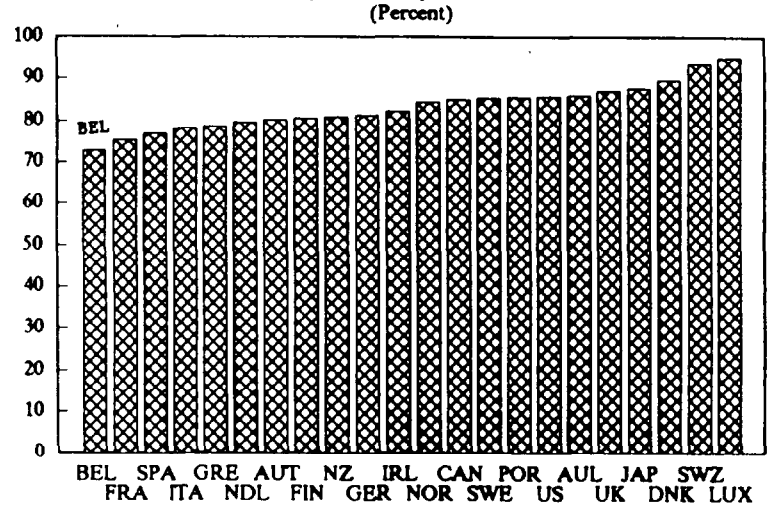
Total participation rate

(Percent)



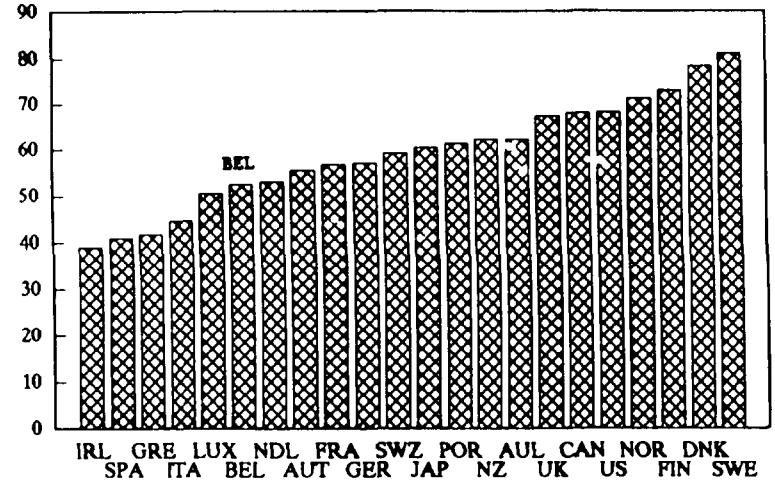
Male participation rate

(Percent)



Female participation rate

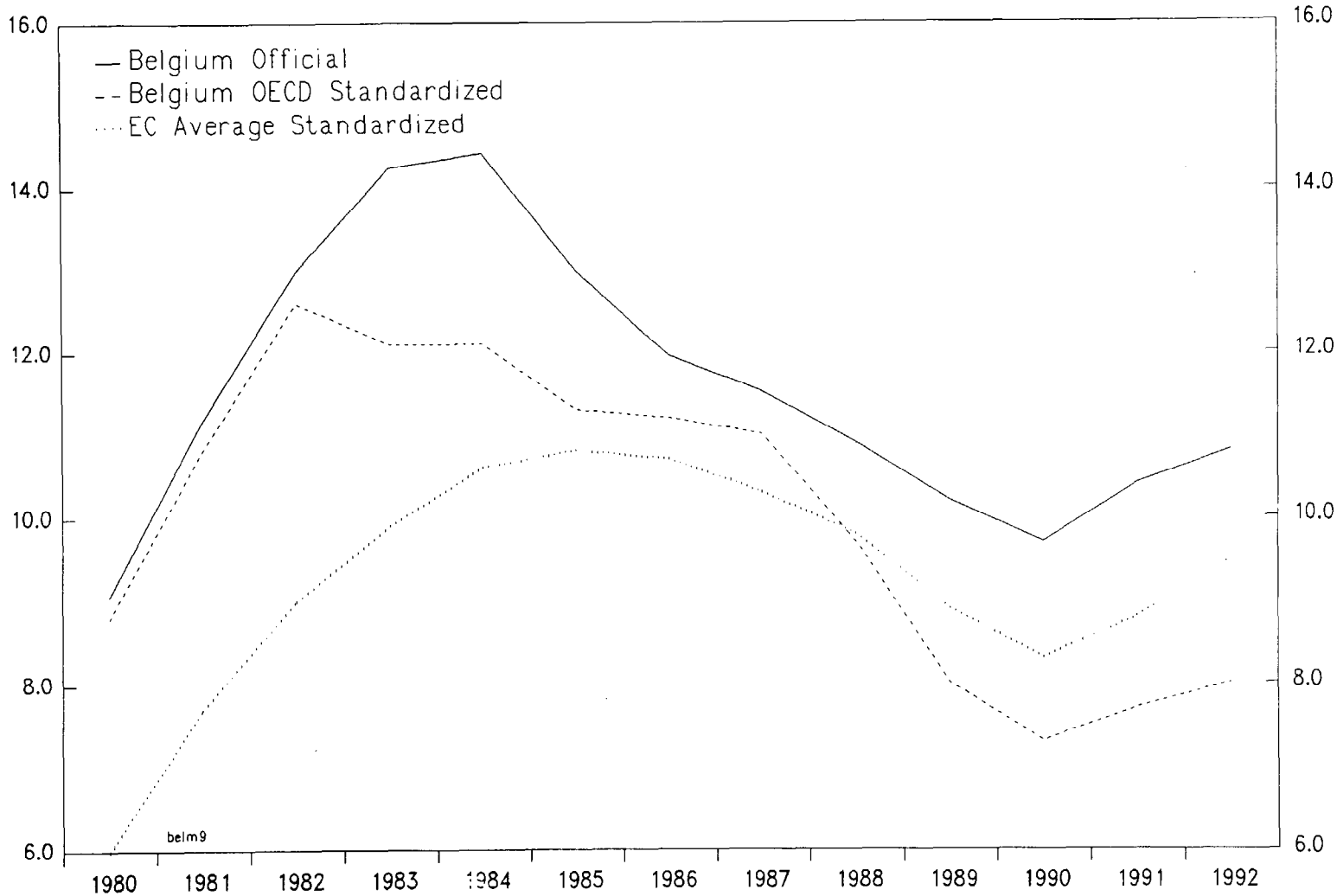
(Percent)



Source: OECD, Historical Statistics

CHART 9
BELGIUM

Unemployment Rates



Sources: OECD, Economic Outlook; and data provided by the authorities

remains when observing unemployment disaggregated by region, age or duration.

There are also large regional deviations in the unemployment rate. Though unemployment declined in all the three regions, it fell most rapidly in Flanders. Throughout the 1980s and early 1990s, the unemployment rate has been highest in Wallonia, followed closely by the Brussels region. In July 1992, the unemployment rate in Flanders was about half of that in the regions of Brussels and Wallonia (Table 2).

The regional figures by sex reflect the national pattern. In addition, these figures show that male unemployment in Flanders is particularly low by regional and national standards, and female unemployment is exceptionally high in Wallonia. The latter is somewhat surprising as Wallonia has suffered from losing traditionally male industries such as iron and steel.

Table 2. Unemployment Rate By Region and Sex 1/

(Percentage)

Year		Brussels	Flanders	Wallonia
1989	Female	18.9	16.6	27.4
	Male	14.7	5.5	14.4
	Total	17.2	10.6	20.5
1990	Female	18.8	14.3	26.5
	Male	14.7	5.1	13.6
	Total	16.9	9.7	20.2
1991	Female	19.8	14.2	26.2
	Male	16.3	5.8	14.6
	Total	18.4	9.9	20.6
1992 (July)	Female	21.7	15.9	28.8
	Male	17.7	6.7	16.5
	Total	19.6	10.5	21.8

Source: Ministère de l'Emploi et du Travail.
1/ Chômeurs complets indemnisés as a proportion of the insured labor force.

Unemployment by age is highest among the young, i.e., those who are less than 25 years old, and lowest among those 55 years and over. With the

latter category, the low unemployment rate can be explained, at least partially, by a low participation rate (see discussion of early retirement, or "prépension" below). Youth unemployment in Belgium rose as high as 25 percent in 1984, partly reflecting demographic developments. It then fell rapidly to 13.5 percent in 1990. The slowdown in economic activity has taken its toll on youth employment, which is particularly sensitive to cyclical changes: by July 1992 youth unemployment had risen to about 16 percent.

Perhaps the most striking aspect of unemployment in Belgium is the problem of long-term unemployment. This becomes especially apparent when compared to other industrial countries. Chart 10 depicts the long-term unemployed as a proportion of the total in a number of industrial countries. Belgium suffers from the highest incidence of long-term unemployment among women and the second highest among men when compared to the other OECD countries. This situation has persisted for much of the last decade. A disturbing feature of long-term unemployment in Belgium is that of those who have been unemployed for more than one year, about 69 percent of men and 71 percent of women have been unemployed for more than two years.

One would expect that long-term unemployment would decline with a lag of one to two years after employment has started to grow. Indeed this has been the case in a number of countries including the United States, the United Kingdom and Sweden, where long-term unemployment declined continuously in the second half of 1980s. In Belgium, although the aggregate unemployment rate started to decline in 1984, the proportion of long-term unemployed did not decline until 1989. Even then the drop was very modest: it declined from 77.5 percent in 1988 to 76.3 percent in 1989 and 69.9 percent in 1990, before starting to rise again. Long-term unemployment is expected to increase further as recent figures suggest that because of the slowdown in economic activity, the inflow into unemployment has accelerated while the outflow from unemployment has dropped significantly.

V. The Causes of Labor Market Problems

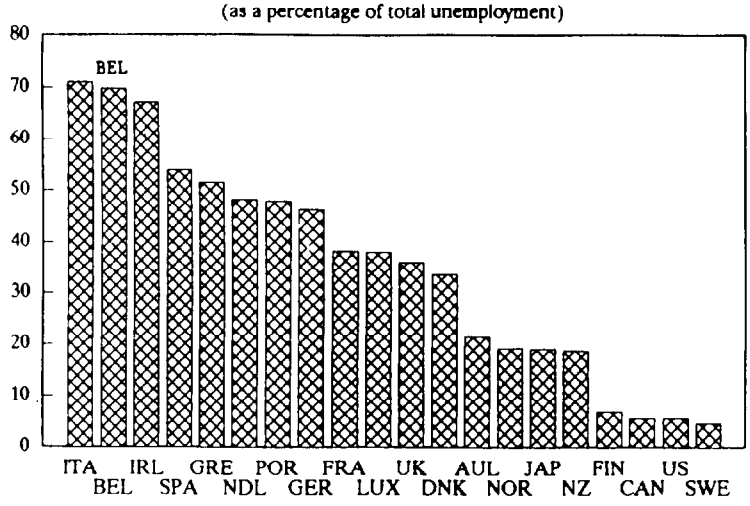
The low participation rate and the large number of long-term unemployed are not unrelated. Table 3 provides the results of regressing the participation rate on the proportion of long-term unemployed using cross-section data for 15 OECD countries. Separate regressions were performed for males and females. As the unemployment and the participation rates are in principle simultaneously determined, the lagged value of the former was used in the regressions. The results indicate significant negative correlation between the two variables, especially for women. The coefficient on long-term unemployment in the females equation is 0.41, indicating that if the proportion of long-term unemployment in one country is 1 percentage point higher than in another, then the participation rate is likely to be 0.41 percentage points lower. The corresponding figure for males is much lower at 0.11. This correlation is not really surprising and may be a consequence of the fact that long-term unemployment and low participation

CHART 10

BELGIUM

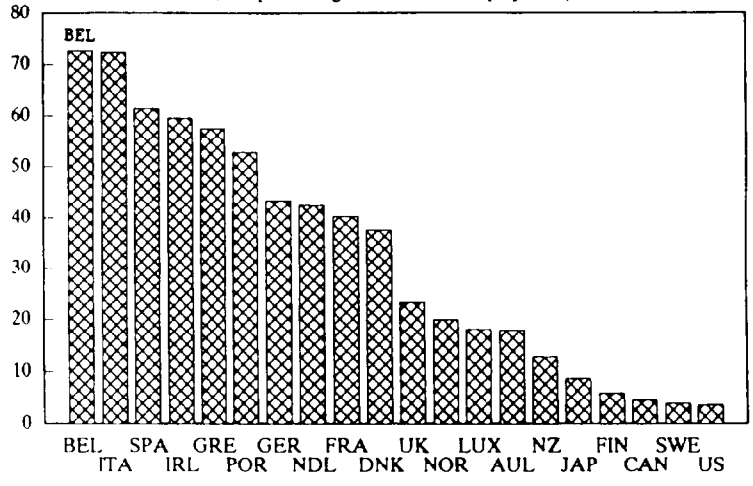
Total long-term unemployment

(as a percentage of total unemployment)



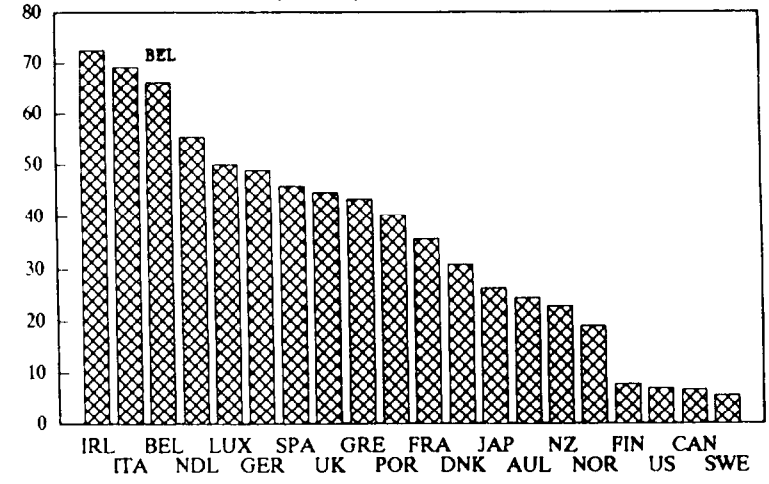
Female long-term unemployment

(as a percentage of female unemployment)



Male long-term unemployment

(as a percentage of male unemployment)



Source: OECD, Employment Outlook 1992

have similar underlying economic causes. Alternatively, it may simply indicate that many of the long-term unemployed eventually lose their willingness to seek jobs and drop out of the labor market. The key is to identify the underlying causes. These causes fall into two broad categories: incentives on both the demand and supply sides of the labor market; and mismatch between demand and supply.

Table 3. Relationship Between the Participation Rate and Long-term Unemployment

OLS cross-section regressions for 15 OECD countries

Females

$$PR = 74.25 - \underset{(4.79)}{0.41}\ LTU(-1)$$

$N=15$, $R^2=0.64$

Males

$$PR = 86.85 - \underset{(2.50)}{0.11}\ LTU(-1)$$

$N=15$, $R^2=0.32$

Where:

LTU = percentage of unemployed who have been unemployed for more than a year
PR = participation rate

The 15 countries in the data set are: Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Japan, The Netherlands, Norway, Portugal, Spain, Sweden, UK and US.

1. Incentives

The composition of unemployment in Belgium, especially the high incidence of long-term unemployment, leads one to examine the system of unemployment compensation. First, as discussed above, many more people receive what is termed unemployment insurance than those who are unemployed and actively seeking work (Table 4). These include the old unemployed who are no longer active and those who have benefitted from early retirement schemes (prépensionnés). Also, there are provisions in Belgium for what are termed part-time unemployment benefits: a person can take up a part-time job and at the same time claim unemployment benefits if he had been working full-time before and continues to search for a full-time position. In 1991, 196,000 people claimed unemployment compensation under this category. There

are also provisions for individuals to receive unemployment benefits without seeking employment if they are laid-off for a temporary period due to slack demand and are expected to return to the same employer after a specified period (chômeurs temporaires). While many of these claimants may be eligible for some kind of income support, it is difficult to justify why they receive unemployment benefits, especially since unemployment benefits in Belgium are not means tested whereas the income support system, MINIMEX, is.

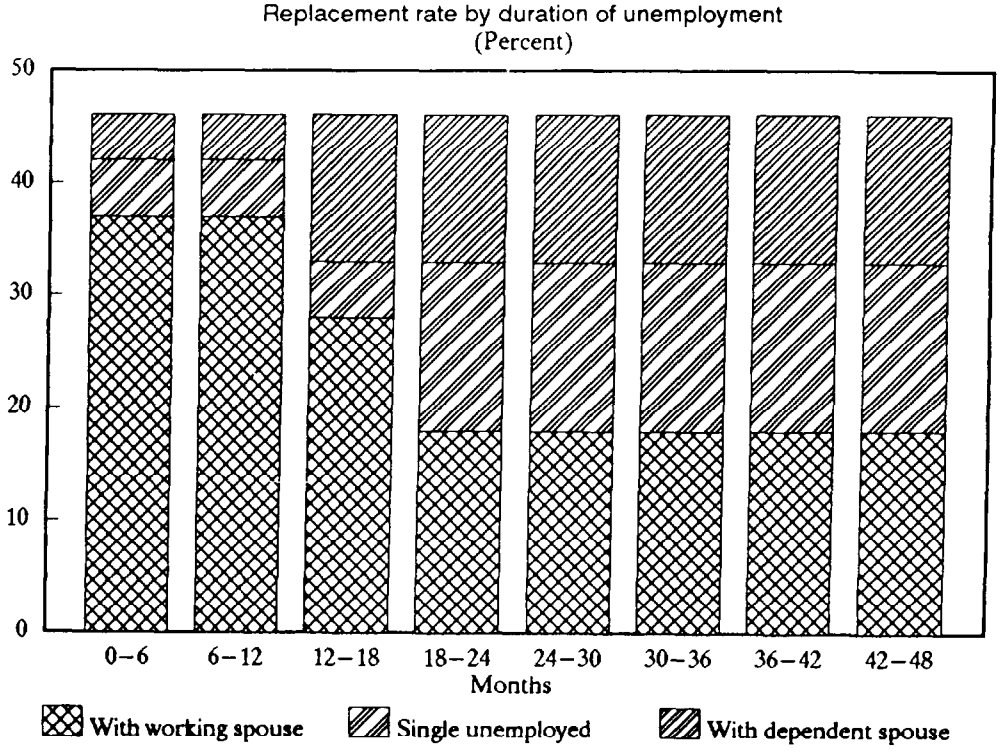
The second aspect of unemployment benefits which should be considered is the replacement rate, i.e., the ratio of benefits to average earnings. Chart 11 depicts the replacement rate as a function of the length of the spell of unemployment, for Belgium and other OECD countries. 1/ For the first year of unemployment the replacement rate in Belgium is below the average in other OECD countries; thereafter, the rate in Belgium is higher than the OECD average, which progressively declines. The benefits available to the unemployed with a working spouse go to zero in other EC countries after three years, but they continue indefinitely in Belgium. Though unemployment benefits in Belgium are available for an indefinite duration in principle, the government has recently introduced a suspension procedure applicable when the duration of unemployment exceeds twice the regional average (see below under discussion of government policy).

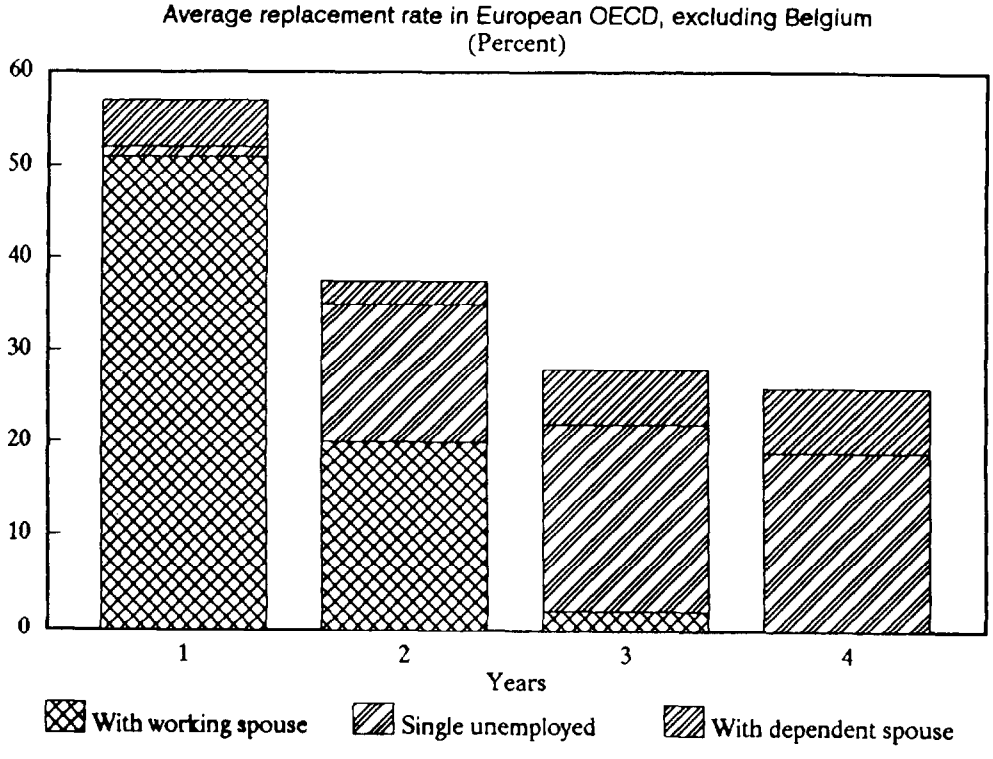
The impact of the replacement rate on the decision to seek employment very much depends on the individual's circumstances and is difficult to measure at an aggregate level. Besides, some countries with a high replacement rate such as Sweden and Norway have low unemployment and a high participation rate. However, the indefinite duration of benefits at a relatively high level may be a cause of high long-term unemployment in two ways. First, it may provide a disincentive to seek work; second, those who would usually drop out of the unemployment benefit system and claim income support may continue to register as unemployed and respond as such to labor market surveys. Regression analysis was employed to investigate the impact of the replacement rate on long-term unemployment. Table 5 gives the result of regressing the proportion of long-term unemployed on the ratio of the long-term to short-term replacement rate using cross-section data for 15 OECD countries. Separate regressions were performed for males and females.

1/ Based on data provided by the Employment Ministry.

CHART 11

BELGIUM





Source: Data provided by the authorities.

Table 4. Belgium: Number of Those Eligible for Unemployment Benefits

(Annual averages, in thousands)

	1985	1986	1987	1988	1989	1990	1991
Full-time unemployed	516.3	510.3	514.2	491.6	474.1	472.2	503.3
Fully insured unemployed (chômeurs complets indemnisés)	476.7	442.3	434.7	397.9	363.9	347.9	368.7
In professional education	7.0	8.1	8.8	11.3	12.3	11.8	12.4
Not seeking work	32.6	60.5	70.7	82.4	97.9	112.5	122.2
Old unemployed	32.4	58.6	66.0	70.9	72.9	72.4	73.9
Taking up study	0.1	0.6	1.7	2.6	3.3	3.8	4.6
Suspension of unemployment	0.1	1.3	3.0	8.9	21.7	36.2	43.7
Unemployed at reduced time	118.7	153.8	179.1	205.9	240.2	241.4	227.7
Involuntary part-time	97.9	128.3	151.8	174.2	197.5	204.1	196.0
Voluntary part-time	3.2	3.6	3.3	3.0	2.7	2.6	2.8
Training part-time	6.7	11.6	16.0	22.1	27.7	--	--
Working part-time on special programs	10.9	10.1	7.7	6.2	11.9	34.4	28.6
Working part-time in protected jobs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changing jobs	0.0	0.2	0.3	0.4	0.4	0.3	0.3
Temporary or part-time unemployed	67.6	62.9	63.9	49.7	39.0	38.0	52.0
Early retirement	126.8	119.7	131.2	132.5	137.2	141.1	140.9
Interruption of work	--	6.9	15.9	27.4	37.6	45.7	49.2
Part-time	--	2.9	7.8	14.8	20.3	24.5	26.0
Full-time	--	4.0	8.1	12.6	17.3	21.2	23.2
Grand total	829.5	854.2	904.3	907.1	928.1	938.4	973.1

Sources: Data provided by the authorities.

Table 5. Long-Term Unemployment and Relative Generosity of Benefits

OLS cross-section regressions for 15 OECD countries

Females

$$LTU = 7.10 + \underset{(2.47)}{0.60}\ RATIO$$

$N=15$, $R^2=0.32$

Males

$$LTU = 4.80 + \underset{(2.59)}{0.46}\ RATIO$$

$N=15$, $R^2=0.34$

Where:

LTU = percentage of unemployed who have been unemployed for more than a year
RATIO = the ratio of long-term to short-term replacement rate

The 15 countries in the data set are: Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Japan, The Netherlands, Norway, Portugal, Spain, Sweden, UK and US.

Table 5 shows that there is a significant relationship between long-term unemployment and the generosity of long-term relative to short-term unemployment benefits for both men and women. The equation for males suggests that if the ratio of long-term to short-term unemployment benefits is 1 percentage point higher, then long-term unemployment will be 0.46 percentage points higher. Interestingly, the corresponding figure for females is 0.60 percentage points. This finding is rather alarming for Belgium where the ratio of the long-term to short-term replacement rate for both men and women is about 30 percentage points higher than the average for the 15 countries in our data set. In 1991, long-term unemployment as a percentage of total unemployment in Belgium was 32 percentage points higher for males and 41 percentage points higher for females than the average for our data set. The regressions indicate that about 14 percentage points out of the 32 for males and 18 percentage points out of the 41 for females can be attributed to the higher than average ratio of long-term to short-term replacement rates.

This analysis suggests that the generosity of long-term relative to short-term unemployment benefits can be viewed as one of the causes of high long-term unemployment in Belgium. This relative generosity may also be a reason for the low participation rate in Belgium, given the inverse

correlation between long-term unemployment and participation, discussed above.

Another important incentive issue is the size of the tax wedge, from the perspective of both the employer and the employee. Table 6 presents average employee and employer social security contributions as well as average and top marginal personal income tax rates. A Belgian worker's tax wedge--the combination of his social security contribution and average income tax--is one of the highest in the OECD. Belgium also has a high top marginal income tax rate. The employer's tax wedge, namely the share of social security contributions in the wage bill, at 41.7 percent is also very high. Therefore, compared to other industrial countries, there are potentially strong disincentives both on the side of the employees to search for work and on the side of the employers to seek additional labor. This works as an obstacle to employment generation and a stimulus to an expanding black market for labor.

2. Mismatch between demand and supply

Evidence on the mismatch between the skills held by workers and those demanded by employers is rather difficult to assemble. For example, indicators based on unemployment by occupation only consider the supply side of the market, and since skills are defined on the basis of the last job held, they exclude all the unemployed without previous experience. Indicators based on a breakdown of unemployment and vacancies by occupation are difficult to construct, especially if they are to allow comparison across countries. Nevertheless, there is some academic evidence showing that mismatch in the labor market is considerably higher in Belgium than in other EC or OECD countries. 1/

There is also some casual evidence pointing to mismatch in the labor market. For example, between April 1992 and July 1992 vacancies continued to increase while unemployment rose sharply. Chart 12 depicts a more formal measure of mismatch, the UV ratio (or Beveridge curve), over the last twenty years. An outward shift of the curve seems to have occurred: since the mid-1980s the same ratio of vacancies to the labor force has been coupled with a higher unemployment rate than before. Chart 13 depicts the dispersion of relative occupational unemployment. This shows the extent to which the unemployment rates per occupation deviate from the unemployment rate for all occupations combined. According to this measure also, mismatch in the Belgian labor market is very high compared to all the other countries surveyed, except Ireland. In terms of alleviating the mismatch in the labor market, Belgium spends much less than most other industrial countries on active labor market measures such as training and more on passive measures such as unemployment compensation (Chart 14).

1/ See Jackman, Layard and Savouri, 1991.

Table 6. Belgium: Income Taxes and Compulsory Social Security Contributions as Proportion of Pre-Tax Incomes of the Average Production Worker, 1990

(In percent)

	Employee			Employer social security contributions	Top marginal personal income tax rates
	Social security contributions	Income taxes	Total personal contributions		
Australia 1/	1.3	21.8	23.1	--	48
Austria 2/	16.5	7.6	24.1	22.7	50
Belgium 1/	12.1	22.9	35.0	41.7	62
Canada	4.2	20.5	24.7	5.1	46
Denmark	2.6	43.9	46.5	...	68
Finland	3.2	29.8	33.0	5.3	55
France	18.0	7.0	25.0	38.0	57
Germany	17.8	17.2	35.0	17.8	53
Greece					50
Iceland	0.3	18.6	18.9	2.7	40
Ireland	7.2	24.8	32.0	12.2	53
Italy	8.5	18.0	26.5	50.1	50
Japan	7.0	8.2	15.2	7.6	66
Luxembourg	12.4	13.9	26.3	14.8	50
Netherlands	29.1	11.1	40.2	11.5	60
New Zealand 1/	--	23.4	23.4	--	33
Norway	7.8	25.3	33.1	15.4	52
Portugal	11.0	6.4	17.4	24.5	40
Spain	6.0	10.9	16.9	30.3	56
Sweden	--	34.3	34.3	33.2	51
Switzerland	10.3	11.2	21.5	10.3	44
Turkey					50
United Kingdom 1/	7.7	19.1	26.8	10.4	40
United States 1/	7.7	18.2	25.9	7.7	45

Source: OECD, Employment Outlook, 1992.

1/ Some benefits subject to means tests.
2/ Rates for industry and business.

CHART 12

BELGIUM

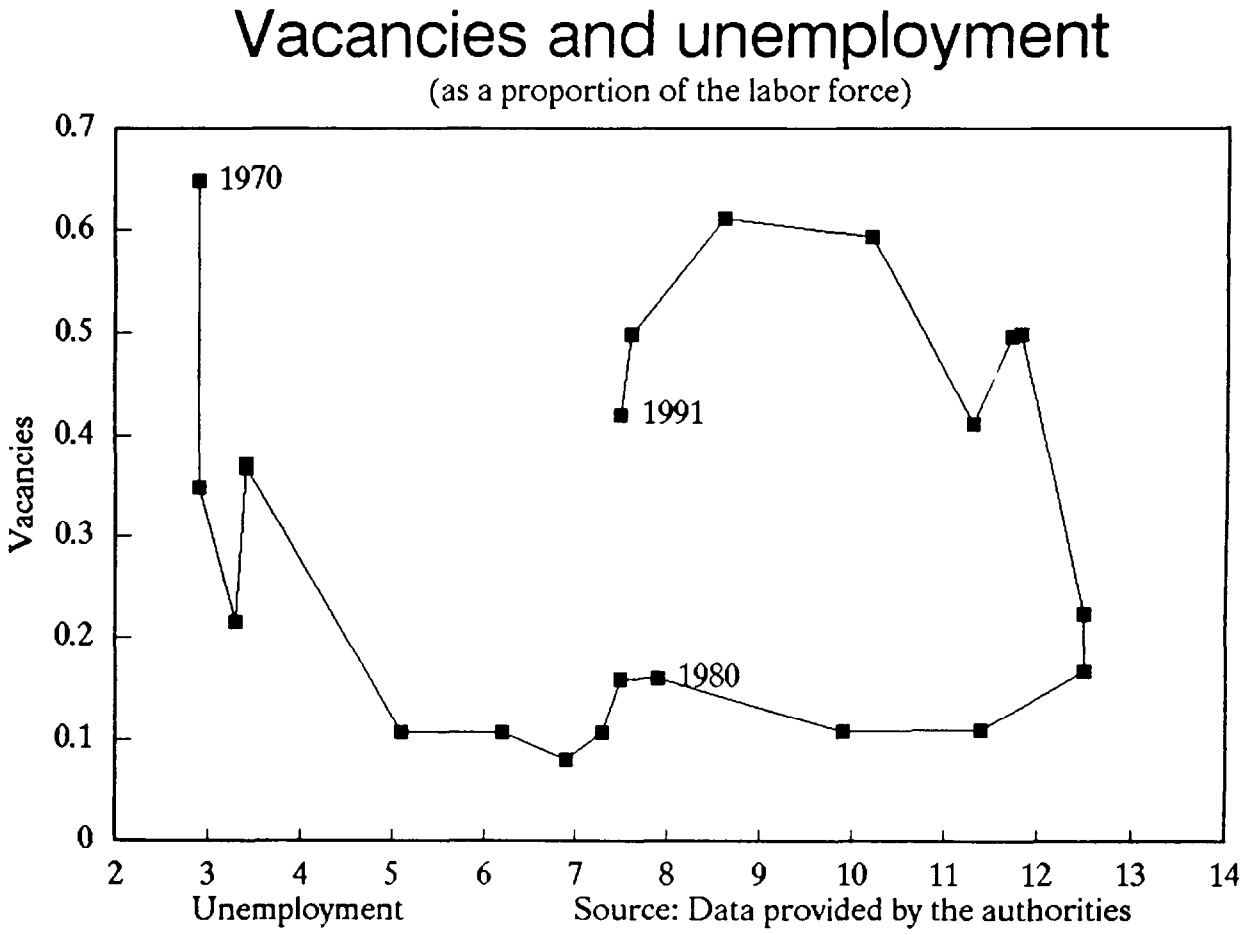
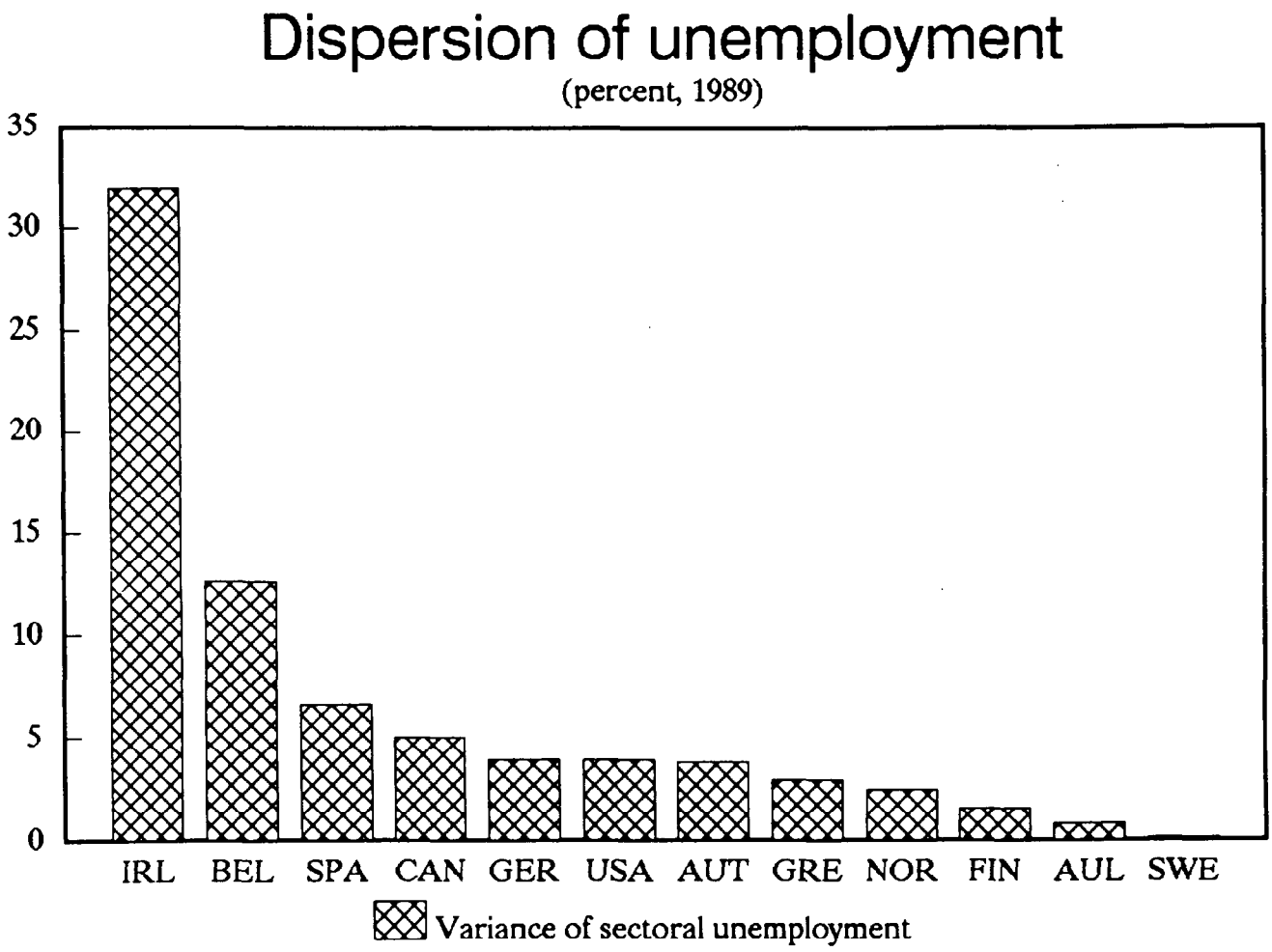


CHART 13

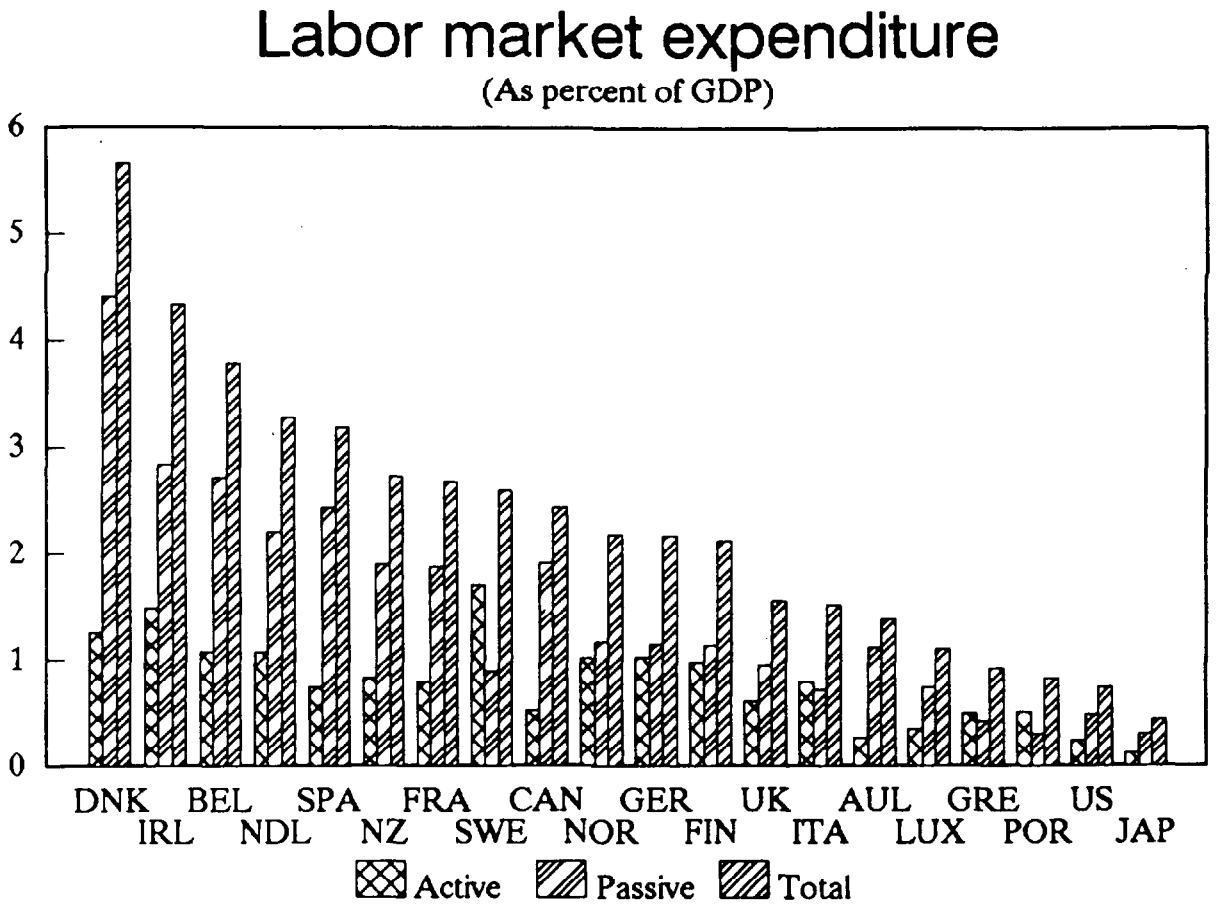
BELGIUM



Source: OECD, Employment Outlook 1992

CHART 14

BELGIUM



Source: OECD, Employment Outlook 1992

VI. Recent Policy Measures

To alleviate some of the labor market problems mentioned above, the Belgian government has introduced a number of measures to encourage labor market flexibility. These measures are set out below.

1. Duration of benefits

There is now a suspension procedure which is applicable after the duration of unemployment exceeds twice the regional average, subject to certain conditions: the claimant has to be under 50, not living alone, and the annual net taxable income of his household, disregarding his unemployment benefits, must be greater than BF 600,000, increased by BF 24,000 for each dependent.

2. Modifying suspension procedures

The unemployed person may appeal against suspension of benefits, however, no benefits will be paid while waiting for the appeal to be heard. The suspension procedures have also been extended to cover young people receiving benefits after studying and those receiving part-time unemployment benefits. The rules have also been modified in order to make suspension effective more quickly after a decision has been made to suspend a claimant.

3. Increasing suspension period

Previously a worker who left a job without a legitimate reason faced suspension of 4 to 26 weeks; this has been increased to a new range of 26 to 52 weeks.

4. Plan d'accompagnement

In order to pursue a more active policy to help the unemployed find jobs, the national government in cooperation with the regions and communities has initiated a plan d'accompagnement. The plan was approved in September 1992 and became effective on January 1, 1993. It applies (compulsorily) to all the full-time unemployed seeking work who are under 46 and at the beginning of their 10th month of unemployment. At the discretion of the regions the plan can also apply to those over 46.

The plan consists of two phases: initially, the responsible regional authority will look at the situation of the unemployed and inform him of his labor market prospects. Then the regional services will provide a program of action for each claimant. The program will take account of the claimant's age and capabilities and offer him a job or training opportunity. If any claimant refuses to carry out the provisions of his action program, his unemployment benefits will be suspended.

The regions have undertaken to reserve a portion of their employment programs and training assistance to claimants who have signed an agreement

on a plan d'accompagnement. Also, the national government will redirect part of the training obligation envisaged in the law towards the plan, while employers who employ claimants who have signed on to the plan will receive subsidies to lower their social security contributions.

The plan is to be financed by a 0.10 percent tax on the wage bill, payable by the employer. The revenue from this tax is expected to be BF 2 billion. BF 200 million will go to the National Employment Office, BF 1 billion to the regions, and BF 800 will be set aside for training costs.

5. Early retirement

Regulations governing early retirement have been changed with a view to shifting the age of early retirement gradually from 55 to 58 years.

6. Unemployment interruption

The benefits which are paid to those who temporarily "withdraw from unemployment" (i.e., from the labor force) for social or family reasons will be reduced by BF 2,000 per month, and the maximum time limit will be reduced to five years.

VII. Appraisal

The previous sections of this paper suggest that there are a number of structural problems in the Belgian labor market both in absolute terms and relative to other industrial countries. The non-employment rate is very high mainly because the participation rate is exceptionally low, especially among men. Employment generation has been rather disappointing. The composition of unemployment reveals large regional disparities as well as very high female and youth unemployment. Furthermore, Belgium suffers from unusually high rates of long-term unemployment among both men and women.

The situation has been exacerbated by the slowdown in economic activity. No doubt faster economic growth will help correct some of the imbalances in the labor market; however, it would be unwise to assume that future growth will simply eradicate these problems. In fact, an imperfectly operating labor market could stifle potential employment growth by imposing a supply constraint on the economy.

Table 7 attempts to assess the impact on labor market problems of the recent measures announced by the government. The table indicates that each of the measures should help to ameliorate some aspects of the labor market problems. The threat of suspending unemployment benefits when the duration of unemployment exceeds twice the regional average could act as an incentive for job search, thereby reducing long-term unemployment and the non-employment rate. The new procedures for suspending unemployment benefits for the young and the part-time unemployed could have a similar impact. Increasing

the period of suspension from benefits for those resigning without a legitimate reason should also help stem the rise in the non-employment rate.

The measure which could have the most significant impact on the labor market is the plan d'accompagnement. By providing and monitoring an action program for those who are on the verge of becoming long-term unemployed, the plan could help to prevent long-term unemployment and reduce the non-employment rate. Furthermore, through providing targeted training, this initiative could help to reduce the mismatch in the labor market.

However, in spite of these measures, there are two reasons for concern: (i) to the extent that some of the measures are framed in very general terms, their effectiveness is unclear; and (ii) they do not address some of the fundamental difficulties in the labor market.

With regard to the first concern: the suspension of benefits for those whose duration of unemployment exceeds twice the regional average is at the discretion of regional unemployment offices and it is currently unclear whether this would be automatic. In the same vein, the way in which the plan d'accompagnement would be implemented at the regional level is unclear. It remains to be seen how an individual's characteristics would be taken into account in designing his action plan and what kind of job or training he would be offered. Also, the initiative applies only to those who "commence" their tenth month of unemployment. At the moment at least, there seems to be no intention of including those who have already been unemployed for longer periods.

The second concern, expressed above, is more serious. None of the measures taken so far addresses many of the underlying problems of the labor market such as the relative generosity of long-term unemployment benefits, large employee and employer tax wedges, and high rates of youth and female unemployment. There is a strong case for extending some of the current initiatives and also introducing additional measures along the following lines:

i. It is clear from the discussion above that not all of those who are receiving unemployment compensation are actively seeking work. Unemployment compensation also acts as a form of long-term income support. Unlike the income support system, MINIMEX, unemployment compensation is not means tested, thus there is a danger that social security benefits are not going to those who need them most. There is a need for more transparency here.

ii. This could be achieved through separating the cyclical, short-term, function of unemployment insurance from its permanent and redistributive income support function. Such a separation would help to make the unemployment compensation system more transparent. Since income support is usually means tested, it would also ensure that benefits are channeled to those who need it and that the relative

generosity of long-term unemployment compensation is reduced for those who do not need it.

iii. The tightening of suspension procedures for the compensation of the part-time unemployed will help to counter the abuse of this provision. However, given the very large numbers benefiting from part-time unemployment compensation, it is necessary to re-examine the conditions of this benefit with the aim of further tightening the system.

iv. The plan d'accompagnement could be made more specific and extended in a number of ways. At the moment employers do not participate directly. Their involvement would help form an understanding of the skills needed in each region. This could help to address the current mismatch in the labor market by providing more focused training. The plan could also be extended to include the very long-term unemployed.

v. It would be desirable to shift expenditure from passive to active labor market expenditure, say, making unemployment compensation conditional on receiving some kind of training. It is notable that the plan d'accompagnement will be partly financed by an increase in employers' contributions rather than a switch in labor market expenditure.

vi. In the long run, it is essential to reduce employee and employer tax wedges in order to increase incentives to seek work and to help create new jobs.

Table 7. Belgium: Potential Impact of Government Measures
On Labor Market Difficulties

Measures	Labor market difficulties					
	Long-term unemployment	High non-employment	Composition of unemployment, e.g., youth/female	Relative generosity of long-term benefits	Employee/employer tax wedges	Mismatch
Limiting duration of benefits	✓	✓	X	X	X	X
Increasing suspension period	X	✓	X	X	X	X
Modifying suspension procedures	✓	✓	X	X	X	X
Plan d'accompagnement	✓	✓	X	X	X	✓

Source: Staff assessment.

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