

The reform of the Belgian Labour Market Policies

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This talk expresses my current views.

Outline

- 1 A multi-level federal State
- 2 The great divide
- 3 Diagnostic
- 4 Some potential reforms



Carte des Régions
 Région Bruxelles-Capitale (en **bleu**)
 Région wallonne (en **rouge**)
 Région flamande (en **vert**)

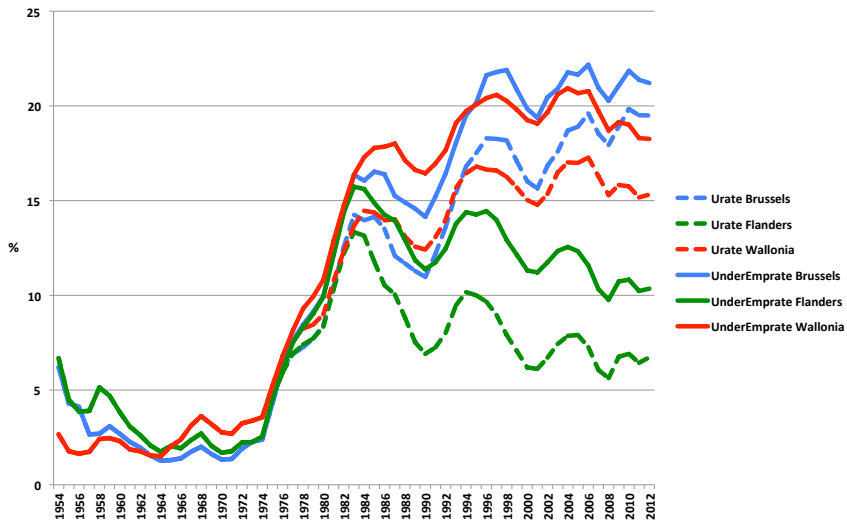


Carte des Communautés
 Communauté flamande (en **vert**)
 Communauté française (en **rouge**)
 Région Bruxelles-Capitale (où les 2 communautés
 ont des compétences, striée **vert** et **rouge**)
 Communauté germanophone (en **bleu**)

The Federal State, the Communities and the Regions are equal from the legal viewpoint.

The great divide

Unemployment Rate (administrative)



Standardized unemployment Rate

	Urate (%) 2013	Δ Urate 2013 vs 2007 (p.p.)	Share long-term unemployed (%)
Brussels	19.2	2.1	56.6
Flanders	5.0	0.7	32.5
Wallonia	11.3	0.8	51.5
Nordrhein-Westfalen	6.0	-2.4	45.1
Rheinland-Pfalz	4.1	-1.9	35.9
Saarland	6.2	-1.1	42.6
Champagne-Ardenne	10.4	2.0	37.6
Nord - Pas-de-Calais	14.6	2.8	48.9
Lorraine	12.1	4.3	42.0
Luxembourg	5.8	1.7	30.4
Zuid-Nederland	6.3	3.2	32.8

Source : Labour Force Survey (Eurostat).

Unemployment Rate in Cities

	2011 ([†] 2010)
Brussels	18.4
Berlin	12.1
Amsterdam	5.6
Paris	11.0
London	9.2
Antwerp	9.5
Charleroi	16.3
Liège	14.8
Köln	7.6
Rotterdam	6.9
Valenciennes([†])	17.6
Reims([†])	14.6

Source : Eurostat.

Unemployment rates are very heterogenous within regions

- Standard deviation at the commune level in 2010 (source : IWEPS) :
 - Flanders : 3.4 p.p.
 - Wallonia : 3.5 p.p. [▶ MORE](#)
 - Same order of magnitude all along the years 2000's ⇒ Structural phenomenon.

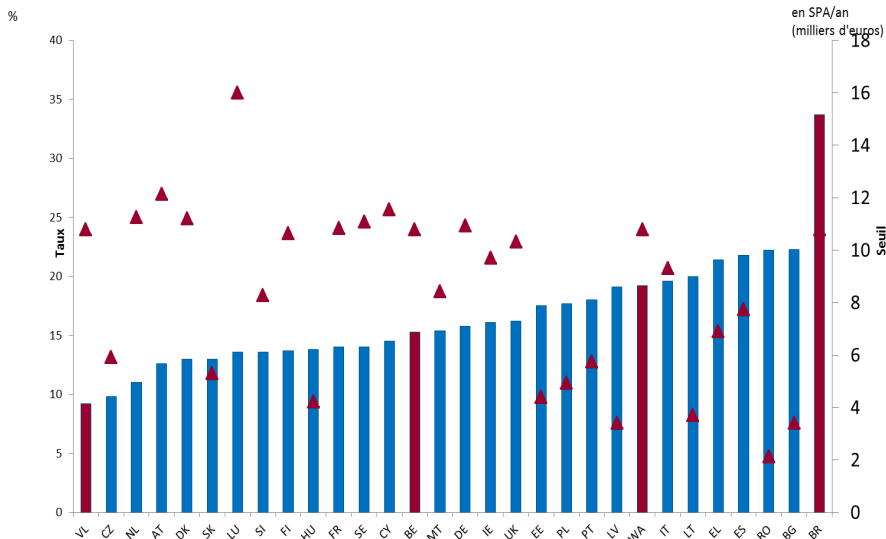
- Standardized U rates : Education and citizenship matter

	Education level			Low/high	non-EU
	Low	Intermediate	High		
Brussels	28.8%	20.8%	9.0%	3.2	34.4%
Flanders	7.9%	4.4%	2.6%	3.0	24.6%
Wallonia	17.2%	10.7%	4.5%	3.8	36.0%

Last column singularity remains if one conditions on education as well.

- In Wallonia and Brussels, non-employment is highly concentrated in households where nobody works. [▶ MORE](#)

At-risk-of-Poverty EU indicator in 2011



Compared to the other EU countries, in Belgium

- Share of low-paid workers (gross hourly wage \approx 11€) is relatively low (relatively high minimum wages in Belgium).
- Upward wage mobility is somewhat higher at the low-end of the wage distribution.
- Wage inequalities are low and roughly stable (2000-2012).
- Still, among the unemployed at risk of poverty who are employed one year later, only 47% of them are no more poor (49% in the EU 27).
- Explanation :
 - On average over the year, the low-paid only work a small share of a full-time equivalent : under a gross hourly wage \approx 11€, 54% in Brussels, 45% in Flanders and Wallonia (2013).

The supply-side

- Low participation rates at the two extremes of the age distribution.
- On average, non negligible regional differences :

	Males	Females
Brussels	67.8%	56.4%
Flanders	75.6%	66.5%
Wallonia	72.3%	62.7%

Regional participation rate among the 15-64 in 2012.

The supply-side

A substantial share of low-educated workforce in Brussels and Wallonia :

	At most a lower-secondary education	Post-Secondary education
Brussels	28%	45%
Flanders	19%	40%
Wallonia	26%	37%

Regional share of the 25 - 49 in 2010 (SPF Economie).

	Early school leavers(†)	NEETs*
Brussels	17.7%	18.7%
Flanders	7.5%	10.5%
Wallonia	14.7%	14.5%
The Netherlands, Germany, France	∈ [9%, 10%]	∈ [4.2%, 11.2%]
North of France	∈ [11%, 12%]	∈ [12.8%, 17.1%]

† Persons aged 18 to 24 who has finished no more than a lower secondary education and is not involved in further education or training (2013).

* Persons aged 18 to 24 neither in employment nor in education and training (2013).

Headcount employment

Relative change in salaried employment 2012 vs 1995

	Brussels	Flanders	Wallonia
Energy	30%	14%	16%
Manufacturing	-50%	-21%	-13%
a. Intermediate goods	-53%	-10%	-12%
b. Equipment goods	-56%	-29%	-16%
c. Consumption goods	-43%	-25%	-12%
Construction	-8%	14%	30%
Market Services	16%	49%	45%
a. Transport & Communication	-1%	7%	-1%
b. Trade, accomodation and Food service	1%	31%	29%
c. Credit & Insurance	-4%	3%	-3%
d. Health	48%	78%	73%
e. Other market services	38%	95%	86%
Non-market services	22%	12%	9%
a. Public Admin. & Education	27%	16%	13%
Total	12%	21%	22%

FIGURE 3: Source : HERMREG

Job flows

Gross Job destruction (JD) and job creation (JC) are large compared to net changes :

Looking at salaried workers only (DYNAM project),
Evidence for 2011 - 2012 indicate that

- JC and JD rates are large in the three regions (≈ 6 to $8\%/8\text{year}$);
- Job reallocation is to a large extent a within-sector phenomenon :
e.g. in manufacturing, between June 2011 and June 2012, the JC rate = 3.8% and the JD rate = 4.6% .

On average over 2005 - 2012, **each day of the year,**

◇ ≥ 500 jobs were destroyed

◇ ≥ 600 jobs were created in Belgium.

So, for one net creation, 5 gross destructions and 6 gross creations.

Hence, worker's mobility is important.

Workers' flows

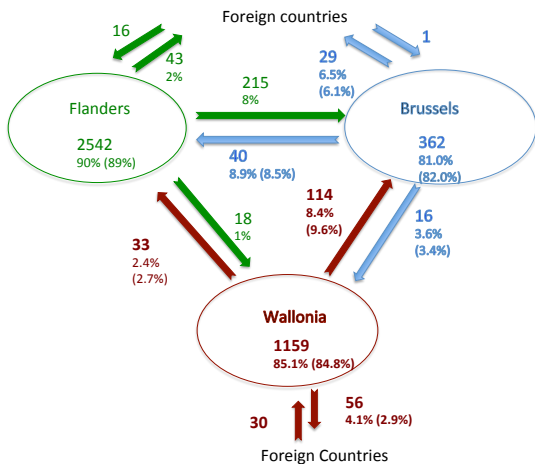
On average between 2005 - 2012 (DYNAM),

- Annual Hirings = 18% of employment
68% are job-to-job flows (OECD, 2010);
- Annual Separations = 17% of employment
55% are job-to-job flows (OECD, 2010);
61% are ends of fixed term contracts (NBB, Social balance sheets),
9% are firings for cause or displacements (idem).

Belgium *on average*

- Inflow rates into unemployment (OECD, EUROSTAT) :
 $NDL \leq BEL \leq DEU \leq UK \leq FRA$.
- Exit rates from unemployment to employment (Pérez & YAO, 2012) :
 $DEU \leq BEL \leq FRA < \{NDL, UK\}$.

Workers' flows : commuting in 2013 (Source : HERMREG)

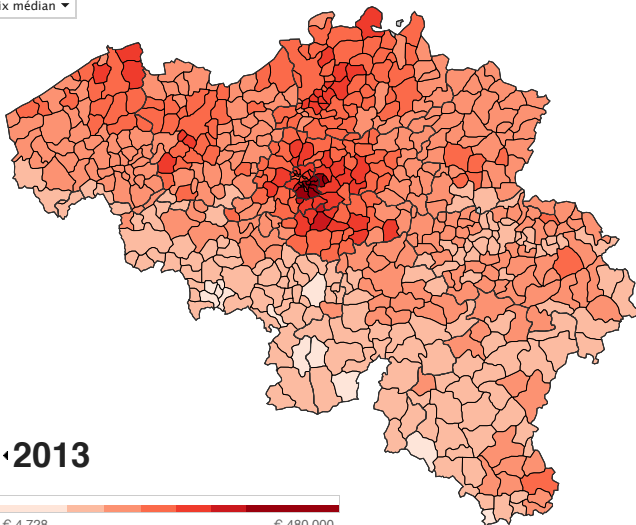


Levels in thousands, share of employed labour force (between parentheses share in 2000)

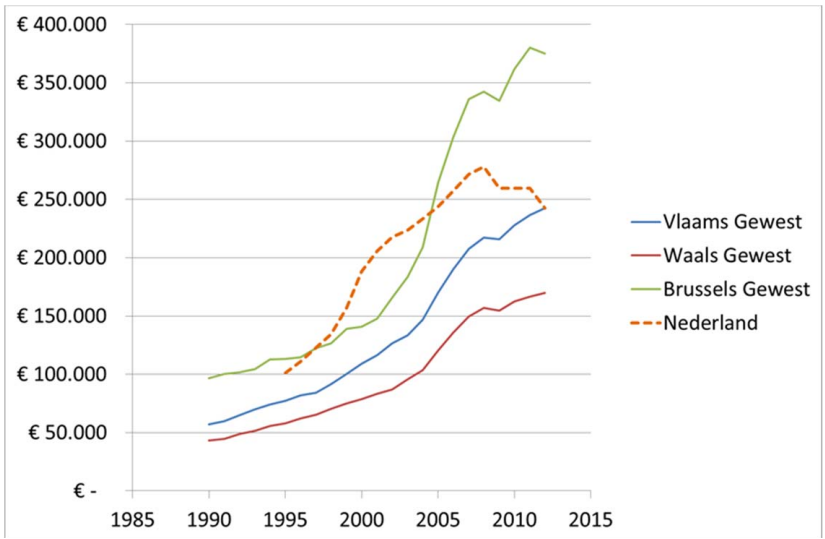


Price of ordinary houses sold in 2013

Prix médian ▼



Evolution of nominal prices (ordinary houses and villas)



From the above description...

- 1 Four decades of a nightmare in Brussels and Wallonia :
An “equilibrium” approach.
- 2 Not a nightmare for everybody however but well for the low-educated, in particular in case of a non-EU origin and/or a residence in a number of *sub*-regions.
- 3 Low employment is the problem, not so much low hourly pay.
- 4 Structural changes (sectoral reallocation, $JC+JD > | JC - JD |$).
- 5 The low-education problem is here to stay.
- 6 Substantial labour flows but much less so for “the” unemployed.
- 7 Inter-regional mobility (commuting) : high towards Brussels and Luxemburg despite long commuting time ; low to Flanders.
- 8 Housing cost dispersion is big and (partly) compensate for the local unemployment rate and local disamenities...

Who does what on the Belgian labour market ?

Legend : “V” = major actor (V_ℓ = less so); “v” = minor actor.

	Public Authorities		Social partners
	Federal	“Regions”	
Labour law, (early-) retirement	V		V
Wage-setting	V	v	V
UI	V		V
UI “Monitoring”	$V \rightarrow v$	$v \rightarrow V$	
Placement Agencies		V	
Training, counselling U	v	V	V
Direct job creation U		V	
RSSC, Serv. Ch., hiring subsidies	$V \rightarrow V_\ell$	$v \rightarrow V$	
Initial Education		V	
Minimum Income Guarantee	V	V	
(Labour) income taxation	$V \rightarrow V_\ell$	$v \rightarrow V$	

A lack of labour demand in Brussels and Wallonia ?

- Yes, for many skill levels (→ “ladder effect” or “crowding-out effect”) but more so at the low-end of the skill distribution, but...
- In Brussels, 48% of jobs are occupied by commuters from the other regions. So, there is more to say : lack of skills, discrimination, ...
- In 2012, 21000 French workers occupied in Hainaut (6% of salaried jobs in this province) ; 5000 commute from Hainaut to France (1% of the employed population). Again, there is more to say.
- Despite poor job vacancy data, aggregate V/U ratios seems to be less low than typically thought. Order of magnitude : In 2012, the estimated *total* number of vacancies *in Wallonia only* could have been sufficient to generate a match (perhaps brief) with half of the walloon unemployed (*Regards Economiques*, # 103).

Labour cost

Lack of labour demand : *Given wage developments abroad*, the high cost of labour is a major cause, with the usual vicious circle :

$W \nearrow \Rightarrow K - L$ substitution and disappearance of less productive firms
 \Rightarrow Rise in average productivity
 $\Rightarrow W \nearrow$

Since Drèze *et al.* (1990), there is evidence that the real cost of labour does not react (much) to a rise in the unemployment rate.

However, given the large regional disparities, is there evidence of wage differentials within Belgium ?

- Microeconomic evidence :
 - Individual data (ULB, KULeuven) : A few percentage points with some exceptions (Plasman *et al.*, 2007).
 - Firm level data : -5% (Brussels vs Flanders), -14% (Wallonia vs Flanders) in Konings & Marcolin (2014).

Regional wage-productivity gaps ?

- Real Unit Labour Costs in Wallonia converge towards those in Flanders (HERMREG) : A gap of 1.5% remains in 2010 on average.
- Konings and Marcolin (2014) exploit individual *firm* panel data.

$$y_{it} = \alpha_0 + \alpha_1 D_{it}^{\text{BXL}} + \alpha_2 D_{it}^{\text{WAL}} + \phi' X_{it} + \theta_t + \varepsilon_{it}, \quad t = 2005, \dots, 2012$$

where y_{it} measures log or $\Delta \log$ of V.A./unit of labour, Wage bill/unit of labour or wage bill/V.A. ; D_{it}^{ℓ} equals 1 only if firm i is located in region ℓ ; X_{it} includes size, age of the firm i , and sectoral dummies. Assuming exogeneity, the main results concerning the wage-productivity gap compared to Flanders are :

- 1 log : a 4 to 7% unfavourable gap in Wallonia (11 to 15% in Brussels) ;
- 2 $\Delta \log$: no gap in Wallonia (2% in Brussels).
- 3 Conclusions robust if D_{it}^{ℓ} interacted with age ; if only firms without subsidiaries or branches only.

A lack of “effective” labour supply in Brussels and Wallonia ?

Indicators of hiring difficulties :

- In the manufacturing industry, on average over 2000-2012, 7.5% of Flemish employers reports difficulties in hiring skilled labour. In Wallonia, 8.3% (source : Belgian National Bank).
- The list of occupations for which there are hiring difficulties (40 to 50 in Wallonia) is not only made of (high-)skilled jobs (engineers, nurses,...) but also of less-skilled ones (solderer, mechanic, butcher,...). Surveys suggest that working conditions (length and patterns of working time,...) and subjective perceptions about job characteristics matter a lot.
- Among the 71,000 non-interim vacancies registered by the PES in Wallonia in 2013, 20% were considered as generating hiring difficulties (i.e. a matching rate $< 90\%$ & a duration of opening > 29 days); 3% were never filled.

Evidence about job-search behaviour

- A federal UI + Regional PES raise difficulties in Belgium. In 2004, the federal UI agency launched a monitoring of job-search effort.
- Evaluation of this scheme (young unemployed people only) :
 - 1 Cockx and Dejemepe (2010) : Heterogeneity of treatment effect in Wallonia (not in Flanders). Lack of reemployment effect
 - on the low-skilled
 - on those living in a sub-region with a high unemployment rate.

▶ MORE

 - 2 Estimation of a structural job-search model in Flanders (Launov *et al*, 2011) : In absence of the policy the acceptance probability is already 85% and it jumps to 95% among the “treated”. And relatively small negative effects of “treatment” on expected earnings.
- Dejemepe and VdL (2014) : Each month 1% of the unemployed sanctioned because of a lack of search effort (2013).

Unemployment insurance

- Belgium has a very strange UI system that can be criticized on many grounds.
- Evidence that the replacement ratios reduce exits out of unemployment in Belgium?
 - Some macro-econometric evidence : e.g. Dor *et al.* (1997) covering the period 1961-91.
 - No *rigorous* micro-econometric evidence.
- Evidence that reducing potential benefit duration enhances exits towards employment ?
 - Some evidence based on the threat of a sanction (see previous slide).
 - Evidence abroad : From 0.05 to 0.1 weeks of unemployment per additional week of potential benefit duration (outlier : 0.3 in France).

Mismatch

Definition of mismatch : Skills and locations of idle labor are persistently poorly matched with the skill and geographical characteristics of unfilled job openings... Not easy to measure with poor historical data on vacancies !

- Henri Sneessens et Fatemeh Shadman Mehta already showed that both skill and regional mismatch was a major issue in the eighties and the nineties.
- Some more recent evidence :
 - The mismatch problem would be particularly acute in Brussels (Zimmer, 2012) ;
 - Since the Great Recession, deterioration of the matching process in Flanders (Konings & Torfs, 2011).
- Historically : substantial EPL of “regular contracts” + rather long tenure. If workers have a task or sectoral-specific human capital, they may be reluctant to switch to another task/sector.
- Efficiency of training programmes ? No idea in Wallonia, nor in Brussels ! Lack of (rigorous) evaluation.

Inter-regional mobility

- Persyn and Torfs (2013) estimate a gravity equation : some regional borders have a deterrent effect on commuting (FLA \Leftrightarrow WAL ; BXL \Rightarrow FLA) ; period considered : 2008.
- Since 2006, automatic transmission of (a range of) job vacancies to the other regional PES. In 2013, 110,000 offers sent by the Flemish PES to the Walloon one and 90,000 to the PES in Brussels.
- Synerjob annual report : inter-regional “job-datings” are organized : e.g. in 2013, 35 in Wallonia and 23 in Brussels.
- PES subsidize numerous trainings to learn Dutch.
- Evaluation ? No rigorous one, as far as I know.

Reforms

Legend : “V” = major actor (V_ℓ = less so); “v” = minor actor.

	Public Authorities		Social partners
	Federal	“Regions”	
Labour law, (early-) retirement	V		V
Wage-setting	V	v	V
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Decentralization of wage bargaining ?

- Textbook recommendation : Downward flexible wages to restore equilibrium on each local labour market.
- Solow (1990), Bewley (1999) : Labour markets are a “social institution” far from the competitive benchmark...
... with or without unions by the way.
- After decades of *national* joint committees at the sectoral level, there is evidence of comparison effects that would remain even after a regionalization of wage negotiation.
- “Union bargaining power” looks stronger in Wallonia. Regionalization of wage bargaining could lead to mixed results according to the degree of firms’ monopsony power before the regionalization.
- To be studied more : Decentralization in the sense of firm-level negotiation.

Public governance

- Education system ;
- Pillarisation (strongly segregated society) ;
- Underinvestment in research and collection of good-quality data. In Belgian regions, the higher the unemployment problem, the lower the investment in acquiring knowledge on the functioning of labour market !
- Evaluation : Misunderstanding.

RSSC, hiring subsidies

- Danger 1 : Each Region is going to allocate the regionalized means without coordination.
- Danger 2 : Brussels and Wallonia need to choose priorities in the absence of rigorous evaluations (less true in Flanders).
- Danger 3 : Each “sector” (private, public, non-profit) tries to keep its market share in the regionalized subsidies. Some of them would even argue that means previously devoted to employment policies should become more unconditional subsidies to their sectors.
- Danger 4 : To forget that a non negligible part of the jobless population (in particular in Brussels and Wallonia) is disenfranchised from the labour force. The scarcity of public means could lead to abandon this population completely.

Temporary hiring subsidies and activation of UBs

- At first glance, since a number of unemployed groups have low chances of finding a job, policies targeted on them should be implemented/extended : training (in a broad sense), counselling, hiring subsidies ;
- Lack of rigorous evidence that counselling and training “work” in Brussels and Wallonia ; hence, one can hardly recommend to invest more resources there.
- There is evidence in Belgium that hiring subsidies targeted on young unemployed with no employment experience did work rather well in the past.

Temporary hiring subsidies and activation of UBs

- International evaluation literature :
 - Training : slows down exits to employment but improve job quality.
 - Hiring subsidies targeted on low wages in small firms would have been powerful during the Great Recession in France (Cahuc *et al*, 2014).
 - Hiring subsidies can be detrimental if (i) the targeting is stigmatizing ; (ii) displacement and churning are induced (Neumark, 2013) ; (iii) substitution effects are not well justified.
 - Hiring subsidies have reasonable chances to be efficient if they are targeted on people having no (or obsolete) employment experience ; The duration of subsidization can be rather short (6 months-1 year).
- Recommendation : Use (well-designed) hiring subsidies for specific groups/in specific contexts only.

RSSC

It could be argued that the RSSC transferred from the Federal government :

- Should help the re-industrialization of Wallonia and Brussels. Not enough money transferred however ;
- Should be reoriented to boost the creation of highly productive jobs. Inelastic labour supply however (wage-push effect) ;
- Should be replaced by temporary hiring subsidies. Given the mixed evidence about their effects and the structural problems on the labour market, a more permanent cut in the cost of labour is needed.

There is strong evidence (in Belgium and elsewhere) that RSSC targeted on low wages enhance job creation and reduce job destruction at the low-end of the skill distribution.

Critiques against RSSC targeted on low-paid jobs

- “Labour-supply is abundant but people won’t take these jobs” : Monitoring of job-search and job-acceptance, definition of “suitable” occupations for the unemployed and “making work pay” policies are key (existing) complements to RSSC on low-paid jobs.
- “The low-skilled will have less incentives to become more skilled” : The returns to education have been estimated in Belgium and they are important.
- “Low-pay traps” (RSSC targeted on low-paid jobs induce high marginal payroll tax rates) : Reducing earnings mobility is a matter of concern. The slope in the phasing-out region is a central issue.

Critiques against RSSC targeted on low-paid jobs

- “Reducing the cost of labour at the low end will induce substitutions effects against better-paid workers” : To be taken into account.
- “Reducing the cost of labour at the low end will reinforce the ladder effect (crowding-out)”. As highlighted by e.g. Batyra and Sneessens (2010), this reduces the beneficial effects of RSSC targeted on low-paid workers but they still have sizeable effects on low-skill unemployment.
- “The weakness of average productivity growth will be reinforced” : True but the alternative is massive joblessness for the low-skilled population (with all its consequences).

Conclusion

- Such a small country with so many (sub)regional heterogeneities !
- Brussels is on a diverging path and has presumably the most dual labour market.
- In Wallonia, there are signs of improvements but the long period of massive unemployment can have generated an “hysteresis effect” .
- The voted regionalization of a number of policy instruments is an opportunity. However, a deep lack of knowledge and understanding of central mechanisms can lead to counter-productive choices.

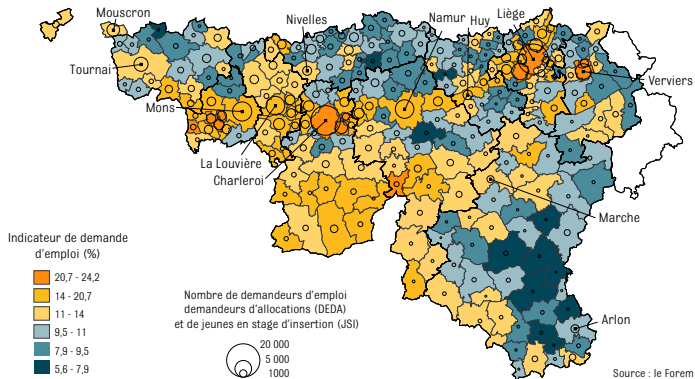
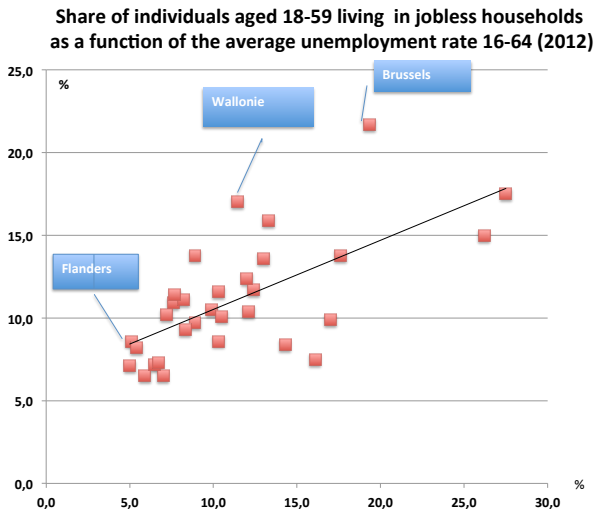


FIGURE 6: Unemployment rate Wallonia December 2013 (Forem)

Polarization

A growing phenomenon.



Regression Discontinuity Design approach :

	Brussels	Flanders	Wallonia
Average effect	4.7%	9.9%	6.2%
95% C.I.	[−0.6%; 10.0%]	[5.1%; 14.8%]	[0.1%; 12.4%]
Employment prob.			
without policy	23.3%	35.1%	28.4%
with policy	28.0%	45.0%	34.6%

Effect of notification letter on the probability of being employed
8 months later (Age : 25-30).

Gross fixed capital formation

	1995 - 2011	2007 - 2011
	All sectors excl. residential inv.	
Brussels	2.2	-2.8
Flanders	2.9	0.6
Wallonia	3.2	0.7
	Manufacturing Industry	
Brussels	-3.2	-15.2
Flanders	-0.6	-6.5
Wallonia	0.7	-5.3

Average annual growth rate (source : HERMREG).