Full employment, mismatches and labour reserve

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Introduction

Full employment, a mythical goal of economic policy, has lately become highly topical once again. This article aims to report on the current situation concerning this question in Belgium and in its Regions. For that purpose, it will explain the theoretical concepts associated with full employment. Various indicators will be used to illustrate the mounting tensions on the labour market while presenting them in a broader context so that they may be seen in perspective. The main factors hampering a decline in structural unemployment will then be examined.

Wherever possible, and where relevant, the findings for Belgium will be broken down by Region and compared with those for the main neighbouring countries (Germany, France and the Netherlands) and the Scandinavian countries (Denmark, Finland and Sweden), the latter being regarded as the best performers on matters concerning the labour market.

1. Theoretical concepts

1.1 Full employment, frictional unemployment and NAIRU

The goal of full employment has recently been mentioned by politicians, who link it to a substantial reduction in the unemployment rate, or even – more generally – to the large-scale mobilisation of the population of working age.

According to the economic theory, the term "full employment" refers to a situation where all those who wish to work actually have a job that enables them to use their skills. Full employment can therefore co-exist with a (large) proportion of inactive people within the population of working age, i.e. people who do not wish to work.

Nor does full employment preclude a certain level of unemployment, which in that case is confined to frictional unemployment, resulting from the "natural" time needed to find a satisfactory job in terms of quality, working time and pay conditions. That inevitable time lag is due to the recruitment process itself : submission of applications, selection procedure, etc. The level of frictional unemployment varies over time and from place to place, depending on the speed of the process of matching the labour supply to demand. That depends partly on the level of activity, the quality of the support provided for job-seekers, and the (mis)match between the labour supply and demand characteristics.

Tensions on the labour market may arise on account of a full employment situation, but such tensions may become apparent at a much earlier stage. That is the case where unemployment is persistently lower than the NAIRU

(non-accelerating inflation rate of unemployment), i.e. the unemployment rate that stabilises inflation. Even if unemployment is relatively high, structural factors then prevent it from falling. In that case, the expansion of activity no longer results in declining unemployment but instead leads to an increase in wages, fuelling inflation. In a balanced, full employment economy, the observed unemployment rate and the NAIRU correspond to frictional unemployment.

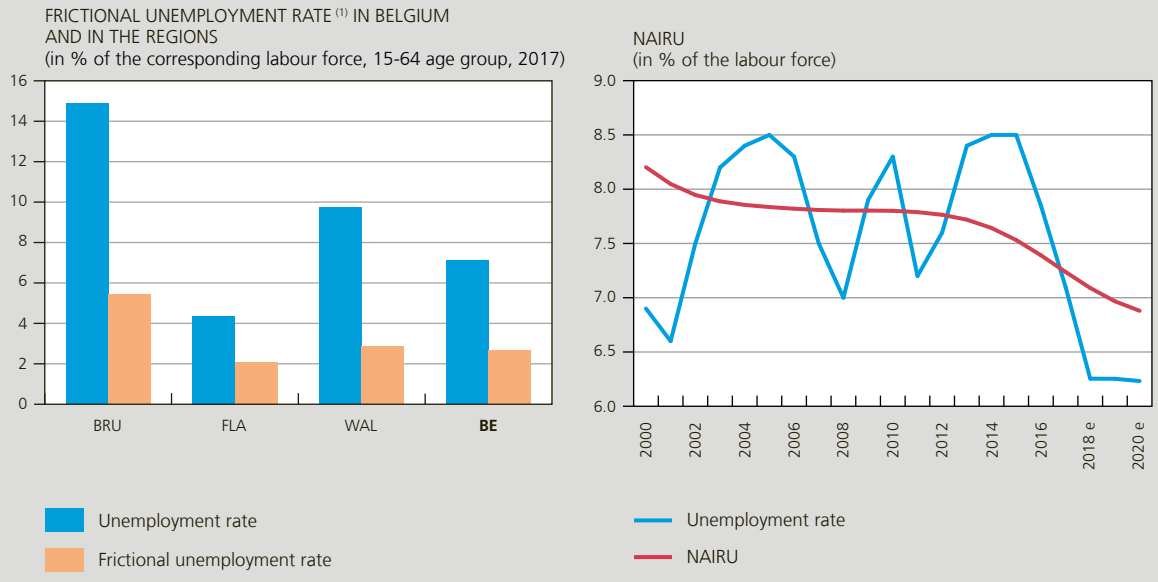
The sections which follow present an estimate of the level of these various concepts of unemployment in Belgium and in the Regions. After that, we shall analyse whether the situation in Belgium conforms to economic theory and whether that situation provides an answer to the ensuing questions: What about labour market tensions? Can we reduce the unemployment rate any further? What are the factors that influence the process of matching the labour supply to demand for labour?

1.2 Estimate of frictional unemployment and the NAIRU

1.2.1 Frictional unemployment

Frictional unemployment results from the "natural" time lag entailed in moving from one job to another or in joining the labour market. That time lag is considered to be relatively short, and becomes still shorter the closer we are to a full employment situation. In the analysis below, it is considered to be less than six months. On the basis of that criterion, since 1995, the frictional unemployment rate in Belgium has ranged between 2 % and 3.3 % of the redefined labour force (i.e. the sum of employment plus unemployment persisting for less than six months). However, there are wide variations between the Regions. According to our estimates, in 2017 [1], frictional unemployment stood at 2.1 % in Flanders, 2.9 % in Wallonia and 5.4 % in Brussels. Factors accounting for these discrepancies include the degree to which the characteristics of the labour supply tally with those of demand, the effectiveness of the public employment services, and the vigour of economic activity. As the actual unemployment rate exceeds the frictional unemployment rate in the three Regions, none of them is in a full employment situation.

CHART 1 FRICTIONAL UNEMPLOYMENT RATE AND NAIRU



Sources: Statbel, NBB.
(1) Estimated on the basis of unemployment lasting less than six months, the time lag considered sufficient to change jobs or to join the labour market.

(1) Latest available year.

1.2.2 NAIRU

Like frictional unemployment, the NAIRU cannot be observed as such. It is estimated on the basis of economic models by various national and international institutions (NBB, OECD, EC, etc.). As their methodologies differ, the resulting estimates also vary from one institution to another. In 2018, the Bank and the OECD estimated the NAIRU at 7.1 %, and the EC arrived at a figure of 6.8 % [1]. By definition, the NAIRU is relatively stable if policy remains unchanged; structural reforms are necessary to change its level. Those reforms may concern the participation of the population of working age, training, a reduction in the unemployment and inactivity traps, or matching the quality of the labour supply to the demand for labour. Thus, in Belgium, the NAIRU has tended to decline, notably as a result of the recent reforms reducing the tax wedge and parafiscal levies on labour incomes and the reforms concerning unemployment insurance [2]. On the basis of the Bank's latest estimates, the unemployment rate (6.3 % in 2018) is below the NAIRU (7.1 %) for the second year running, and is likely to remain there for the next three years.

TABLE 1 ESTIMATED UNEMPLOYMENT RATE AND NAIRU
(in % of the labour force)

	Unemployment rate	NAIRU		NAWRU
		NBB December 2018	OECD November 2018	EC November 2018
2016	7.9	7.4	7.3	7.3
2017	7.1	7.2	7.2	7.1
2018	6.3	7.1	7.1	6.8

Sources: EC, OECD, NBB.

1.3 From theory to economic reality

According to economic theory, the labour supply can be brought into balance with demand for labour by adjusting wages (i.e. the price of the factor labour). In Belgium, the fall in unemployment since 2015 combined with strong demand for labour should therefore have been accompanied by a significant rise in wages. In reality, apart from the inherent rigidity of the wage-setting mechanism in Belgium (negotiated pay increases under sectoral agreements concluded for two years), various measures prevented that adjustment, particularly the wage moderation policy and labour cost reduction measures adopted in order to restore the cost competitiveness of firms. Economic theory was therefore not borne out in Belgium in the recent past, and that is corroborated by some economists (see Dotsey *et al.*, 2017; Haldane, 2017; or Hawksworth and Durham, 2017) who think that the link between unemployment and inflation, as assumed by the Phillips curve, is becoming ever less apparent and that the NAIRU is tending to become less relevant for measuring inflationary pressure.

2. The labour market in Belgium and in the Regions

2.1 Scale of the labour market tensions

The current level of unemployment, which is now lower than the NAIRU, should correspond to a level difficult to reduce without a change of policy. Consequently, job creation should be held back because labour is becoming scarce, as the characteristics of those who are still unemployed do not correspond to firms' requirements. This section aims to report on the above statements and tries to present them in a broader context so that they can be viewed in perspective. To

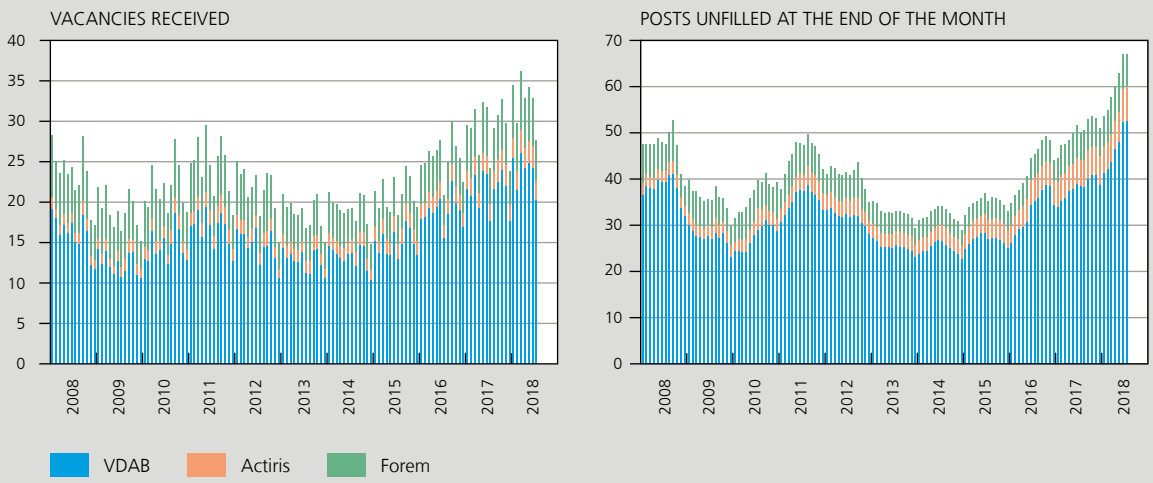
(1) The EC estimates the NAWRU (non-accelerating wage rate of unemployment) instead of the NAIRU.
(2) The OECD, the EC and the Bank have thus revised downward their estimates of the structural unemployment rate, which hovered around 8 % before.

assess the labour market situation and the potential tensions prevailing there, various indicators concerning the labour supply and demand for labour will be examined. Demand for labour means jobs which have been filled and vacancies offered by firms. The labour supply is equivalent to people in work and job-seekers.

2.1.1 Increase in demand for labour

Data obtained from the public employment services show that, since 2015, there has been a steep rise in firms' demand for labour accompanied – logically – by a rise in end-of-month vacancies. In comparison with previous years, the number of vacancies is now at a historically high level, at 64 000 vacant posts at the end of September 2018. However, there is no obvious discrepancy between the trend in the number of unfilled vacancies at the end of the month and the number of offers to be processed, so that we cannot conclude that these posts are more difficult to fill. Contrary to received wisdom, most of the job offers handled by the public employment services require a low educational level or do not specify any educational requirements[1]. In 2017, that was true of 44 % of job offers received in Brussels, 40 % in Flanders and 56 % in Wallonia.

CHART 2 VACANCIES RECEIVED[1] AND UNFILLED[2] IN THE PUBLIC EMPLOYMENT SERVICES
(monthly data, in thousands)



Sources: Actiris, Forem, VDAB.
(1) Only vacancies received via the usual channels, excluding temporary agencies, government support and offers from other partners.
(2) Since the Forem vacancy figures are only available from 2009, the data were retropolated on the basis of the ratio of incoming vacancies to vacancies recorded over the first twelve months of the data's availability.

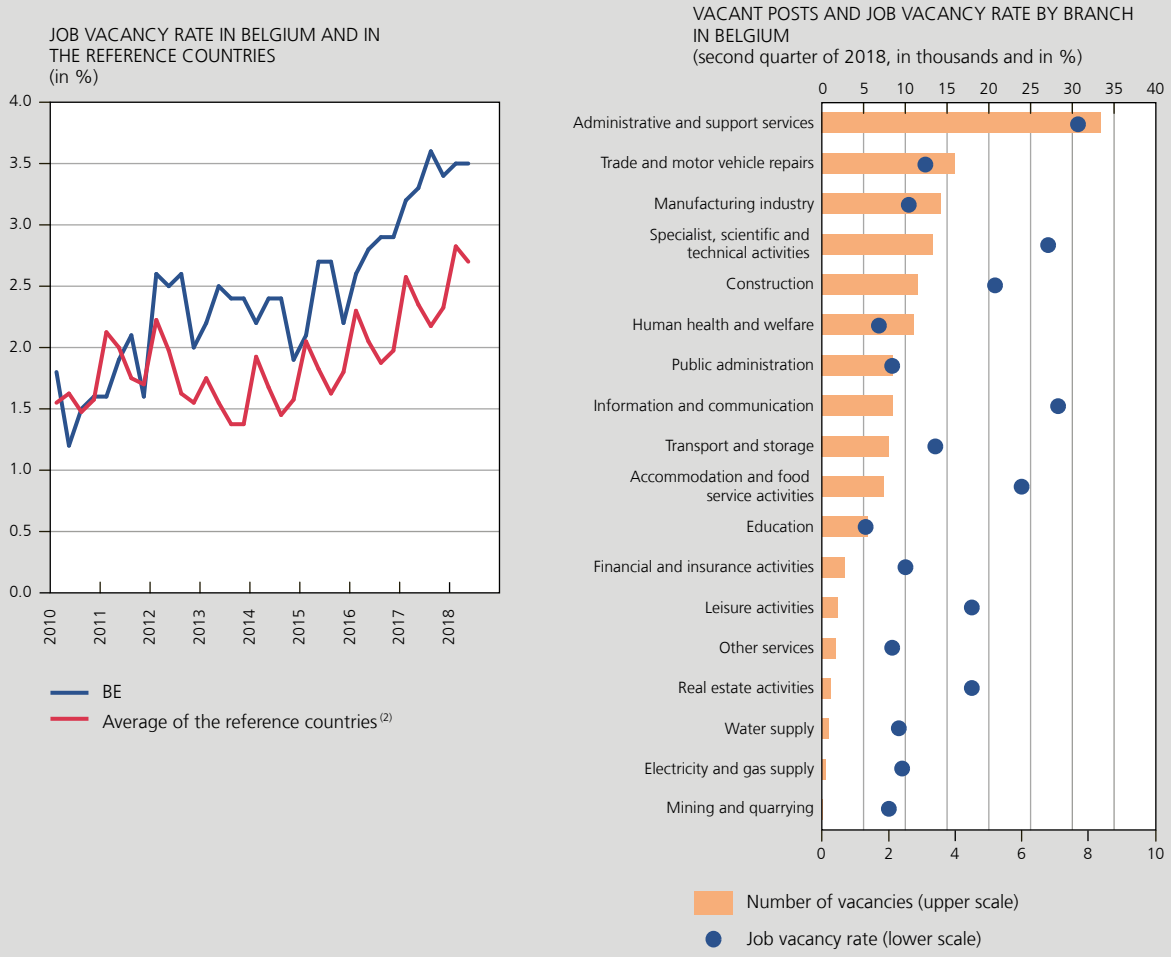
We would point out that the data obtained from the public employment services are not exhaustive[2] and their representativeness also varies from one Region to another, depending on such factors as their market share. It should also be borne in mind that the rise in the number of vacancies handled in recent years is not entirely attributable to the economic situation, because there has been a big increase in the number of public employment service partnerships, and the ease of placing vacancies on line also affects the growth in the number of vacancies recorded.

The Bank's business survey data confirm the dynamism of firms' demand. They also illustrate the growing recruitment problems facing employers. Increasing numbers of firms in the manufacturing sector report a shortage of skilled labour. However, the level of this indicator nonetheless remains similar to that recorded before the 2008 crisis. This indicator is highly significant because it establishes the direct link between the labour shortage and the production capacity of firms.

(1) That does not necessarily mean that the employer is unconcerned about the skill level, but rather that the offer refers to a trade or function.
(2) This only concerns vacancies offered through the usual economic channels, excluding temporary agencies, exchanges between public employment services, and subsidised programmes.

The job vacancy rate[1] measures the proportion of vacancies within theoretical total employment (i.e. the posts filled and the vacant posts). That indicator has also risen since 2015, namely from 2.1 % in the first quarter of 2015 to 3.5 % in the second quarter of 2018. The rise in the vacancy rate is not necessarily a sign of additional recruitment difficulties: when demand increases, the natural delay between matching supply to demand also leads to an increase in unfilled vacancies.

CHART 3 JOB VACANCIES AND JOB VACANCY RATE[1]



Source: Eurostat.
(1) The job vacancy rate measures the proportion of unfilled vacancies in theoretical total employment (vacant and occupied posts).
(2) Finland, Sweden, Germany and the Netherlands. Data for Denmark and France are not available.

The rise in the vacancy rate is not specific to Belgium, but is also apparent in the neighbouring and reference countries. However, since 2012, the job vacancy rate has been higher in Belgium, reflecting not only greater matching problems but also the level of recurrent, very short-term agency work in Belgium, which drives up the level of the job vacancy rate, particularly when the economy is expanding.

This last point also reflects the job vacancy rate in the administrative and business support services branch, which includes temporary employment agencies. That rate was 7.7 % in the second quarter of 2018, compared to an average of 3.5 % for all branches. Next come the information and communication branch and the specialist, scientific and

(1) Eurostat Job Vacancy Survey (JVS).

technical activities branch, where the job vacancy rates are 7.1 % and 6.8 % respectively. If we now analyse the absolute number of vacancies per branch, the administrative and business support services branch is still well in the lead : of the 145 600 vacancies in the second quarter of 2018, 33 400 were reported in this branch, 15 900 in trade and 14 200 in industry. Among the Regions, Flanders has the highest job vacancy rate. That is due to the more dynamic economy and labour market in that Region. Brussels also has a high vacancy rate, mainly because of the greater difficulty in matching the supply to the demand for labour than in the other two Regions. The labour market tensions are therefore not generalised. They concern certain specific segments, i.e. certain geographical areas or particular occupations.

TABLE 2 CRITICAL OCCUPATIONS BY CATEGORY [1]

(number of vacancies received by the public employment services for critical occupations, 2017)

	Brussels	Flanders	Wallonia
Total critical occupations	**8 385**	**141 801**	**63 236**
Technical jobs	855	19 339	20 548
Cleaning staff	0	27 331	2 507
Sales	1 156	17 303	2 983
Medical, social and personal support occupations	848	17 299	2 469
Construction	306	13 075	6 171
Transport and logistics	103	7 495	9 895
Management and communication	517	9 285	6 957
Information technology	1 352	7 951	5 097
Teaching staff [2]	1 013	9 179	n.a.
Administration	1 382	3 640	3 323
Accommodation, food services and tourism	289	5 869	1 587
Craft trades	429	1 632	1 699
Other	135	2 403	0

Sources : Actiris, Forem, VDAB.

(1) The socio-occupational categories are based on the ones used by Actiris.

(2) The Forem survey does not record the number of vacancies for critical occupations in education in the Walloon Region.

In order to provide a more accurate picture of the jobs which are difficult to fill, we use the public employment service analyses of critical occupations [1]. These surveys examine vacancies which are harder to fill than average, and the reasons for those difficulties. Apart from the natural time needed to match supply and demand for labour, structural factors may affect the process. For instance, both the quantity and the quality of candidates may be inadequate. That last inadequacy may be due both to the choice of subjects studied and to the quality and content of the training provided for newcomers to the labour market. Recruitment problems may also be due to a lack of mobility or a lack of interest in occupations which are low paid, low status or physically demanding.

Some of the occupations thus identified appear as critical occupations year after year, in all three Regions. Nonetheless, there are some regional features. In Flanders, the number of critical occupations is highest for cleaning staff, technical occupations, sales and health care or personal support. In Brussels, the main critical occupations concern administrative and sales posts and IT jobs. In Wallonia, the critical occupations are in technical occupations, transport, logistics,

(1) The methodologies used by the three public employment services are fairly similar : they combine a statistical approach (number of vacancies, percentage filled, time taken to fill vacancies) with qualitative criteria (opinions of employment advisers and firms). Each public employment service adapts the criteria and thresholds to suit the specific characteristics of the labour market in its own area.

construction and management. The Forem analysis also identifies the occupations most affected by a shortage of candidates (a purely numerical shortage). They are technical occupations, transport, logistics, and IT.

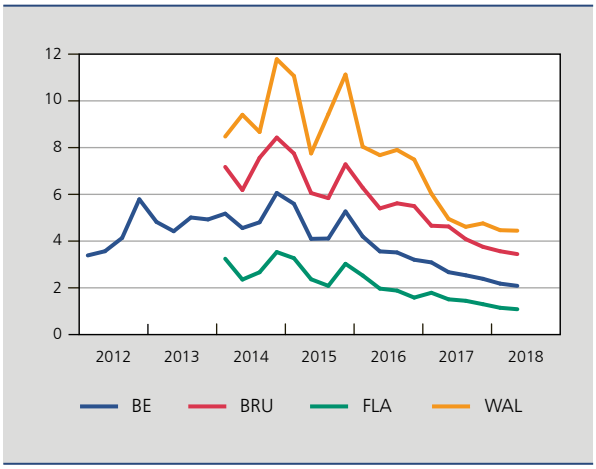
In order to remedy the lack of skilled workers, the training provided by the public employment services is geared to these job types as far as possible, although it is understood that some of the occupations in demand entail several years' training. We would point out that digitisation could alter the list of critical occupations by changing the practice conditions of current occupations and generating new types of job, but also by causing other jobs to disappear in the medium term.

2.1.2 Labour supply shortage

Since 2008, the number of unemployed job-seekers has risen sharply on two occasions, namely at the time of the financial crisis and during the sovereign debt crisis. Since the economic recovery which began in 2014, there has been a steady and substantial decline, bringing the number of unemployed job-seekers down to a level similar to that prevailing before the great recession. In comparison with the same month in 2008, the number of unemployed job-seekers in October 2018 was slightly lower (–8 800). The picture varies from one Region to another. Wallonia was less affected by the economic downturns than Flanders, which is more sensitive to fluctuations in activity. Compared to the October 2008 figure, the number of unemployed job-seekers is lower in Brussels (–2 700), but especially in Wallonia (–28 900), while in Flanders it has yet to revert to its pre-crisis level (+22 800). In October 2018, there were 497 000 unemployed job-seekers: 192 000 in Flanders, 91 000 in Brussels and 214 000 in Wallonia.

The labour market pressures are also fuelled by the ageing of the population of working age, as the proportion of young people available to replace older persons leaving the labour market is steadily shrinking. This phenomenon, apparent since the early 2000s, is likely to persist for some years yet, before turning around by about 2023.

CHART 4 NUMBER OF JOB-SEEKERS PER VACANCY
(quarterly data)

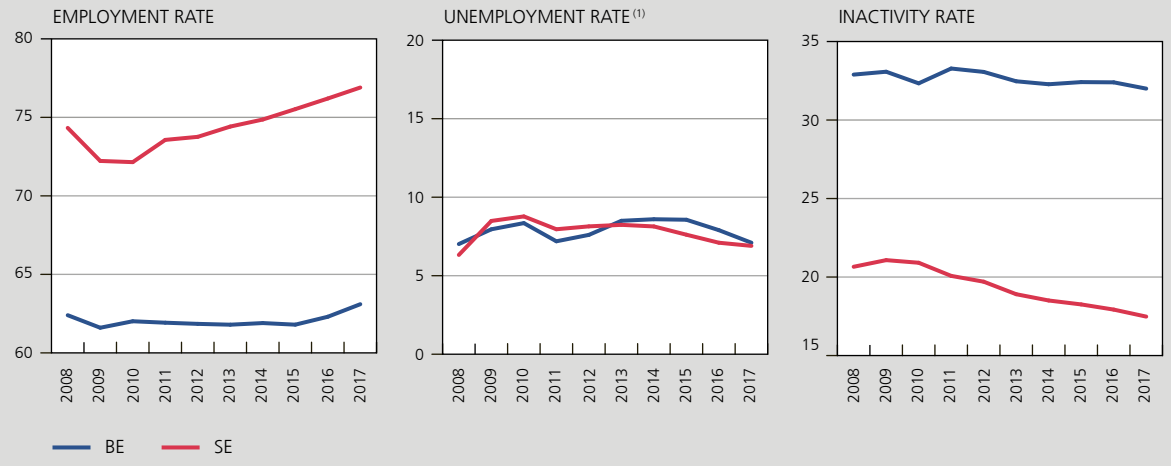


Sources: Eurostat, Statbel.

On the basis of the European job vacancy surveys and the labour force surveys, we can calculate a ratio for the number of job-seekers per vacancy. We should not read too much into such a purely quantitative, global indicator, because it has serious limitations, the main one being that it tells us nothing about the qualitative aspect of the matching process. Nonetheless, the trend in the indicator may reveal the potential development of labour market tensions. This ratio has fallen sharply since the economic recovery. At the end of 2014, there were approximately six job-seekers for each vacancy, but that figure is now down to two. In Flanders, the quantitative aspect of the matching problem is structurally more marked than in the other two Regions, because of both a smaller proportion of job-seekers and higher demand for labour. In the

second quarter of 2018, the number of job-seekers per vacancy was particularly low, almost one to one. Such a situation is associated with mounting recruitment problems for firms. However, it cannot be regarded as a full employment situation since, according to economic theory, the number of vacancies should in that case exceed the number of job-seekers.

CHART 5 EMPLOYMENT, UNEMPLOYMENT AND INACTIVITY RATES IN BELGIUM AND SWEDEN
(annual data, 15-64 age group)



Source: Eurostat.
(1) In % of the labour force.

It should be noted that, although Belgium has recorded a large number of net job creations since 2015, it still has a lower employment rate than the reference countries. As is evident from the comparison with Sweden, regarded as one of the best performing countries in labour market matters, the difference does not lie in higher unemployment but in much higher inactivity. In Belgium, one-third of the working age population is inactive (compared to 17.5 % in Sweden). This mediocre score is due to the high rate of inactivity at the extremities of the age distribution. Almost two-thirds of those under the age of 25 are inactive, and almost half of all people aged 55 and over, despite the strong rise in their activity rate since 2000. Flanders is no exception in that respect: while its activity rate is higher than that of the other two Regions, it is still below the European average. Given the large number of inactives of working age (over 2 million people), getting some of that population back into work could do much to ease the problem of the labour supply shortage.

2.2 Matching the labour supply to demand

Apart from the purely quantitative aspect, the matching of the labour supply to demand also depends on qualitative factors. This section examines the extent to which the characteristics of job-seekers and workers meet the employers' requirements in terms of education and skills.

As we have seen, the current number of job-seekers is fairly similar to the pre-crisis figure. However, the proportion of poorly-educated people is now smaller, and the percentage of highly-educated people is much greater, especially in Brussels and Flanders. The rise in the average educational level of job-seekers should make activation easier than in 2008. Nonetheless, at the same time firms' requirements have also changed. In the space of ten years, the share of medium-skilled jobs has dropped by 5 percentage points, in favour of highly-skilled jobs (+ 4 percentage points) and, to a significantly smaller degree, low-skilled jobs (+1 percentage point)(1). There has been no comparable trend in

(1) Low-skilled jobs represent 10 % of total jobs, compared to figures of 42 % for medium-skilled jobs and 48 % for highly-skilled jobs.

the educational level of persons in work. While the proportion of medium-educated people has fallen over ten years (–3 percentage points), the most marked decline concerns the poorly-educated (–6 percentage points), while the share of highly-educated workers increased by 9 percentage points over the same period. For any given job, the workers' educational level has steadily risen. Although digitisation may be a factor here, that trend could also be due to the recruitment policies of firms, which are increasingly focusing on specific profiles (increased requirements in terms of education and experience).

TABLE 3 DIFFICULTIES IN MATCHING THE LABOUR SUPPLY TO DEMAND [1], [2]

(in % of the corresponding population in the 15-64 age group, employment according to the job's skill level, unemployment according to the job-seekers' educational level, 2017)

	Brussels		Flanders		Wallonia	
	Employment	Unemployment	Employment	Unemployment	Employment	Unemployment
Low	12	41	10	30	10	39
Medium	30	31	44	44	46	44
High	57	28	46	26	44	17

Source: DGS.

(1) Skill level defined on the basis of the International Standard Classification of Occupations (ISCO): Low-skilled jobs correspond to elementary occupations such as domestic helpers, labourers, etc.; medium-skilled occupations correspond to clerical workers, skilled industrial trades, etc., and highly-skilled occupations correspond to managers, intellectual and scientific occupations, etc.

(2) Educational levels are defined according to the International Standard Classification for Education (ISCED). A low level of education corresponds to lower secondary education or less, a medium level corresponds upper secondary education or less, and a high level corresponds to tertiary education.

Comparison of the educational level of job-seekers with the skill level of the jobs reveals major problems in matching the labour supply to demand. In 2017, 10 % of jobs corresponded to low-skilled functions, while the proportion of poorly-educated job-seekers was 36 %. Conversely, highly-skilled jobs represented 47 % of employment, while the proportion of graduate job-seekers was 23 %. The problem of matching the labour supply to demand is particularly acute in Brussels and Wallonia, where around 10 % of jobs are in low-skilled occupations while some 40 % of job-seekers have a low educational level (30 % in Flanders). In Brussels, the share of jobs requiring high skill levels is greater than in the other Regions (57 %, compared to around 45 %). Wallonia is different in having a smaller percentage of highly-educated job-seekers (17 %, as opposed to 26 % in Flanders and 28 % in Brussels).

In regard to interpretation, caution is still required since the unemployed represent only a fraction of the people who may respond to firms' demand. According to an HCE analysis [1], among those newly recruited in 2017, only 16 % were job-seekers while 57 % were already in a job previously, but with a different employer, while 19 % were leaving education and the balance comprised persons who had previously been inactive. The labour reserve is therefore not confined solely to job-seekers registered with the public employment services.

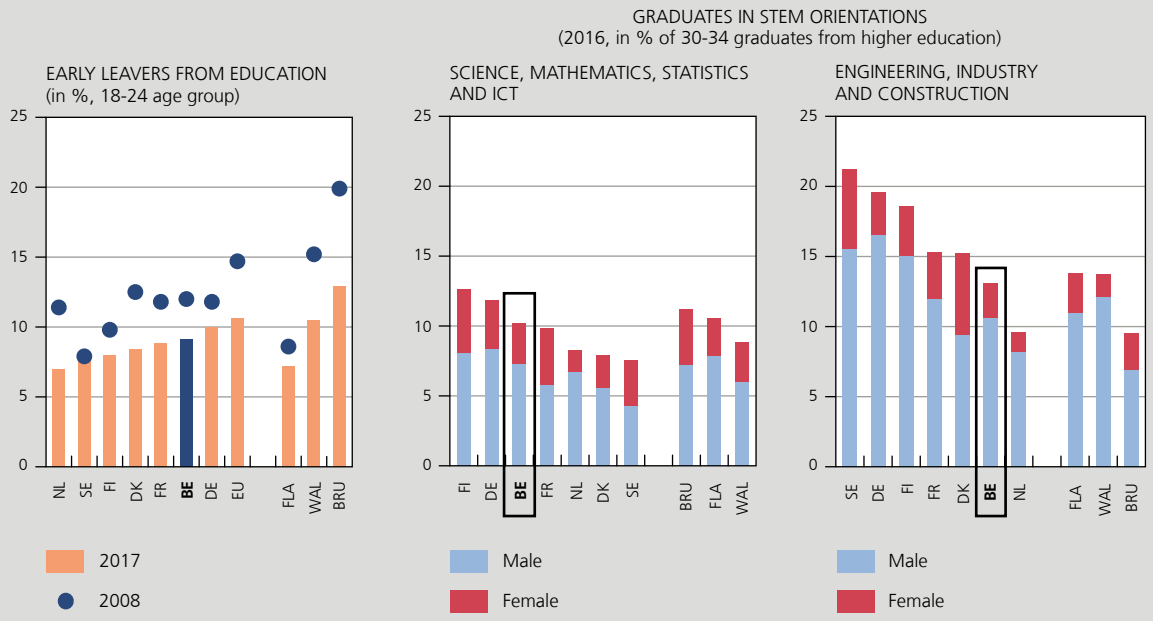
3. Factors influencing matching

3.1 Initial education and lifelong training

One source of the matching problems lies in the fact that the characteristics of the population in general – and job-seekers in particular – as regards education and skills do not meet the needs of firms. One of the key factors for improving the matching process therefore lies in the initial education and lifelong training of the population (in work, looking for work and inactive).

(1) See HCE (2018).

CHART 6 INITIAL EDUCATION



Source: Eurostat.

In this respect, Belgium presents a mixed picture. The drop-out rate, i.e. the proportion of young people in the 18-24 age group leaving the education system without obtaining any qualifications, has fallen sharply over the past ten years, but it nevertheless remains substantial, with almost 10 % of young people dropping out of education. Although the proportion of graduates (30-34 age group) is relatively high in Belgium (45.9 %), too few students choose higher education courses most closely linked to the needs of the labour market (sciences, ICT, engineering, etc.). Apart from these highly-skilled occupations, other types of training, such as vocational and technical courses, offer very attractive career opportunities. In the German-speaking Community, over 90 % of apprentices find a job within two months of completing their courses. In Flanders, only 10 % are still looking for a job after one year. In Wallonia, almost eight out of ten trainees have found a job within six months. However, students and their parents look down on these courses, which generally remain their second choice. Finally, apart from initial education, Belgium has one of the lowest levels of lifelong training in the EU (according to the labour force survey, the rate of participation in lifelong training over the past four weeks was 8.5 %, compared to 10.9 % in the EU). Moreover, training is rarely aimed at the workers who would benefit the most, such as the older age groups and the less-skilled. There is also a need to invest more heavily and more effectively in national language skills, in order to improve worker mobility, especially to enable job-seekers in Wallonia and Brussels to take jobs in Flanders. Finally, we would point out that digitalisation does not only affect the importance of the chosen courses. It also has an impact on the content of all occupations and makes it necessary to revise the school curriculum in order to include basic ICT and coding skills, but the priority is also teacher training, which is essential to pass on these new skills to their pupils.

The Communities have introduced various reforms to enhance the effectiveness and fairness of the education system. In the Flemish Community, the aim of the STEM action plan is to encourage young people to opt for the STEM subjects. In the French Community, the Excellence Pact stipulates that science and technology must be defined as one of the five areas of learning, in order to raise their visibility. In view of the cohort effects within the school population, it will be several years before the benefits of these reforms become apparent; moreover, they are only being gradually phased in. As regards worker training, the Law on "Feasible work, manageable work" has made it compulsory to provide an average five days' training a year per full-time equivalent in the private sector. At regional level, there are also many schemes available to support in-service training (training vouchers, paid study leave, integration/training plan, etc.). With the "jobs deal" unveiled this summer, the federal government aims to freeze the decrease in unemployment benefits

for unemployed people attending training in a shortage occupation. Wallonia has promised a financial incentive for the successful completion of such training. That Region has also undertaken to simplify the integration/training plan and to provide tailor-made training support for firms, subject to certain conditions.

3.2 Support for job-seekers

The speed and efficiency of matching also depend on the resources used to monitor and support job-seekers. That is particularly true in the case of the people farthest removed from the labour market, for whom the current strong growth of employment is an opportunity. Since the sixth State reform, the Regions have been responsible for this matter; they can therefore adapt their policies to their own specific situation. Despite some improvements, such as the establishment of closer monitoring of job-seekers, Belgium still devotes relatively more resources to passive policies[1] rather than to the active, personalised monitoring of job-seekers.

The success of the reforms adopted almost twenty years ago to encourage some of the inactive population to become active again[2] also depends on the ability of the public employment services to provide effective support for these job-seekers – who were previously exempted – in order to boost their rate of transition to employment, e.g. by offering jobs to the unemployed with adapted availability. This often concerns experienced, skilled workers who are unemployed and receiving a company supplement following restructuring. Encouraging them to return to employment would alleviate the shortage of skilled labour.

3.3 Mobility

Job mobility and switching from one socio-occupational status to another – i.e. the transition from one job to another or from unemployment or inactivity to employment – are less common in Belgium than in the neighbouring countries[3].

CHART 7 JOB SENIORITY AND DURATION OF UNEMPLOYMENT

(corresponding population in the 15-64 age group, 2017)

Source: Eurostat.

(1) Expenditure on (Belgian-style) "pre-pensions" is particularly heavy compared to other countries.

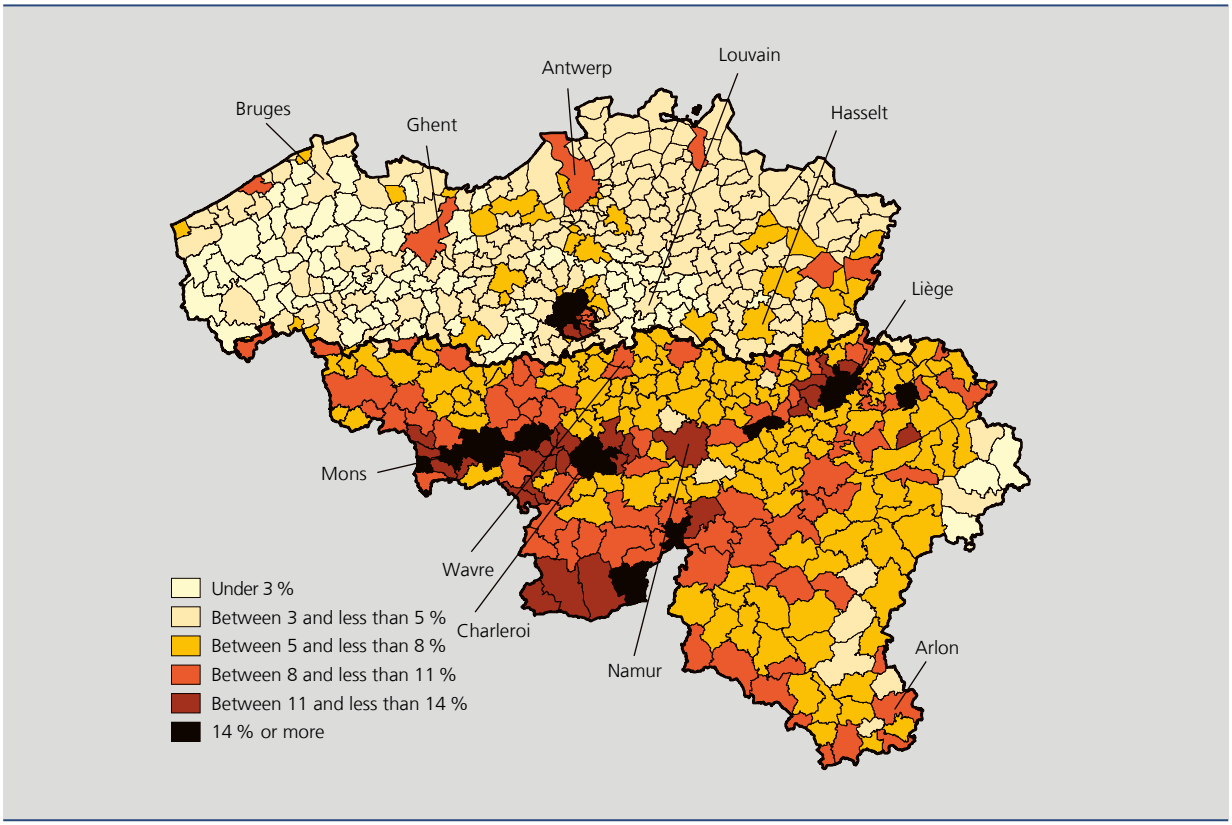
(2) This concerns in particular the termination of older unemployed person status and the introduction of tougher conditions governing end-of-career schemes. These measures resulted in large numbers of job-seekers exempt from seeking work being transferred to the non-exempt group (in some cases with adapted availability).

(3) See HCE (2018) and Saks (2016).

This low mobility is reflected in jobs generally being held for longer than in the comparison countries, but also in lengthier periods of unemployment. Job stability is obviously a positive aspect, but transitions (between jobs and into work) permitting a better allocation of resources should not be hampered by institutional or structural factors. The lack of mobility has various causes, such as a substantial replacement rate [1] in the event of unemployment for the low-skilled, a close correlation between wages and seniority, and a high level of employment protection (especially in the case of mass redundancies), a relatively high minimum wage for the lower-skilled, a heavy burden of taxes and parafiscal levies on wages, etc.

CHART 8 UNEMPLOYMENT RATES PER MUNICIPALITY

(in % of the labour force, 15-64 age group, 2016 [1])



Source : IWEPS.

(1) Latest available year at this level of detail.

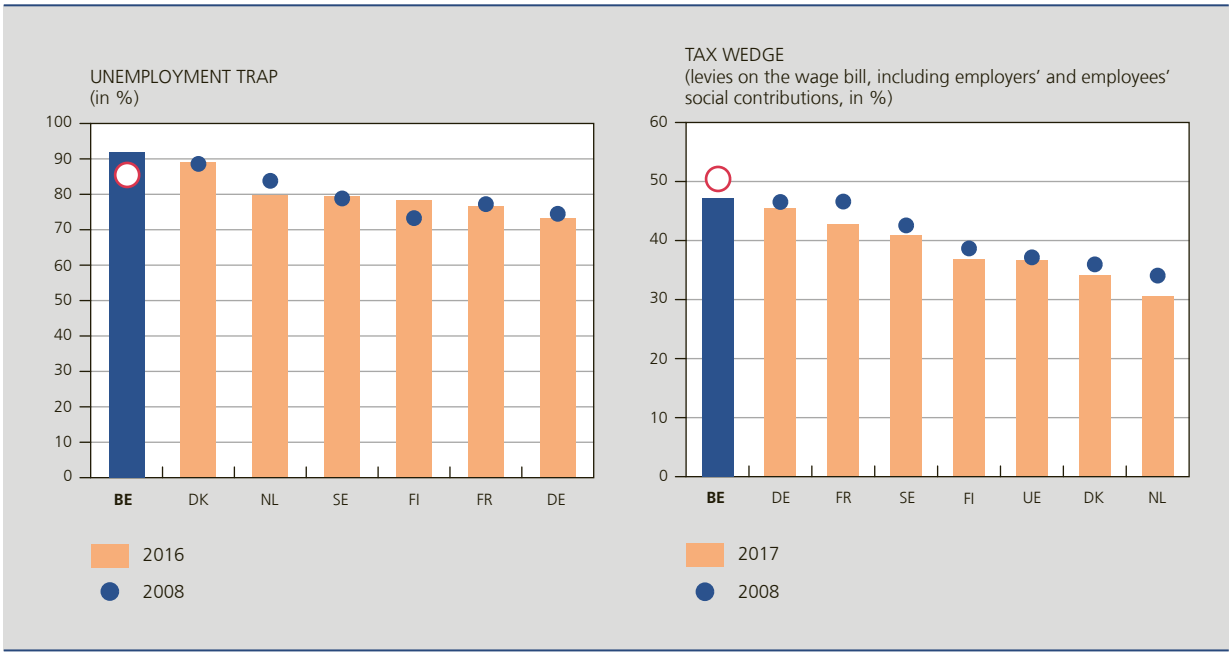
Geographical mobility between the Regions is also under-developed. While Flanders has a very low unemployment rate (4.4 % in 2017), the rates in the other two Regions are much higher (9.8 % in Wallonia and 15 % in Brussels) yet there is no mass inflow of workers from the latter two Regions into Flanders. The map showing unemployment rates per municipality clearly illustrates the geographical disparity of unemployment rates between the Regions, while those rates are fairly uniform within the Regions. The Wallonian municipalities along the border with Flanders perform better than those which are further away. The low geographical mobility of workers is due to a high commuting cost and the language barrier. The public employment services have set up exchange programmes to facilitate the flow of workers to areas where there are jobs, but so far the results have been meagre.

(1) Percentage of wages covered by unemployment benefits.

3.4 Financial incentives for working

CHART 9 FINANCIAL INCENTIVES FOR WORKING

(for a single person, with no children, paid 67 % of the average wage)



Source: EC.

Factors behind the lack of mobility include a lack of language skills, problems in combining work and family life (shortage of institutions caring for children and dependants, combined with the high price of these services), transport problems, but doubtless also a lack of financial incentives for working, especially in the case of people who can only aspire to a low wage. These unemployment traps are due to the tax system (both labour and property taxes), unemployment insurance, the wage policy, etc.

In Belgium, the unemployment traps are greater than in the comparison countries. Between 2008 and 2016, they increased in Belgium owing to the rise in unemployment benefits at the start of the benefit period, combined with more degressive benefit rates. This was once again the route taken by the federal government in its plan for jobs, in order to encourage unemployed persons to be quicker to accept a job and thus respond to the numerous vacancies which currently remain unfilled. This measure was intended to enhance the insurance aspect of unemployment at the start of the benefit period and increase the financial pressure for returning to work, though without guaranteeing an improved allocation of resources.

In regard to labour costs, in 2017, Belgium still had the second highest hourly labour cost in the EU, despite the recent wage moderation efforts. The tax wedge, which reflects the burden of taxation on labour costs, is greater than in the comparison countries, regardless of the income level considered, and despite the reforms already introduced to attenuate it (the tax shift), especially in the case of low pay.

Apart from the taxes and parafiscal levies on wages, the close correlation between wages and seniority may constrain the employment of older workers, whose productivity tends to level out at the end of their career. If the discrepancy between wage and productivity widens, the resulting increase in the relative cost of older workers therefore puts them in a vulnerable position on the labour market. Moreover, the rise in the reservation wage caused by this link may also exacerbate the difficulties encountered by people over 50 years of age in finding a job. In the agreement concluded this summer, the federal government called upon the social partners to link wages to skills and productivity rather than seniority.

As regards regional disparities, the wage-setting mechanism imposed at national level limits the scope for translating these differences into decentralised wage adjustments, which could encourage workers to increase their (geographical and job) mobility.

3.5 Labour force

In order to help to meet the unsatisfied demand for labour, it is necessary to boost the participation of the working age population (15-64 years) by mobilising not just job-seekers but also some of the inactive population, which comprises 2.3 million people, or one-third of the working age population. That is twice the figure in Sweden. On that basis, it seems that there is substantial scope to expand the potential labour force. Almost one in ten inactives actually state that they wish to work.

CHART 10 INACTIVITY: LEVEL AND REASONS

Source: Eurostat.

The reasons for not looking for a job vary greatly according to sex and age. For young people, the reason is almost always connected with education (92 %), which is a good thing if the chosen course meets the needs of the market. Older workers more frequently mention illness or invalidity (28 % of the 25-49 age group and 25 % of the 50-64 age group), some are retired (9 % aged 50-64), and others are discouraged (2 % aged 25-49 and 6 % aged 50-64). It is striking that the proportion of inactives not citing any of the suggested reasons (3 % aged 15-24, 10 % aged 25-49 and 35 % aged 50-64) is two to four times higher than in the other comparison countries. For women, from the age of 25 onwards, family responsibilities (care of children or dependants) are the main impediment to looking for a job (59 % of the 25-49 age group and 35 % of the 50-64 age group).

Conclusions

In Belgium, there are almost half a million unemployed job-seekers, and the unemployment rate is well above the frictional unemployment rate, which corresponds to a full employment situation. Nonetheless, the Belgian unemployment rate has fallen significantly for the third consecutive year, and has now reached a historically low level. Moreover, it has dropped below its structural level (NAIRU), implying the prospect of inflationary pressure. Up to now, however, wage inflation has been restrained by factors such as wage moderation and the constraints inherent in the wage-setting mechanism (implemented in order to restore firms' competitiveness). Although inflationary pressure has not yet materialised, there are nevertheless tensions on the labour market. Demand for labour shows no sign of slackening, and increasing numbers of employers report that they are encountering recruitment problems. This situation is more marked in Flanders, where activity is more dynamic and unemployment is considerably lower. In view of the number of job-seekers, the inability to fill vacancies may seem paradoxical. This contradiction is due to a combination of structural factors which need to be addressed in order to reduce the level of structural unemployment and, above all, to increase the employment rate.

Education is one of the main ways of achieving that, notably in order to match the labour supply more closely to demand for labour. We need to boost everyone's performance, to promote courses of study that lead to jobs without neglecting technical and vocational courses, to incorporate the ITC dimension in the content of all training courses, and to anticipate new types of job. Firms have a role to play here, in adjusting their staff training and management policies so as to optimise the skills of their workers and attract new talent. They could also rethink their recruitment policy, favouring potential rather than acquired skills. In many cases, the problems of matching the labour supply to demand stem from the working conditions offered, which the workers consider too unattractive (inconvenient hours, arduous work, etc. compared to the pay offered). Firms encountering recruitment difficulties do not adjust their employment conditions sufficiently to tempt candidates. That is one reason for the structural character of the shortage occupations. In addition, in some cases, there is too little financial incentive to find work, especially in the case of the low-paid. More generally, we need to introduce policies that encourage transition into employment (provision of sufficient, affordable personal support services, but also elimination of schemes that lead to inactivity, such as the one conferring older unemployed person status). Finally, mobility – which could at least partially resolve the regional disparities of the Belgian labour market – is hampered by the high cost of commuting between home and the workplace, and by the language barrier. Language learning and well-thought-out public transport infrastructures and policies could help to overcome these barriers. It should be remembered that the three Regions have very dissimilar labour markets, with different problems. The solutions must therefore be different while still being complementary at national level.

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