The Future for Low-Educated Workers in Belgium



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Foreword

Through its *Future of Work Initiative*, the OECD monitors closely how labour markets are changing in response to the mega-trends of technological change, globalisation and population ageing, amongst others. The aim is to better understand the opportunities and risks associated with these developments, and provide evidence-based advice on how countries could respond in the areas of skills and employment policies, social protection, labour market regulation, taxation and social dialogue.

As highlighted in the 2019 *OECD Employment Outlook* on the Future of Work, while the future offers many opportunities for creating more and better jobs, transitions to these new jobs will be difficult for many workers, with a disproportionate burden borne by the more vulnerable in society. Therefore, a *Transition Agenda for a Future that Works for All* was put forward, setting out the measures that are needed to ensure workers can successfully make these transitions and help shape a future of work that is more inclusive and rewarding for all.

The OECD's latest research and analysis is now exploring these trends and their consequences in greater granularity - including the impact that changes in the labour market will have on different population sub-groups. One of these groups is the low-skilled who are at particular risk of seeing their jobs automated or offshored, yet it is also a group that is least well prepared for managing the transition to new jobs. The present report is part of this new research effort as it explores the future for low-educated workers in Belgium: will there be enough jobs for them in the future and, if so, what kind of jobs? And, crucially, what can policy do to improve their labour market outcomes?

The question of what the future holds for low-educated workers has also gained in importance with the advent of the COVID-19 crisis, which has affected low-skilled workers in particular and exposed deep-seated labour market fragilities and inequalities. As policy makers think about the policy response to the crisis, they will also need to bear in mind the longer-term trends and ensure that they build back labour markets that are more inclusive and more resilient.

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Executive summary

The world of work is changing. Technological progress, globalisation and population ageing are having a significant impact on the labour market – not only by creating many new job opportunities and destroying obsolete ones, but also by profoundly changing how most ongoing jobs are carried out. Belgium is likely to be strongly impacted by these mega-trends: 14% of jobs are estimated to be at high risk of automation in the next 15 years; more than half of business sector jobs are dependent on demand from abroad; and the ratio of older to working-age persons is expected to increase by 46% over the next 30 years.

These transformations bring many opportunities for the creation of new and better jobs. However, they can also result in job loss for some, and a need for on-the-job adaptation for others, as the tasks and the skills that are required change.

In many ways, Belgium is well-prepared to face the future. It has a highly skilled and productive workforce, strong safety nets, an inclusive system of social dialogue, and a low level of income inequality. However, some groups, like the low-educated (i.e. workers without an upper secondary qualification), risk being left behind. These workers are more likely to see their jobs disappear, and less able to take advantage of new job opportunities, which have tended to benefit primarily the high-skilled.

The low-educated in Belgium already face significant challenges. In 2018, only 47% of those aged 20-64 were employed – compared to 52% in France, 61% in Germany, and 63% in the Netherlands. Perhaps more worryingly, the employment rate of the low-educated in Belgium has been falling (down from 51% in 2000), while it has been rising in both Germany and the Netherlands.

These challenges are likely to heighten in the future in Belgium. Based on current trends, the employment rate of the low-educated could continue to fall by up to 7 percentage points between now and 2030 (while it is expected to rise in the Netherlands and Germany). Moreover, employment in sectors that traditionally provided high-quality jobs to the low-educated (such as manufacturing) is projected to further decline, while it is forecast to grow in sectors with lower job quality (e.g. in services).

Given these current and forthcoming challenges for low-educated workers, Belgium faces some stark policy choices. These are not about whether Belgium should follow the same path as its neighbouring countries. Rather, it is a question about balance. For example, while many of the low-educated in Belgium are not working, those in jobs tend to have a higher quality job, on average, than their peers in neighbouring countries. Average earnings are considerably higher than in France and Germany, and the share of low-educated workers in non-standard, more flexible work contracts is lower than in all three neighbouring countries. Some concessions on job quality may be necessary in order to get more low-educated into work.

Based on international evidence, this report puts forward some policy directions to improve the employment outcomes of the low-educated in Belgium. The suggestions made are not intended as an exhaustive list of policy options. In particular, the focus is on labour market and skills policies. It is clear that interventions will be required on other complementary areas (e.g. fiscal and production market reforms), which have been discussed in other OECD reports.

The employability of the low-educated will need to be strengthened. Compared with neighbouring countries, Belgium still has a higher share of workers who are low-educated. Moreover, evidence from shortage occupation lists indicates that job opportunities exist for low-educated workers in middle-skilled occupations. Taking advantage of these opportunities will require additional investments in initial education, accompanied by measures to encourage lifelong learning.

Improving skills will not be sufficient, however. **The demand for low-educated workers in Belgium will need to be boosted** and labour costs, which are among the highest in the OECD, are likely to be a barrier.

A key driver of higher labour costs in Belgium is taxes and social security contributions. The tax wedge for a single person with no children earning 67% of the average wage is the highest in the OECD – despite recent reforms to lower such taxes. **There is further scope for reducing such taxes on low-wage workers and/or better targeting existing reductions**.

Another important source of higher labour costs for low-educated workers in Belgium is their relatively higher wages compared to their peers in neighbouring countries (especially France and Germany). If higher wages reflect higher productivity, then this should not adversely affect employment. However, where imbalances do exist, efforts should be made by the Belgian social partners, with help from the government, to **better align the wages of low-educated workers with their productivity**. Any potential wage declines could be compensated for by a greater use of in-work benefits/tax credits.

More should also be done to **improve the work incentives facing the low-educated who are not working**. In Belgium, when an individual moves into low-paid work, a higher share of earnings is lost to either higher taxes or lower benefits than is the case in neighbouring countries.

Work incentives could also be strengthened by tightening eligibility requirements which determine continued receipt of unemployment benefits. In particular, availability requirements are not particularly stringent and individuals have more leeway than in other countries for refusing job offers. But, in exchange, additional measures must be taken through further training to improve the job offers that are open to those with few formal qualifications.

Low-educated workers will also need help overcoming other non-financial barriers to work. Compared to neighbouring countries, a far larger share of non-employment among the low-educated in Belgium is due to disability and caregiving duties. Belgium also has a known challenge with low employment rates among older workers.

A greater use of non-standard employment contracts in neighbouring countries like the Netherlands and Germany may also explain some of the difference in employment rates between countries, but it is unlikely to be a major factor. That being said, a **narrowing of the gap in regulation between permanent and fixed-term contracts** in Belgium may be desirable so as to encourage employers to hire low-educated workers on regular contracts.

The proposed measures outlined above have gained in urgency since the COVID-19 crisis which, to date, has affected low-educated workers disproportionately and may have accelerated some of the longer-term trends documented in this report. The crisis does not change fundamentally the recommendations made in this report, but may affect their timing. For example, in the short-run, reforms of the unemployment benefit system may be less urgent given the continued need for adequate income protection. At the same time, additional, temporary measures may need to be introduced, such as hiring subsidies, occupational safety and health measures, as well as strengthened rights to flexible working arrangements – particularly where they benefit the groups most affected by the crisis.

Helping the low-educated into better job opportunities as Belgium rebuilds its labour market for a post COVID-19 world will also be important for improving the resilience of the Belgian labour market to future shocks.

Main findings and policy pointers

The world of work is changing

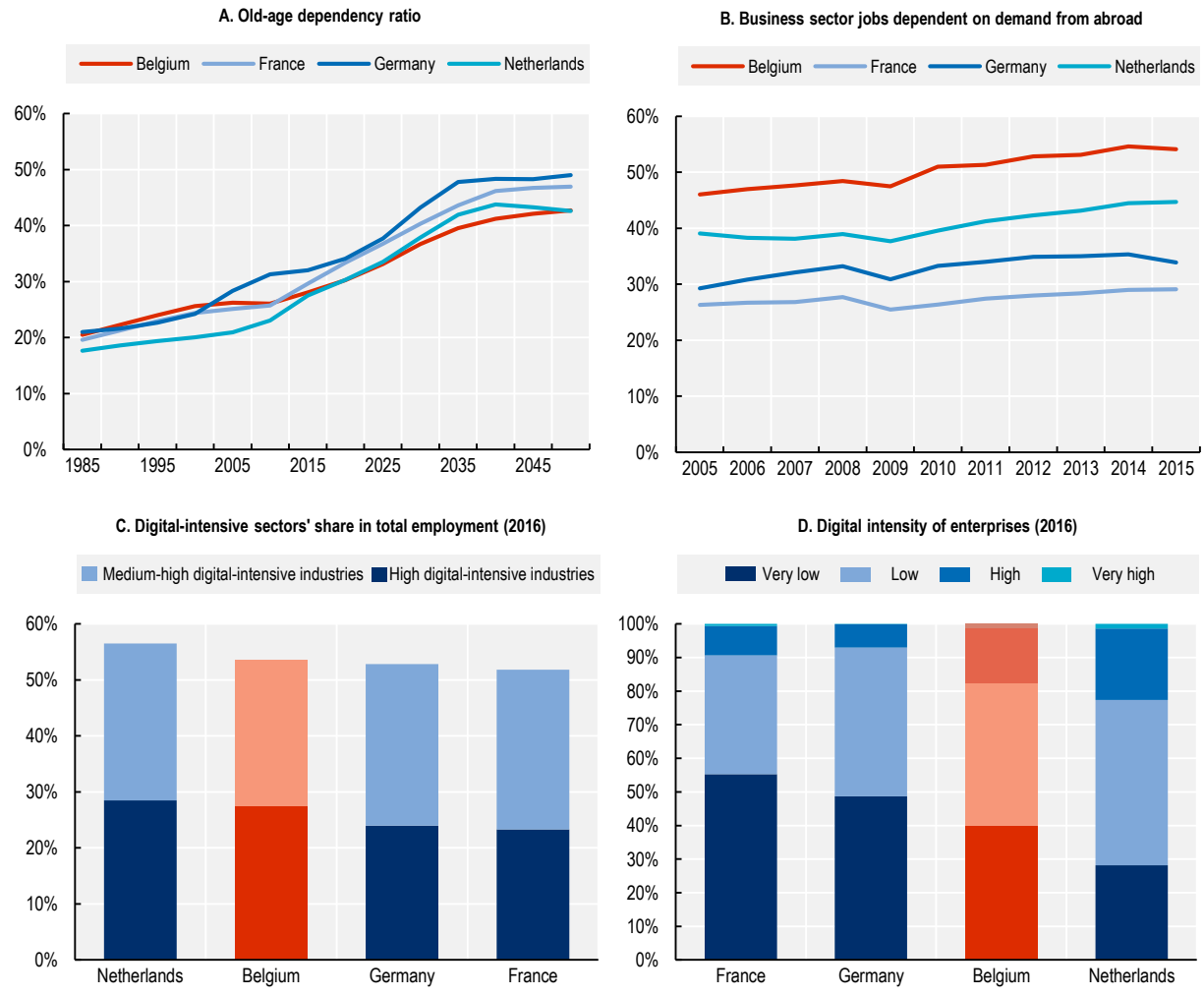
The world is changing and this is having a profound impact on labour markets: on the number and nature of jobs, as well as on the distribution of work and income. No country is left unaffected, including Belgium.

Important demographic changes are underway and populations are ageing rapidly. While this trend is slightly less marked in Belgium than in its neighbouring countries, the old-age dependency ratio is nonetheless projected to increase in Belgium from around 30% today to 43% in the next 30 years meaning that, in 2050, there will be just over two people of working age for every person aged 65+, compared with over three today (Figure 1, Panel A).

The world is more closely integrated along global supply chains and, being a small, open economy, a large share of jobs in Belgium are dependent on demand from abroad. To give just one example, the share of business sector jobs in Belgium that depend on demand from abroad has increased from 46% in 2005 to 54% in 2015. In larger countries like Germany and France, this share is much lower – 34% and 29%, respectively (Figure 1, Panel B).

Last but not least, new technologies are finding their way into the workplace and are changing the tasks that workers focus on, how they carry out their work, as well as the skills that are required for the job. Firms in Belgium are among the most digitalised in Europe, with 17.5% scoring “high” or “very high” on the Digital Intensity Index of the European Commission, compared to just 9.3% and 7.0% in France and Germany, respectively. Belgium also ranks third in the OECD in terms of the share of employment that is in highly digital-intensive sectors (OECD, 2020[1]) (Figure 1, Panels C and D).

Figure 1. The world of work is changing rapidly



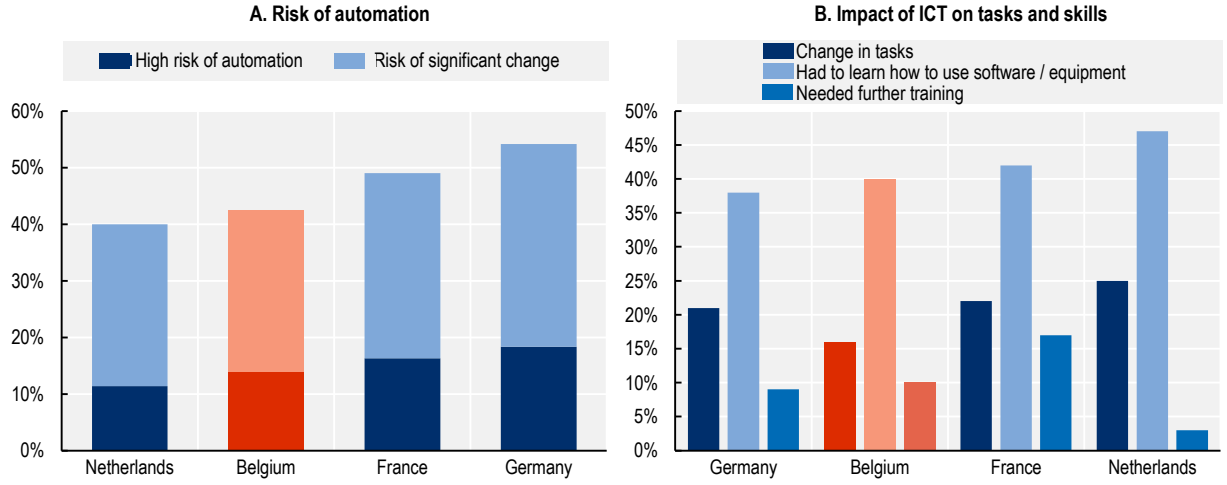
Note: Panel A: Ratio of population aged 65+ per 100 population 15-64. Panel B: Share of employment in total business sector services depending on demand from abroad. Panel C: Share of the workforce employed in sectors that are characterised by high and medium-high digital intensity. Digital intensity is assessed based upon the technological components of digitalisation (tangible and intangible ICT investment, purchases of intermediate ICT goods and services, use of robots), the human capital required to embed technology in production (ICT specialist intensity), and the ways in which digital technology impacts how firms interface with the market (online sales). Panel D: The Digital Intensity Index (DII) is a micro-based index that measures the availability at firm level of 12 different digital technologies. The value for the index therefore ranges from 0 to 12. The index is decomposed into categories according to the following: Very low: from 0 to 3 adopted technologies; Low: 4-6; High: 7-9; Very high: 10-12.

Source: OECD Population and labour force projections database; Eurostat Community survey on ICT usage and e-commerce in enterprises; OECD Going Digital Toolkit; OECD Input Output Database.

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These mega-trends are associated with, on the one hand, opportunities for the creation of new, digitally-intensive jobs, but also, on the other hand, the risk of obsolete jobs disappearing and significant changes in the tasks done and skills used at work. Across the OECD on average, 14% of jobs are at high risk of automation, while another third are at risk of significant change over the next 10 to 20 years. These risks are similar in Belgium (Figure 2, Panel A). 16% of workers in Belgium say that the introduction of ICT has already led to a change in the tasks that they performed at work (Figure 2, Panel B).

Figure 2. Technology results in automation and changes in the tasks performed at work



Note: Panel A: High risk refers to a more than 70% probability of automation; risk of significant change refers to between a 50% and 70% probability. Panel B: Individual's main job tasks changed as a result of the introduction of new software or computerised equipment; Individuals had to learn how to use new software or computerised equipment for the job; Individuals needed further training to cope well with the duties relating to the use of computers, software or applications at work.
Source: OECD Survey of Adult Skills (PIAAC), 2012, 2015 and 2018, https://www.oecd.org/skills/piaac/; Eurostat ICT usage in households and by individuals.

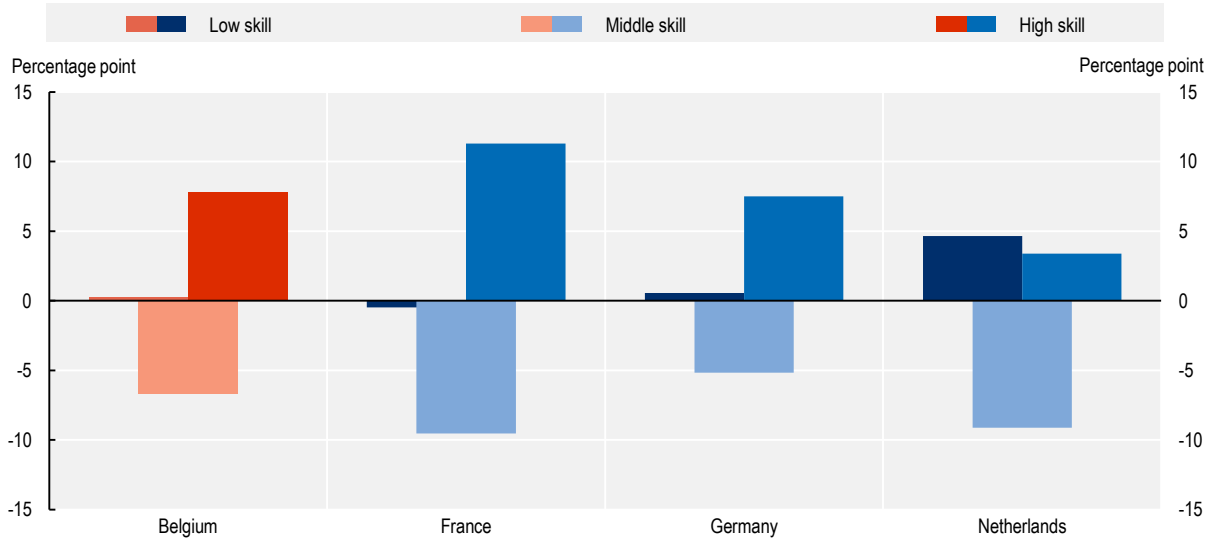
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The low-educated are at greatest risk

The risk of automation is significantly higher for the low-educated. In Belgium, 26.4% of the low-educated are at high risk of automation, compared to just 4.5% of the high-educated (Nedelkoska and Quintini, 2018[2]). In recent years, automation has affected "routine" occupations in particular – i.e. occupations where many of the tasks performed by workers are accomplished by following explicit rules. As a result, the share of middle-skill occupations in overall employment has declined, while the share of low- and high-skilled jobs has increased. This phenomenon is also sometimes referred to as "job polarisation". In Belgium, as in neighbouring countries, there has been strong growth in the share of high-skilled jobs, but relatively low growth in the share of low-skilled jobs (Figure 3). In other words: fewer job opportunities have been created for the low-educated in Belgium than for the more educated.

Figure 3. There has been relatively low growth in low-skill occupations

Percentage point change in share of total employment, 1999 to 2019



Note: High-skilled occupations include jobs classified under the ISCO-88 major groups 1, 2, and 3., that is, legislators, senior officials, and managers (group 1), professionals (group 2), and technicians and associate professionals (group 3). Middle-skilled occupations include jobs classified under the ISCO-88 major groups 4, 7, and 8, that is, clerks (group 4), craft and related trades workers (group 7), and plant and machine operators and assemblers (group 8). Low-skilled occupations include jobs classified under the ISCO-88 major groups 5 and 9, that is, service workers and shop and market sales workers (group 5), and elementary occupations (group 9).
Source: OECD estimates based on the European Labour Force Survey (EU-LFS).

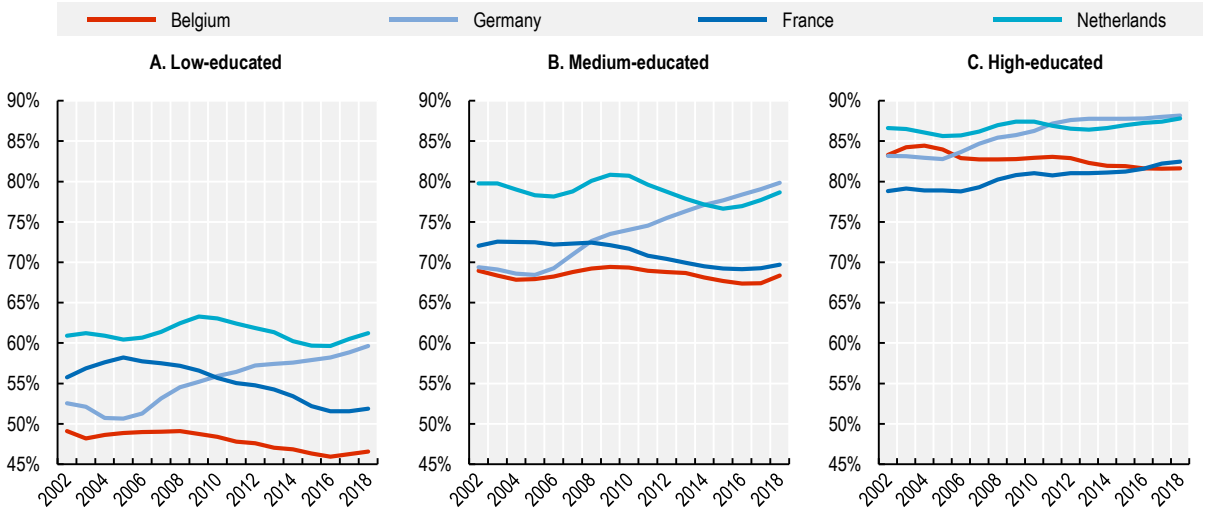
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The low-educated in Belgium already struggle in the labour market

The low-educated in Belgium are in an unfavourable starting position to face these new challenges. The employment rate of the low-educated aged 20 to 64 in Belgium is low (46.6% in 2018) and it has been falling since the beginning of the millennium (from 51.2% in 2000) (Figure 4). Among neighbouring countries, only France has also experienced a drop in the employment rate of the low-educated over the same period, but it remains above that of Belgium (51.6% in 2018). In the Netherlands, the employment rate of the low-educated has remained more or less constant (62.6% in 2018), while it has increased significantly in Germany (60.8% in 2018).[1]

Figure 4. The employment rate of the low-educated in Belgium is low and has been falling

Three-year moving average of employment rate, by education, ages 20-64



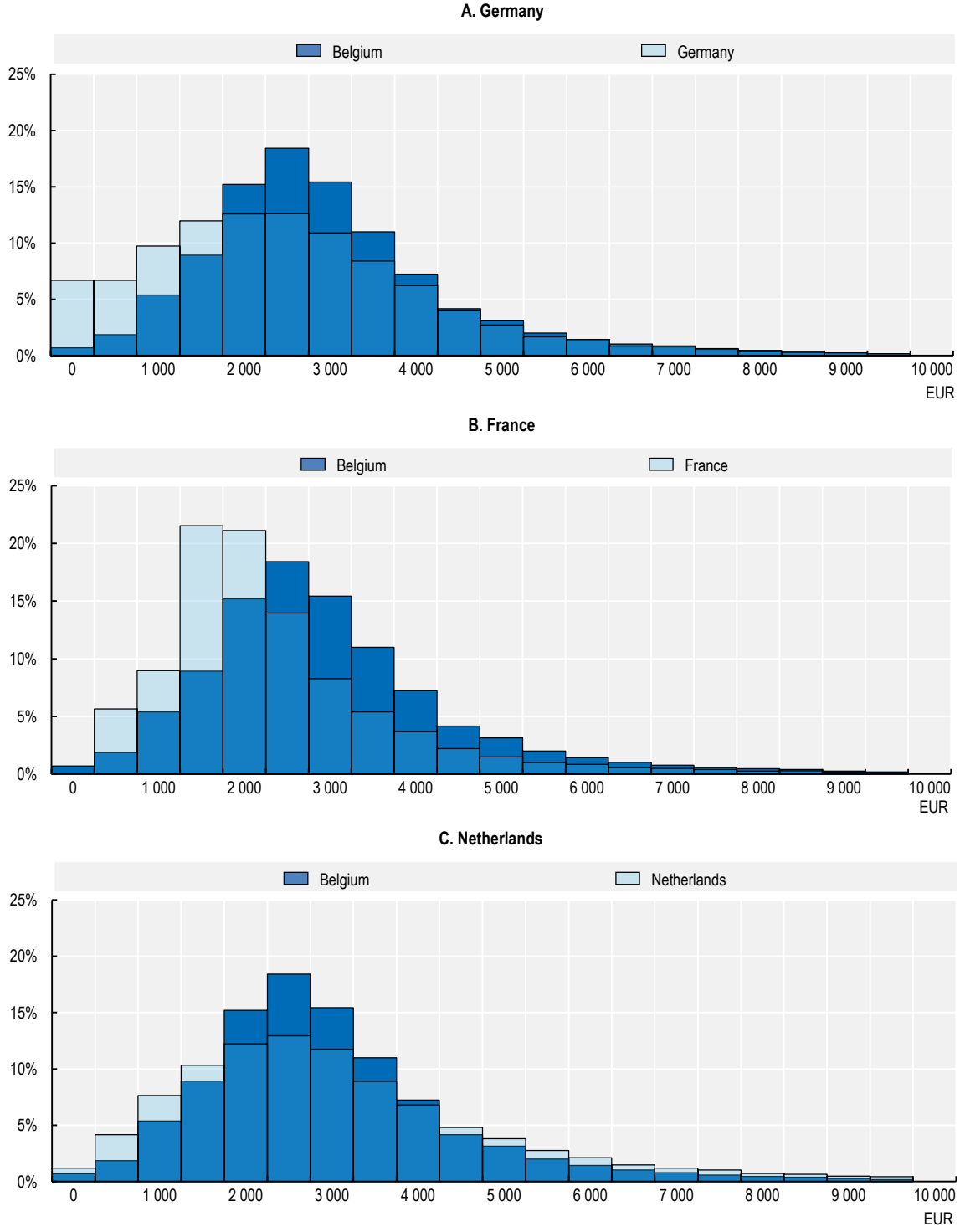
Note: Moving average calculated as the average of the current employment rate and that of the past two years.
Source: OECD estimates based on the European Labour Force Survey (EU-LFS).

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Job quality for low-educated workers in Belgium is good relative to the situation in neighbouring countries. Average earnings of the low-educated in Belgium (EUR 2 760[2]) for the period 2016-18 were considerably higher than they were in Germany (EUR 1 670) and in France (EUR 2050), but marginally lower than in the Netherlands (EUR 2 880). The earnings distribution in Belgium is more compressed than in neighbouring countries. In both France and Germany, there are far more low-educated workers bunched in the bottom of the earnings distribution (Figure 5). While the Netherlands and Belgium are more comparable in terms of the median earnings of low-educated workers, the Netherlands also has more workers than Belgium in the bottom tail of the earnings distribution.[3]

Figure 5. The earnings of the low-educated in Belgium are high relative to those in France and Germany

Distribution of gross monthly earnings for low-educated workers in Belgium and neighbouring countries, aged 20-64



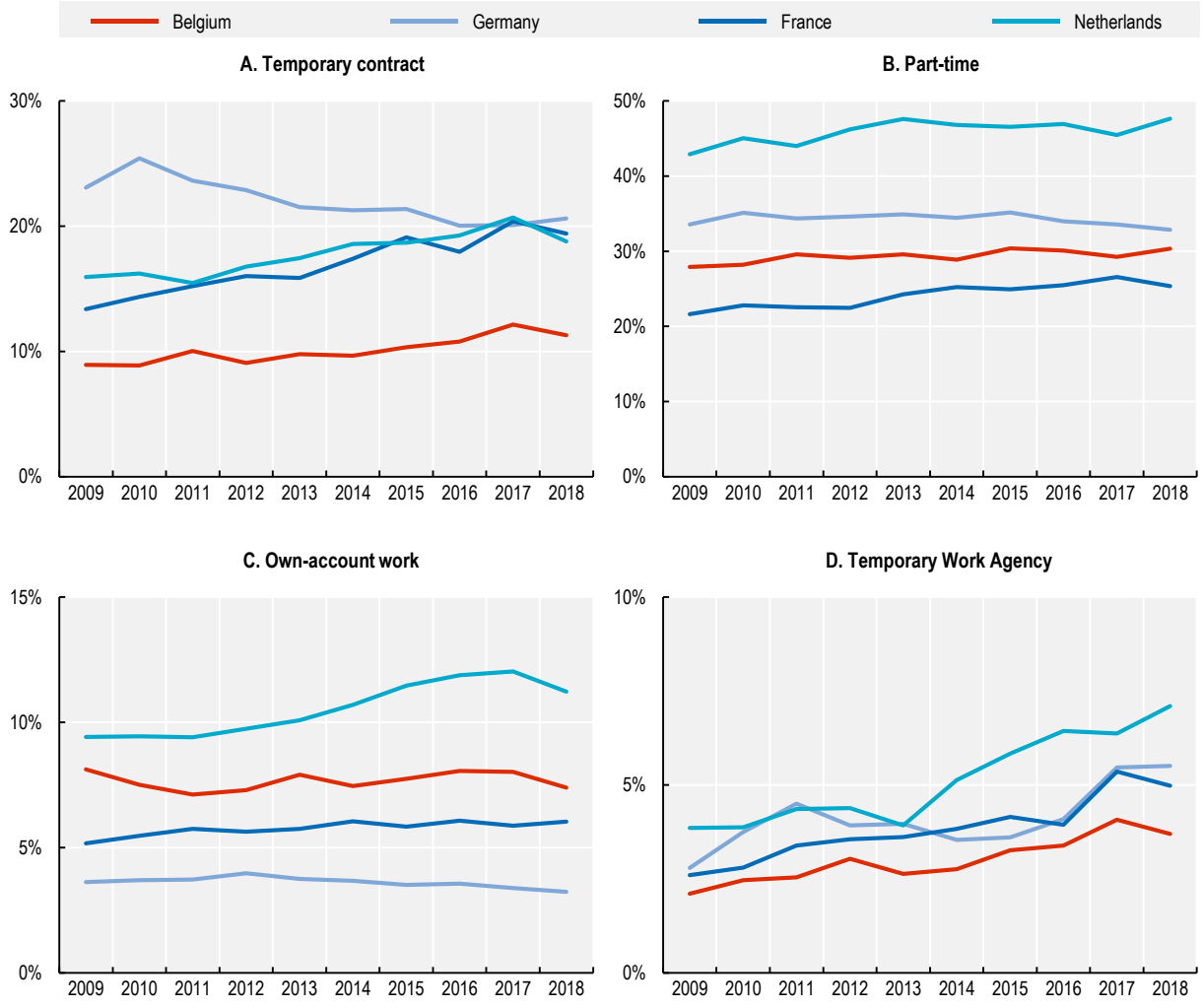
Note: Sample is all low-educated employees. Gross monthly earnings are pooled over years 2016-18 and deflated to 2018 Euros. The distribution is truncated at EUR 10 000. The self-employed are not included in the sample.
Source: OECD estimates based on EU statistics on income and living conditions (EU-SILC).

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Another sign of higher job quality among the low-educated in Belgium is the relatively low prevalence of non-standard and flexible work contracts. The share of fixed-term contracts among the low-educated in Belgium is only 11.3%, compared to 18.8% in the Netherlands, 19.4% in France and 20.6% in Germany (Figure 6). France (5.0%), the Netherlands (7.1%) and Germany (5.5%) all have significantly higher shares of temporary work agency (TWA) work among the low-educated than Belgium (3.7%). Part-time work is more common among the low-educated in the Netherlands (47.6%) and Germany (32.8%) than it is in Belgium (30.3%). And, although own-account work is relatively common in Belgium (7.4%), it is still less prevalent than in the Netherlands (11.2%). That being said, the share of non-standard work among the low-educated in Belgium has been growing faster than among the more educated.

Figure 6. Belgium has a relatively low incidence of non-standard work

Share of low-educated employed working in various forms of non-standard work, Belgium and neighbouring countries



Note: All shares of non-standard work are of the low-educated, employed, ages 20-64. Categories of non-standard work are not mutually exclusive.
Source: European Labour Force Survey (EU-LFS) for Panels A, B and D. Eurostat for Panel C.

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The future does not look bright for low-educated workers in Belgium

Based on current trends, the employment rate of low-educated workers in Belgium is expected to continue to fall. While the share of the labour force without an upper-secondary qualification is expected to fall, so is the number of jobs held by low-educated workers. Between now and 2030, the number of jobs held by low-educated workers is projected to fall from 770 000 to 610 000 – i.e. by 21% (Cedefop, 2019[3]). By contrast, the number of jobs held by medium- and high-educated individuals is forecast to grow by 100 000 (+5%) and 430 000 (+20%), respectively. As a result, the employment rate for the low-educated could fall by 7 percentage points by 2030, while in the Netherlands and Germany, it could be 2 and 3 percentage points higher, respectively.

Future job opportunities for low-educated workers are more likely to be in lower-wage industries. In addition to the fall in the overall number of job opportunities for the low-educated, the latter will continue to shift away from sectors that used to offer them relatively high-quality jobs (e.g. manufacturing) and into sectors with lower-quality jobs (e.g. services). These structural shifts are expected to lead to a 1.4% decline in wages for the low-educated, as well as a small increase (1.2%) in the share of low-educated workers in non-standard work.

Education and training will be critical to boost the employability of the low-educated

The low-educated represent a shrinking share of the labour force in Belgium, but this share is larger than in neighbouring countries. In Belgium, the share of low-educated in the population has dropped from 41% in 1998 to 22% in 2018. However, the share of low-educated in Belgium remains higher than in neighbouring countries: 20% in both the Netherlands and France, and 14% in Germany. In addition, important regional differences remain. The share of low-educated in the workforce is considerably higher in the Brussels-Capital Region (28%) and Wallonia (25%) than in Flanders (19%).

The composition of the low-educated has changed significantly over time. In 1998, 50% of the low-educated were women, 15% were migrants and 28% were aged 55-64. In 2018, 47% were women, 33% were migrants, and 36% were aged 55-64. Overall, the low-educated in Belgium are now more likely to be male and, in particular, older and from an immigrant background. These changes mean that policies aimed at promoting better labour market outcomes among the low-educated need to take account of their changing demographic characteristics. Different groups face different challenges.

Migrants represent a particularly vulnerable group who will need special attention. Belgium's share of migrants (20% of the population aged 20-64) is similar to Germany's (21%) but considerably higher than that of France and the Netherlands (14-15%). Moreover, migrants in Belgium tend to be less qualified than in neighbouring countries: 43% of migrants in Belgium from outside the EU have no (formally recognised) secondary qualification, compared to only 32% in the Netherlands, 37% in France and 38% in Germany.

There is significant skills mismatch in Belgium, and most new job opportunities will require at least an upper secondary qualification. Before the COVID-19 crisis hit, the Belgian labour market showed signs of tightness, despite the low (and falling) level of employment among the low-educated. This reflects an important imbalance in skills demand and supply. In Belgium as a whole, there are 30 employed persons with higher education for every unemployed person with higher education. Among the low-educated, there are just under seven employed persons for every unemployed person. An analysis of the existing shortage occupation lists indicates that less than 1% require low-educated workers. The vast majority (nearly two thirds) require an upper secondary qualification. Upskilling would therefore offer significantly better employment opportunities to many low-educated workers in Belgium.

Boosting investments in initial education will need to be accompanied by measures to encourage lifelong learning. Ensuring that all young people leave school with the right skills to quickly find a good job is essential. Too many young people still struggle to find a foothold in the labour market due to poor educational attainment. However, efforts will be needed to ensure that people continue learning even after they have left school. This is an area where Belgium underperforms by international standards, particularly among the low-educated. Participation in adult learning in Belgium (70%) is similar to the EU-28 average, and below participation in France (79%) and the Netherlands (87%). Among low-educated workers, participation in adult learning in Belgium (54%) is below the EU-28 average (60%).

Activation measures need to be better targeted and give more weight to training. Belgium spends a relatively large share of its GDP on active labour market policies to get the unemployed back into work. In 2017, Belgium dedicated 0.88% of GDP to active labour market policies (i.e. excluding spending on passive measures such as out-of-work income maintenance and support, as well as early retirement). This is higher than in France (0.87%), Germany (0.65%) and the Netherlands (0.64%). However, Belgium's spending on active policies is heavily skewed towards measures that are more likely to suffer from large deadweight losses (e.g. employment incentives). Another difference between Belgium and other countries is that it spends comparatively less on training: just 0.14% of GDP, compared to double that in France (0.28%). Yet training can improve employability and could also help address the important skills mismatch that exists in Belgium today.

Policy pointers: Education, training and lifelong learning

Given that many of the low-educated struggle to find work while there is a growing demand for labour in high-skilled occupations, it would be advisable to have a continued focus on boosting the skills of the low-educated through increased investments in both initial education and adult learning, with a particular focus on the most vulnerable. In particular, Belgium should consider:

1. In line with the OECD's "In-Depth Productivity Review of Belgium" (2019[4]) the OECD Economic Survey of Belgium (2015[5]) and the OECD Economic Survey of Belgium 2020 (2020[6]), improve the education outcomes of vulnerable groups by:
    a. Better targeting individualised support on students at risk of dropping out of school;
    b. Avoiding early tracking (i.e. the separation of children into different educational programmes depending on their abilities), which has been shown to have a negative effect on equality and student achievement, especially for those with an immigrant background;
    c. Monitoring and, where needed, reforming school enrolment to reduce the concentration of disadvantaged students in particular schools; and
    d. Improving teacher training and incentives to attract more qualified and experienced teachers to disadvantaged schools.
2. In line with the detailed recommendations set out in the OECD Skills Strategy Flanders (2019[7]), aim to foster a culture of lifelong learning – including by:
    a. Raising awareness of the importance of adult learning;
    b. Making adult learning more accessible and relevant, especially for the low-skilled;
    c. Increasing the flexibility of provision; and
    d. Ensuring that financing for adult learning reaches the groups who could benefit most.
3. Re-balance current spending on activation measures towards more training; and extend the use of statistical profiling by the public employment service in order to target more costly and intensive services at jobseekers who are more at risk of becoming long-term unemployed (OECD, 2020[6]).

Taxes and social security contributions are high in Belgium

Labour costs in Belgium are amongst the highest in the OECD. The challenge for raising the employment rate of low-educated people in Belgium does not lie only in a lack of skills, but also in the cost of hiring to employers. Annual gross labour costs in Belgium for single workers (no children) earning 67% of the average wage[4] were USD 54 408 in 2019 (with equal purchasing power). At that level of wages, only Germany and Switzerland had higher labour costs (USD 56 483 and 56 252, respectively). Labour costs for this group in Belgium were 7% higher than in the Netherlands[5], and 32% higher than in France. They were also higher than in the Nordic countries**.** While Germany may have higher labour costs than Belgium at 67% of the average wage, more low-educated workers earn below that threshold than in Belgium.

One of the reasons for these high labour costs in Belgium is high employer social security contributions. For a single worker without children earning 67% of the average wage, employer social security contributions in Belgium represented 26% of gross earnings in 2019. While employer SSCs are even higher in France (27% of gross earnings), they are significantly lower in Germany (20%). In the Netherlands, employer social security contributions are also much lower than in Belgium, however once compulsory non-tax payments are included this gap is considerably narrowed (though a gap still remains).

Belgium operates a number of reductions in social security contributions for employers, but these could be better targeted. Recent reforms reduced the social security contributions payable by employers. The reductions were greatest for workers with the lowest earnings, however there were also some reductions at the top of the wage distribution. In addition to these "structural" reductions, there are a number of more targeted reductions in employer social security contributions for specific groups – some of which are federal (e.g. reductions for new hires) while others are regional (e.g. reductions for older and younger workers). While these reductions in employer social security contributions may benefit low-educated workers more than other types of workers, there is scope to further improve the targeting of these reductions and minimise deadweight loss.

Policy pointers: Employer Social Security Contributions

Given that employer social security contributions are an important factor in explaining higher labour costs in Belgium, further reductions in employer social security contributions and the better targeting of these reductions on the low-educated/low-wage workers could help lower labour costs and encourage hiring.

4. At the federal level: ensure that any further reforms of the "structural" reduction in employer social security contributions benefits low-wage workers only; and restrict reductions in social security contributions for new hires to low-wage workers only.
5. At the regional level:
    a. Provide reductions for older workers in the case of new hires only (and not for existing workers) and target them increasingly on those on low wages. If possible, such reductions should happen in conjunction with efforts to reduce the impact of seniority-based wages.
    b. Consider re-introducing reductions in social security contributions for low-educated youth.

High labour costs also reflect relatively high negotiated wages

Collectively negotiated wages in Belgium are substantially above the national minimum wage. Labour costs at the national minimum wage in Belgium are in line with those of neighbouring countries. However, in practice, only around 1% of workers earn the national minimum wage and most low-educated workers earn considerably above that. This is because wages for most workers are set in sector collective agreements and, on average, these are an estimated 20% above the national minimum wage. This set-up contrasts with France, for example, where collective agreements seldom raise the minimum wage above the national minimum. Moreover, these sector minimum wages in Belgium rise automatically each year in line with inflation (France and the Netherlands abandoned automatic wage indexation in the 1980s). Finally, high collective bargaining coverage in Belgium (96% – compared just 58% in Germany and 86% in the Netherlands) means that these minimum wages apply to almost the entire workforce.

If wages do not reflect productivity, this could result in lower employment. As long as higher wages reflect higher productivity, the former are justified. However, there is some evidence in the case of Belgium that productivity and wages do not always align, particularly across regions. For example, there is virtually no difference between the earnings distribution of Flanders and that of Wallonia (Chapter 4), despite productivity in Flanders exceeding that of Wallonia by about 14% – a gap which has grown wider over the past 10 years. Where such gaps in productivity and wages arise, the employment prospects of the low-educated are likely to be harmed, particularly in a context of limited inter-regional mobility.

Policy pointers: Wage-setting

Collectively negotiated wages in Belgium have sometimes resulted in wage growth that has exceeded productivity growth. The government has intervened in this process to maintain international competitiveness (e.g. through the wage norm and the suspension of wage indexation).

Similarly, and together with social partners, the government should explore ways of promoting better labour market outcomes for the low-educated by seeking a better alignment between wages and productivity where this may be needed. Amongst others, consideration should to be given to how:

6. Collective agreements could better reflect regional or within-sector productivity differences.
7. Wage indexation could be used more carefully and, if necessary, suspended in situations where there is a clear disconnect between wages and productivity for certain groups of workers.
8. Firms facing economic difficulties might be able to derogate from sector agreements using opt-out clauses – under clear and transparent conditions, and as long as this would result in the preservation/creation of employment.
9. In line with the recommendations of the OECD's *In-Depth Productivity Review of Belgium*, use could be made of "corridor" agreements which set minimum and maximum levels for pay increases that have to be respected at the company level (rather than the current approach where agreements set detailed pay scales by sector).

Any such actions should be taken in tandem with measures to boost the productivity of the low-educated through training and facilitating transitions into new jobs (see above). In addition, any wage losses could be compensated through the greater use of in-work benefits/tax credits, which would also strengthen work incentives (see below).

Work incentives could be improved

Improving the labour market outcomes of the low-educated will also require measures on the supply-side that go beyond investments in skills. Low demand from employers and a lack of skills are only part of the explanation behind poor labour market outcomes for the low-educated in Belgium. Some groups face poor work incentives. For example, if a single parent with two children starts work in Belgium at the minimum wage, 87% of his/her additional earnings will be lost to either higher taxes or lower benefit entitlements. These effective tax rates on participation are considerably lower in France (61%) and in the Netherlands (56%). Work incentives are better in France than in Belgium for all household types (Table 1).

Table 1. Individuals in Belgium face poor work incentives

Effective tax rate on entering employment by household type, 2019 (unemployment duration = 2 months)

Marital Status	Children	Earnings head	Earnings partner	Belgium	France	Germany	Netherlands
Couple	0	67% of AW	Not working	82.3	54.6	71.4	86.7
Couple	2	67% of AW	Not working	78.6	52.9	93.3	84.1
Couple	0	67% of AW	67% of AW	80.9	77.3	83.4	71.9
Couple	2	67% of AW	67% of AW	80.9	67.9	87.1	56.0
Single	0	67% of AW	n/a	93.1	70.7	73.5	77.0
Single	2	67% of AW	n/a	87.0	60.8	82.6	65.8

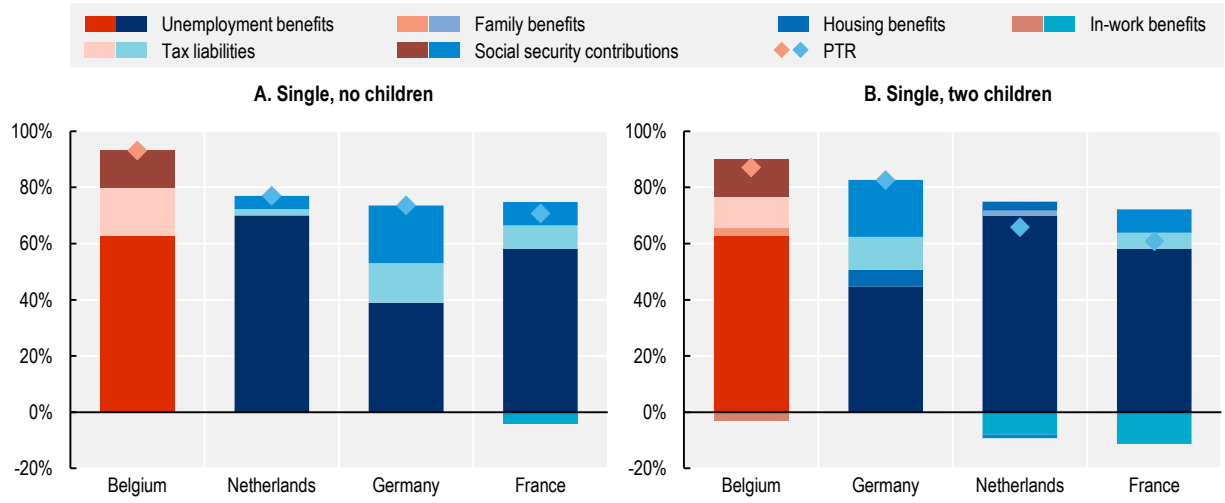
Note: This table shows, for various household types, the share of earnings that are lost either to higher taxes or to the withdrawal of benefits when a person moves from being unemployed into work.
Source: OECD Tax Benefit Model, https://www.oecd.org/social/benefits-and-wages/data/.

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Work incentives can be improved through lower taxes when moving into work, as well as higher in-work benefits. Compared to neighbouring countries France and the Netherlands, the taxes and social security contributions that an individual in Belgium pays when he or she moves into work are considerably higher: 24.5% of gross earnings for a single person with two children earning 67% of the average wage, compared to 14.0% in France and -1.0% in the Netherlands (Figure 7).[6] Belgium introduced a refundable tax credit (the fiscal work bonus) in 2011. For someone earning just under EUR 20 000 per year, the bonus was equivalent to around EUR 800 (or 4% of gross earnings). However, the median low-wage worker would not be eligible to the work bonus because his/her earnings are too high. In France, the *Prime d'activité* is an in-work benefit comprising a lump-sum amount that depends on family composition and a work bonus based on individual earnings. In 2019, an average person earning the minimum wage in France would receive EUR 241 per month in *Prime d'activité*, and a couple with two children EUR 407 per month (DF, 2020[8]). Even someone earning at 67% of the average wage would still be eligible to the *Prime d'activité* (Figure 7). Moreover, in Belgium, second earners face strong tax disincentives to work because income can be transferred between spouses for tax purposes.

Figure 7. High taxes and unemployment benefits contribute to low work incentives in Belgium

Decomposition of the participation tax rate (PRT), as a percentage of gross earnings (single person working full-time at 67% of the average wage)



Source: OECD Tax Benefit Model, https://www.oecd.org/social/benefits-and-wages/data/.

StatLink https://stat.link/eswlk4

The Belgian unemployment benefit system also generates disincentives to work. It is relatively difficult to access unemployment benefits in Belgium. However, once individuals are in receipt, there are fewer conditions imposed on individuals to keep their benefits. In particular, availability requirements are not particularly stringent and individuals have more leeway than in other countries for refusing job offers. In addition, the generosity of unemployment benefits is on the high side in Belgium. The average net replacement rate of income in unemployment of low-paid workers in Belgium is 10% higher than in France and 8% higher than in Germany. In neighbouring countries, the starting replacement rate tends to be lower, and there is also a sharp drop when individuals move on to unemployment assistance. The withdrawal of unemployment benefits when people move into work makes up the main component of the participation tax rate (Figure 7).

In addition to poor work incentives, many low-educated workers in Belgium face barriers to work which they will need help to overcome. Compared to neighbouring countries, a far larger share of non-employment among the low-educated in Belgium is due to disability and caregiving duties. Similarly, even though prime-age low-educated workers in Flanders have very good employment outcomes, this is not the case for older low-educated workers. Efforts aiming to extend working lives will continue to be needed, not just in Flanders but in Belgium as a whole.

Policy pointers: Work incentives and barriers to work

The work incentives facing low-educated workers could be improved and barriers to work addressed. Policy makers may wish to consider the following options:

10. Reduce the number of valid reasons that the unemployed can use for refusing job offers and bring the generosity of unemployment benefits (and out-of-work support more generally) more in line with that of neighbouring countries. Accompany such measures with greater investments in training to improve the job offers that are open to those with few formal qualifications.
11. Increase the value of the work bonus (*werkbonus* / *bonus à l'emploi*) for low-wage workers, ensuring good targeting so that the neediest are reached and programme costs are kept within reasonable limits. Alternatively, consider introducing an in-work benefit to complement or replace the work bonus, or extend the possibility of cumulating unemployment benefits and work income to full-time workers with low earnings.
12. Finance the additional cost of increases in the work bonus by abolishing, reducing or reforming taxes that are regressive (e.g.: VAT reductions that are regressive, property taxation, individual capital income, and the favourable tax treatment of company cars) (OECD, 2020[6]).
13. Reduce or abolish the possibility for couples to transfer a notional amount of income from high-earners to low- (or non-earners) so that second earners do not face high disincentives to work.
14. Leverage high unemployment benefit coverage to reach out and help individuals overcome barriers they face related to work availability (e.g. caring responsibilities).
15. In line with OECD (2018[9]), take further steps to promote longer working lives, including: facilitating phased retirement, rewarding longer careers, and enhancing employment assistance for older jobseekers.

Strict employment protection legislation risks trapping low-educated workers in precarious work

The regulation of individual dismissals of regular workers in Belgium is among the strictest in the OECD. Such regulation is also strict the Netherlands, but less so in France and especially in Germany. Severance pay in particular is high in Belgium.

High employment protection on permanent contracts is unlikely to affect the employment rate of low-educated workers. However, in combination with lax rules on hiring on fixed-term contracts, it is likely to trap such workers in more precarious work. There are relatively few restrictions on hiring on fixed-term contracts in Belgium – particularly compared to France. In France, the valid use of fixed-term contracts is limited to specific cases (there are no such restrictions in Belgium) and also their maximum duration is limited to 18 months (unlimited for the first contract in Belgium). In countries that combine strict employment protection on permanent contracts with less strict regulation on the hiring on temporary contracts, the labour market tends to exhibit duality and workers can get trapped in less stable careers.

Policy pointers: Employment protection legislation

Given the recent rise in the share of low-educated workers hired on fixed-term contracts in some of Belgium's regions, it is advised that the gap in regulation between fixed-term and permanent contracts be narrowed so that employers have greater incentives for hiring workers on permanent contracts.

16. On the one hand, the regulation on the dismissal of regular workers could be eased, in particular by reducing the amount of severance pay that workers are entitled to.
17. On the other hand, more restrictions could be put in place on hiring on temporary contracts, including: *i)* limiting the use of such contracts to specific cases; and *ii)* limiting their maximum duration, including on the first contract.

Additional measures will be needed to cushion the impact of the COVID-19 crisis on low-educated workers

The COVID-19 crisis has hit low-wage, low-educated workers in particular. While it is still very early to assess the full impact of COVID-19 on different labour market groups, the emerging international evidence suggests that vulnerable workers have borne the brunt of the costs (OECD, 2020[10]). Low-paid, often low-educated workers have been particularly affected. On the one hand, many of them ensured the continuation of essential services during the lockdowns, often at a substantial risk of exposing themselves to the virus while working. On the other hand, low earners were: less likely to be able to work from home; more likely to have been working in sectors affected by shutdowns; and more likely to have suffered job or earnings losses. Evidence from Belgium's temporary lay-off scheme (*tijdelijke werkloosheid* / *chômage temporaire*) confirms that the greatest number of benefits were awarded in sectors that employ many low-educated workers (e.g. Services to buildings and landscape activities; Food and beverage service activities; and wholesale trade) (FOD Economie, 2020[11]).

COVID-19 adds more urgency to the measures proposed in the present report, but their sequencing may need to be carefully considered. COVID-19 is likely to lead to a widening of the gap in labour market outcomes between high- and low-educated individuals. To help the low-educated back into work, measures will be required on the demand-side (lower labour costs to encourage hiring) as well as on the supply side (training, job search incentives, and access to re-employment services) – as outlined above. But the sequencing of reforms will be important. For example, it may not be appropriate in the midst of an economic crisis generated by COVID-19 to engage in reforms of employment protection legislation or to reduce the generosity of unemployment benefits – both of which can wait until the crisis subsides. On the other hand, reforms that strengthen work incentives (e.g. reasons for rejecting job offers) should be initiated straightaway, as should training measures that help workers find jobs in areas of high demand. Efforts to reduce labour costs are also high priority, which could take the shape of (targeted) reductions in employer social security contributions. The social partners should make efforts to ensure that low-educated workers are not priced out of the labour market during this difficult time. The judicious use of opt-out clauses in collective agreements and/or reductions in working time could help firms to survive that have become temporarily unprofitable and, hence, to preserve employment.

In addition to the recommendations outlined above, some temporary measures will be needed to support low-educated workers in the short-run. In the initial stages of the crisis, Governments across the OECD have put in place measures to preserve employment. Belgium has used both temporary lay-offs (*tijdelijke werkloosheid* / *chômage temporaire*) and short-time work (*Corona-tijdskrediet* / *crédit-temps corona*). Some of these measures will continue to be needed in the months ahead but, given their heavy burden on public finances, will need to be targeted on those sectors/occupations that continue to face the

greatest difficulties. Indeed, the recovery has been uneven, with activity recovering more in some parts of the economy than in others. There is also a need to ensure that there are strong enough incentives for firms to move off such support and for workers to move on to more viable jobs when activity does pick up. In addition, workers will need help getting back into work, and doing so safely. Good occupational safety and health practices that limit the spread of contagion are a top priority, particularly for low-income workers who more frequently take up jobs that expose them to physical contact and a higher risk of infection. Low-educated workers are often less likely to be able to tele-work, and so targeted measures that provide family care support, part-time leave support and extent the right to flexible working arrangements may also be needed, particularly in the case of further lockdowns. While continuing to provide adequate income support will be important, care will need to be taken that resources are used wisely and targeted through the use of income and asset tests where possible. Finally, Belgium will need to start thinking about how to avoid that the crisis leaves long-term scars on the employment prospects of certain groups hit hardest by the crisis. Specific support packages that include guidance, training, hiring subsidies, etc. may need to be put in place for low-skilled youth in particular.

Policy pointers: COVID-19

The COVID-19 crisis has compounded the challenges facing low-educated workers. While the crisis does not change the main policy pointers to address the structural issues discussed in this report, some additional measures may be required in the short-run to limit the damage of the crisis. Policy makers may wish to consider the following options:

18. Maintain current measures to preserve employment (e.g. temporary lay-offs and short-time work) for as long as necessary, while regularly reviewing the eligibility criteria and differentiating the support across sectors/occupations.
19. Maintain adequate income support for the unemployed, but ensure that individuals have strong incentives to go back to work.
20. If childcare continues to present a barrier for certain individuals to return to work, provide targeted family care and/or part-time leave support (in addition to more general efforts to improve childcare provision), while extending the right to flexible work arrangements.
21. Continue to promote and enforce good occupational safety and health practices to limit the spread of the virus as individuals return to work.
22. Introduce specific support packages for groups of workers hit hardest by the crisis such as low-skilled youth, including: guidance, training, hiring subsidies, etc.

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Notes

[1] At the time of going to press, micro-data from the EU-LFS for 2019 were not yet available so, for consistency purposes, all estimates presented in this report are based on the 2018 EU-LFS. For 2019, aggregate EU-LFS data indicated that, for the age group 15-64, 36.0% of the low-educated were in employment, compared to 38.7% in France, 49.4% in Germany and 61.3% in the Netherlands.

[2] This estimate obtained with the EU-SILC is very similar to the estimate obtained using the Belgian labour Force Survey.

[3] Qualitatively similar results obtain if focusing only on full-time employees. Differences in the distribution of hours worked, and by extension hourly wages, across countries does not, therefore, appear to be a first-order concern when examining differences in the earnings distribution.

[4] The focus is on 67% of the average wage rather than the minimum wage because, in Belgium, the average earnings of low-educated workers are considerably higher than the minimum wage and much closer to 67% of the average wage (in fact, they are slightly above 67% of the average wage).

[5] The labour cost calculations presented in this report do not include non-tax compulsory payments. In both Belgium and Germany, this includes compulsory private insurance against work-related accidents and occupational diseases. In the Netherlands, these labour cost calculations omit compulsory (employee and employer) pension payments as well some contributions to health insurance. If these compulsory payments were included, the gap in labour costs between Belgium and the Netherlands would be greatly reduced, although labour costs would remain higher in Belgium, particularly for some family types (OECD, 2020[12]).

[6] Again, in the case of the Netherlands, these calculations do not take into account compulsory contributions to private pension and health schemes, so the actual differences with Belgium are likely to be smaller.

1 Who are the low-educated in Belgium?

This chapter paints a picture of who the low-educated in Belgium are, how the demographics of this group have changed over time, and how they compare to those with more education. The analysis also assesses to what extent employment outcomes for the low-educated in Belgium can be linked to observable differences in their demographic characteristics compared to the low-educated in neighbouring countries. As in many other countries, the share of low-educated in Belgium has fallen over time, but it remains higher than in the Netherlands, France and especially Germany. The share of low-educated is particularly high among non-EU migrants and older individuals. However, the analysis presented in this chapter shows that these differences in demographics between Belgium and its neighbours are small, and that they cannot explain the differences in employment rates for the low-educated.

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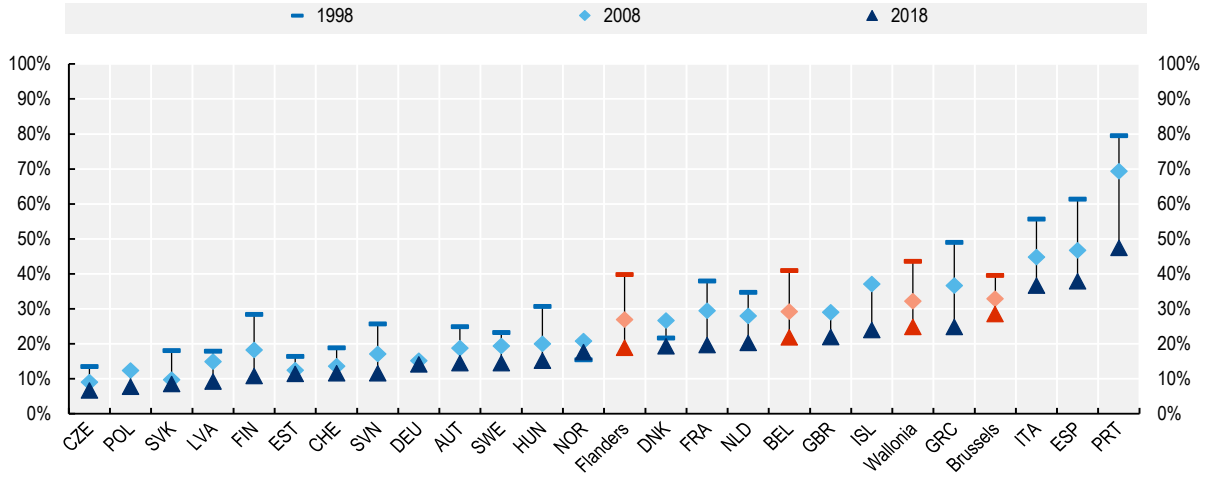
As in many other countries, the share of low-educated in Belgium has fallen over time, from 41% in 1998 to 22% in 2018. It remains higher than in the Netherlands (20%), France (20%) and especially Germany (14%). The share of low-educated is also much higher in Wallonia (25%) and the Brussels-Capital Region (28%) than in Flanders (19%). The share of low-educated is particularly high among non-EU migrants (43%) and older individuals (35%). Compared to its neighbouring countries, Belgium has a slightly higher share of migrants, and of low-educated migrants in particular. However, the analysis presented in this chapter shows that these differences in demographics between Belgium and its neighbouring countries cannot explain the differences in employment outcomes among the low-educated across countries. Differences in policies and institutions are likely to play a more important role (see Chapter 4).

1.1. Belgium has a high share of the population that is low-educated compared to neighbouring countries

The share of the population without an upper-secondary degree in Belgium is slightly above the average for European OECD countries. In 2018, 22% of the population aged 20-64 in Belgium held less than an upper-secondary degree as their highest qualification (Figure 1.1**)**. The European OECD average in 2018 was 19%. France (20%), the Netherlands (20%) and Germany (14%) all had lower shares of low-educated workers than Belgium. In terms of skill levels, the low-educated in Belgium are comparable to their peers in neighbouring countries (Box 1.1).

Figure 1.1. The share of the population with a low education has fallen across OECD countries, but it still represents a significant share of the working-age population

The share of the working-age population (ages 20-64) without an upper-secondary degree



Note: Low education is defined as attaining ISCED levels 2 and below.
Source: European Labour Force Survey (EU-LFS).

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Across the OECD, the share of the population without an upper-secondary degree fell dramatically over the past two decades. On average, across the European OECD members in Figure 1.1, the share of the working-age population with less than an upper-secondary degree fell from 34% to 19% between 1998 and 2018. Belgium is no different, with the share falling from 41% to 22%. Although the decline in the share of the working-age population without an upper-secondary degree is a trend shared by almost all European OECD countries, the low-educated still make up 19% of the population on average. In Belgium, this is equivalent to over a million individuals of working age.

The share of the population without an upper-secondary degree is not uniform across regions within Belgium. In 2018, the share of the population without an upper-secondary degree stood at 19% in Flanders, while for the Brussels-Capital Region and Wallonia, the shares were 28% and 25%, respectively. To put this in perspective, shares in the Brussels-Capital Region and Wallonia were similar to those of Greece and Iceland, while Flanders is more comparable to Denmark, Norway and France.

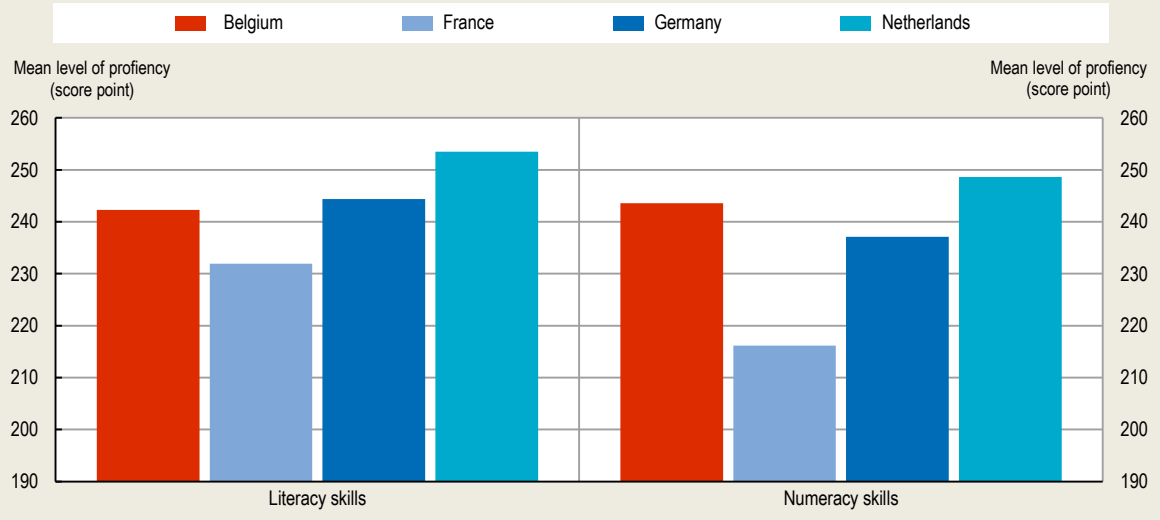
Box 1.1. Are the low-educated in Belgium less skilled than those in neighbouring countries?

One possibility is that the low-educated in Belgium are less skilled than the low-educated in neighbouring countries which, if true, could also partly explain their poorer labour market outcomes. This short box explores this possibility and concludes that the skills of the low-educated in Belgium are about average compared to those in neighbouring countries, and so their poorer labour market outcomes cannot be attributed to lower skills.

The first evidence comes from the Survey of Adult Skills (PIAAC), which tested adults on both numeracy and literacy skills in 2012. The survey only covered Flanders, but it is clear that the skills of the low-educated in Flanders are on a par with those in Germany, slightly lower than those in the Netherlands, and significantly higher than those in France (Figure 1.2).

Figure 1.2. The skills of low-educated in Belgium (Flanders) are relatively high

Literacy and numeracy proficiency by educational attainment



Source: OECD Survey of Adult Skills (PIAAC, 2012), https://www.oecd.org/skills/piaac.

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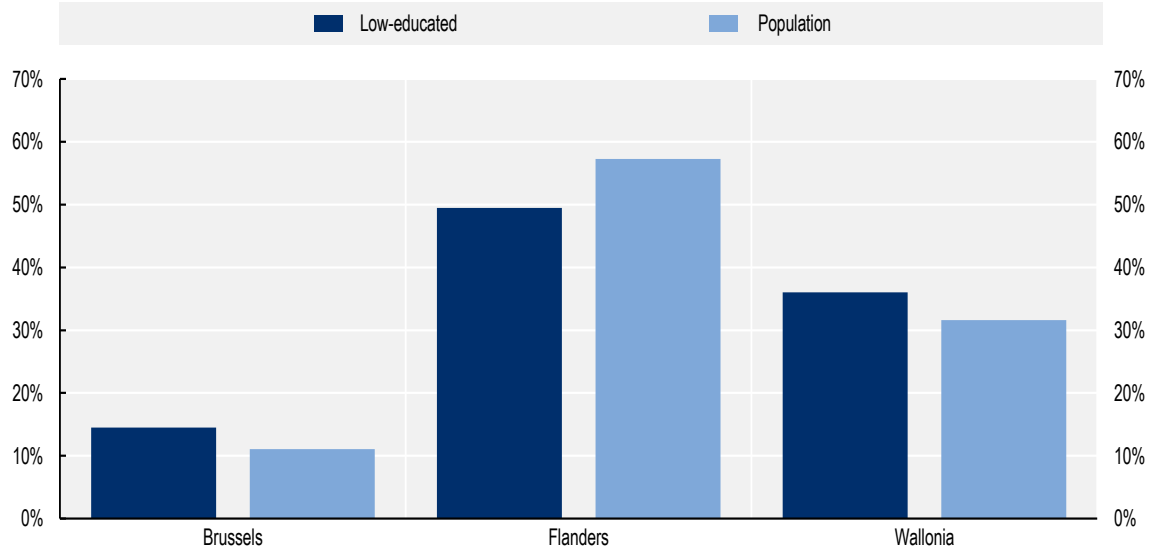
One drawback of the Survey of Adult Skills is that only Flanders participated. One may only speculate, but it is possible that the skills of the low-educated in Wallonia and Brussels-Capital Region may be lower than those in Flanders. Another source of information on skills is the OECD's Programme for International Student Assessment, which measures the reading, mathematics and science knowledge of 15-year-olds across a wide range of countries. These tests are of students, so they will not reflect the skills of adults in the labour force. Moreover, the latest PISA tests are for 2018, and so the majority in this cohort will not have entered the labour market yet. However, anyone tested in 2015 and before would, by now, be aged 20 or above. Averaging the scores for all the years that PISA was run prior to 2018 (i.e. 2000, 2003, 2006, 2009, 2012 and 2015) shows that students in Belgium perform better than those in France and Germany in both reading and mathematics, but less well than those in the Netherlands. In Science, Belgian students do slightly better than those in France, but less well than those in Germany and the Netherlands. These PISA scores reflect the performance of all students, not just the low-educated. However, further evidence suggests that the share of low-achieving students in Belgium is similar to that in neighbouring countries (OECD, 2019[1]).

1.1.1. Most of the low-educated are located in Flanders, but they are over-represented in Wallonia and the Brussels-Capital Region

The distribution of the low-educated is not equal across regions in Belgium. In 2018, 49% of the population without an upper-secondary degree resided in Flanders compared to 36% in Wallonia and 11% in the Brussels-Capital Region (Figure 1.3). This partly reflects the distribution of the overall population across regions. In 2018, 57% of the general population resided in Flanders while 32% lived in Wallonia and 11% in the Brussels-Capital Region. In fact, the low-educated are slightly under-represented in Flanders and over-represented in Wallonia.

Figure 1.3. Just under half of the low-educated in Belgium are located in Flanders

The distribution of the low-educated and the population across regions in Belgium, 2018



Note: The population is defined over ages 20-64. Low-education is defined as ISCED levels 2 and below.
Source: European Labour Force Survey (EU-LFS).

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The distribution of the low-educated has slowly shifted away from Flanders and towards Wallonia and the Brussels-Capital Region over the last 20 years. In 1998, 57% of the low-educated resided in Flanders, 34% in Wallonia and 9% in the Brussels-Capital Region. This shift occurred even though the population distribution remained largely stable. The overall share of the population without an upper-secondary qualification has declined over the past 20 years, but the decline has been swifter in Flanders.

1.2. Each generation is getting more education, driving down the share without an upper-secondary degree

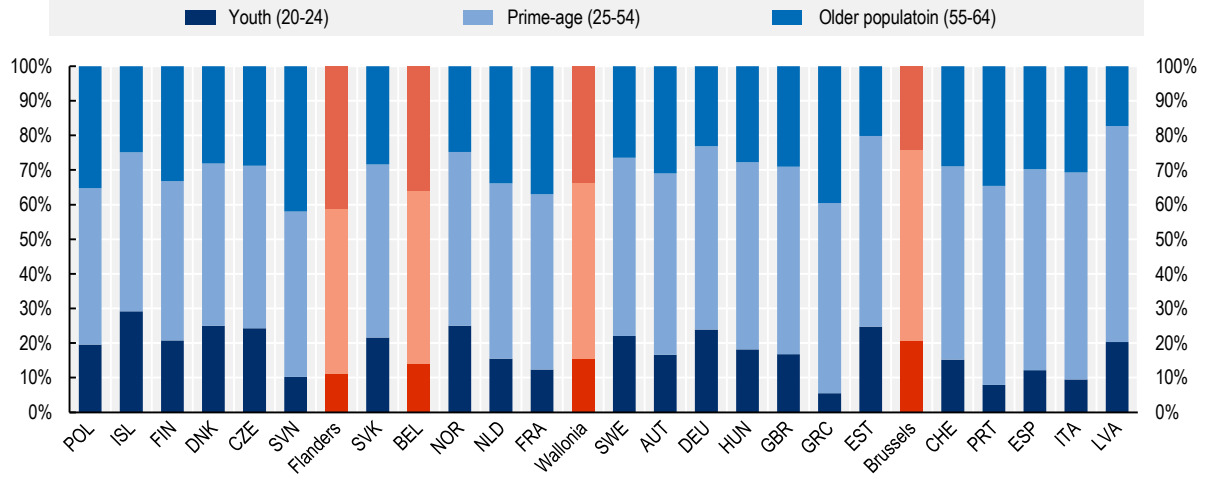
The majority of the low-educated in Belgium are prime age. The population aged 25-54 made up nearly 50% of the low-educated in 2018 (Figure 1.4). Another 14% were young (20 to 25) and 36% were older (55 to 64).

The low-educated in Belgium are older compared to those in other European OECD countries. On average, across European OECD countries, the share of the low-educated who are prime working-age is 53%. Belgium's share (50%) is lower than in the Netherlands (51%), France (51%) and Germany (53%). In contrast, the share that is old (55-64) in Belgium is slightly above the European OECD average and the share that is young (20-24) is below average. The distribution of the low-educated across age groups in Belgium suggests that younger cohorts are more likely than older cohorts to have completed an upper-secondary qualification.

Belgium's higher share of older low-educated is due to older cohorts in Belgium being less likely to complete an upper-secondary qualification compared to neighbouring countries. In 2018, among OECD countries in the sample, 27% of the population aged 55-64 lacked an upper-secondary degree, compared to 35% in Belgium (Figure 1.5). Shares in neighbouring countries were 14% in Germany, 32% in France and 30% in the Netherlands. In Flanders and Wallonia, 33% and 37% of 55-64 year-olds, respectively, did not have an upper-secondary degree. In the Brussels-Capital Region, the equivalent was 43%.

Figure 1.4. Belgium has a relatively low share of prime-age low-educated

Age distribution of the low-educated, 2018

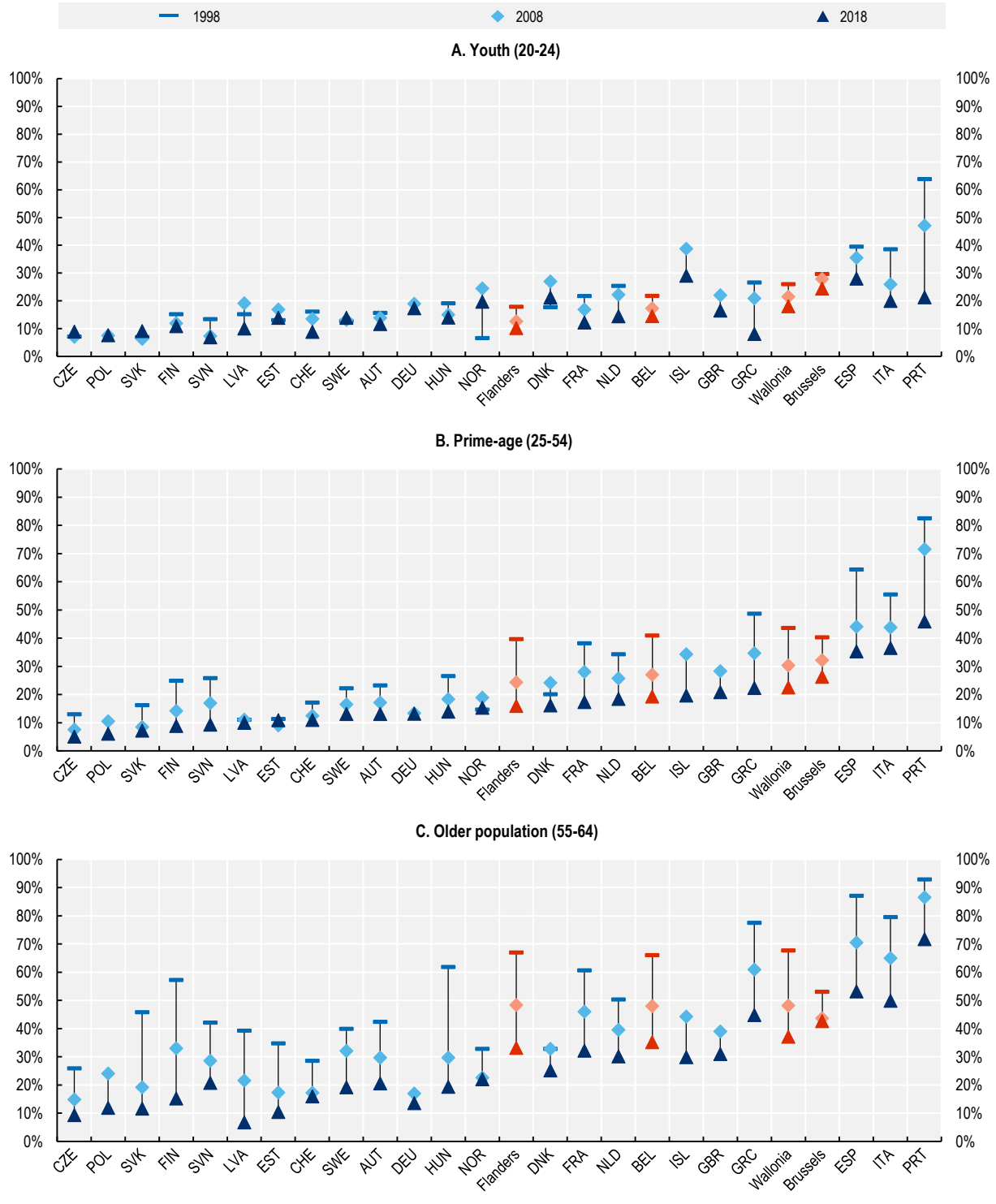


Note: Countries and regions are sorted by the share of low-educated who are prime-age (24-54). Low-education is defined as ISCED levels 2 and below.
Source: European Labour Force Survey (EU-LFS).

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Figure 1.5. The low-educated population is ageing across European OECD countries

Share of the population without an upper-secondary degree by age, 1998, 2008 and 2018



Note: Low education is defined as ISCED levels 2 and below.
Source: European Labour Force Survey (EU-LFS).

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The ageing of the low-educated population suggests that some of the decline in the employment prospects of the low-educated is mechanical. Across European OECD countries, younger workers are now more likely to achieve an upper-secondary qualification. Those who still fail to graduate with an upper-secondary qualification likely have different ability or family circumstances compared to those who did not gain an upper-secondary degree a few decades earlier. Thus, it is not unreasonable to suspect some degradation in labour market prospects for the low-educated simply through this selection effect.

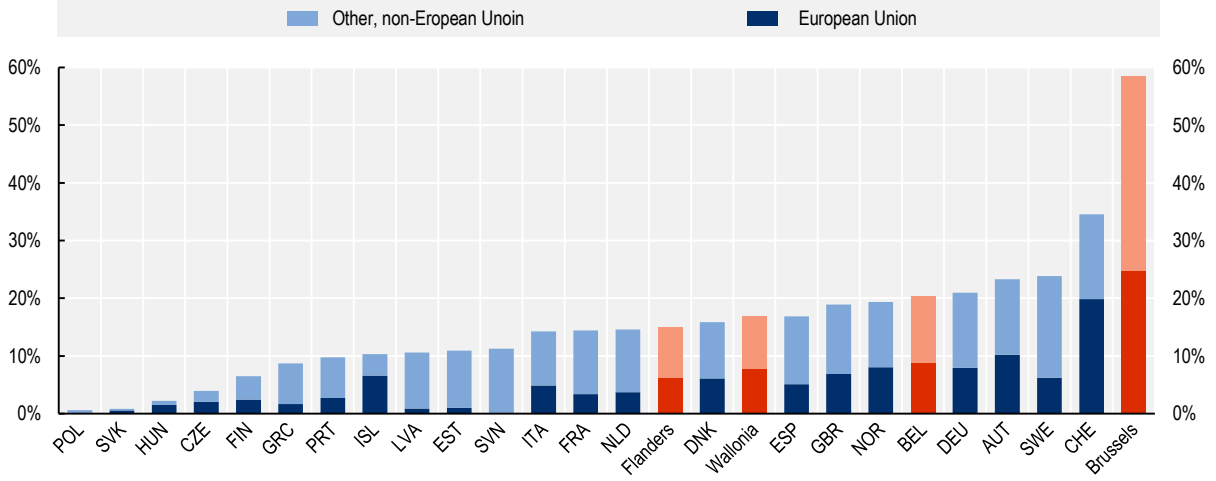
1.3. Belgium has a relatively high share of migrants and they are less likely to have an upper secondary qualification

The share of migrants living in Belgium is slightly higher than in other European OECD countries. Across all European OECD countries, migrants comprise a little over 15% of the population aged 20-64, compared to 20% in Belgium (Figure 1.6). Among neighbouring countries, Germany (21%) has a slightly higher share of migrants, while both France (14%) and the Netherlands (15%) have lower shares.

In OECD countries, but particularly in European OECD countries, migrants have less education than their native-born peers. Migrants face unique challenges in the labour market: they may not perfectly master the local language, and the qualifications they have obtained may receive less (or no) recognition. However, the employment rate of low-educated migrants is not always lower than that of their native-born peers. Only about 50% of OECD countries have employment rates for low-educated natives which exceed those of the low-educated migrants (OECD/European Union, 2018[2]). In Belgium, employment rates for low-educated natives (47%) only slightly exceed those of migrants (45%).

Figure 1.6. Belgium has a high share of migrants compared to other European OECD countries

Share of non-native population (aged 20-64) by birth place, 2018



Note: Countries and regions are sorted by their overall share of migrants. Migrants are classified by whether they were born within a European Union country before migrating to Belgium, or in another, non-European Union country.
Source: European Labour Force Survey (EU-LFS).

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Among Belgian regions, the Brussels-Capital Region in particular has a large share of migration (59% of its population aged 20-64). In comparison, Flanders and Wallonia straddle the average of European OECD countries. Slightly less than 15% of the population of Flanders are migrants and 17% in Wallonia.

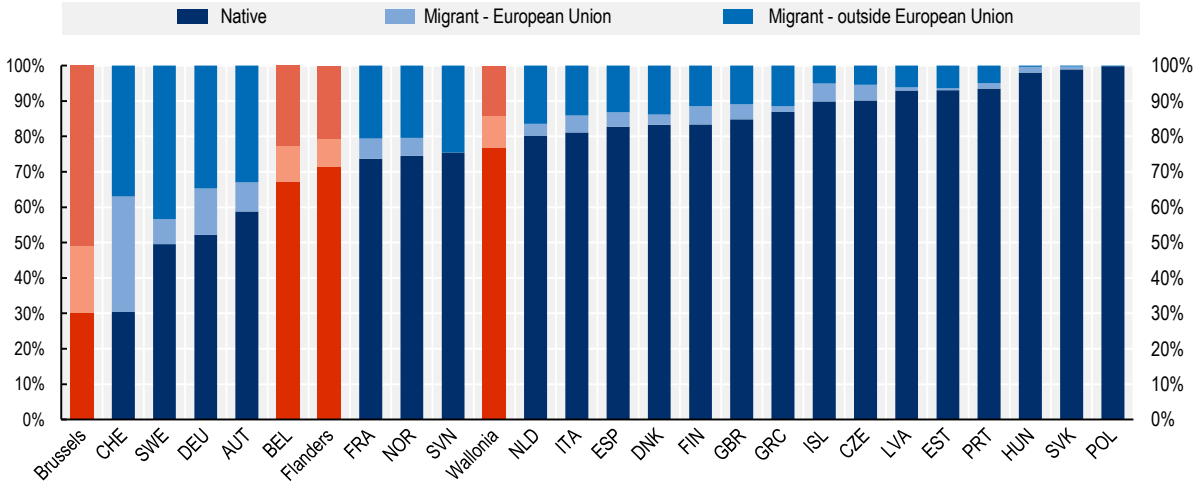
Migration in Belgium is relatively balanced between migrants from within the EU and those from outside the EU. The Brussels-Capital Region is again the exception, with almost 25% of its population coming from other countries within the EU and about 33% coming from outside the EU. This compares to a little over 6% for EU migration and slightly less than 10% for migration from outside the EU on average among OECD European countries. Flanders and Wallonia have shares of EU and non-EU migrants roughly in line with the European OECD average. A key focus of employment policy in the Brussels-Capital Region should therefore be on the better integration of migrants in the labour market (Chapter 2).

1.3.1. The low-educated are disproportionately likely to be migrants

In 2018, 33% of the low-educated in Belgium were migrants, with 23% coming from outside of the European Union. In Germany, 48% of the low-educated were migrants compared to 26% in France and 20% in the Netherlands (Figure 1.7). The share of migrants from outside the European Union was 35% in Germany, 21% in France and 16% in the Netherlands. Belgium has a higher share of migrants among the low-educated than the Netherlands and slightly higher than France, but lower than Germany.[1]

Figure 1.7. A high share of the low-educated in Belgium are migrants

Distribution of the low-educated by migration status, 2018



Note: Population aged 20-64 with a low education (ISCED levels 0-2). Countries and regions are sorted by share of the low-educated population who are native born. Migrants are classified by whether they were born within a European Union country before immigrating to Belgium, or other, non-European Union country.
Source : European Labour Force Survey (EU-LFS).

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Within Belgium, the Brussels-Capital Region stands out with the highest shares of the low-educated who are migrants. In the Brussels-Capital Region, 70% of the low-educated are migrants compared to 29% in Flanders and 23% in Wallonia. In fact, just over 50% of the low-educated in the Brussels-Capital Region were born outside of the European Union compared to 21% in Flanders and 14% in Wallonia. Policy issues surrounding the low-educated in the Brussels-Capital Region are inextricably linked to migration policy and the integration of migrants, whereas this appears to be relatively less important in Flanders or Wallonia.

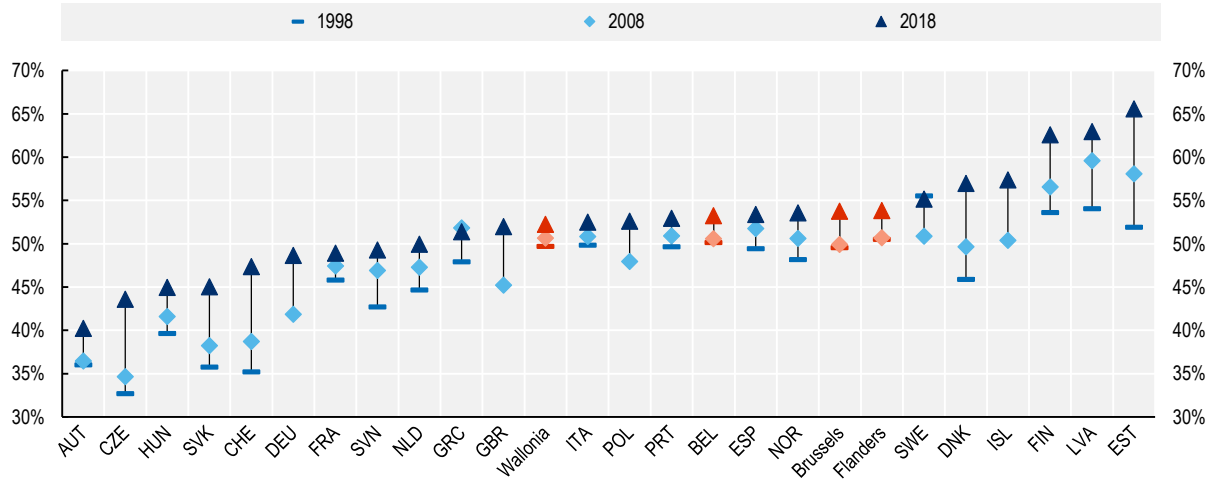
1.4. The majority of the low-educated in Belgium are now men

A majority (53%) of the low-educated population in Belgium are men. This share is the same as the average among European OECD countries. Across regions in Belgium, there is little variance in the share of the low-educated who are men. In Flanders the share of the low-educated who are men stood at 54% in 2018, compared to 52% in Wallonia and 54% in the Brussels-Capital Region. Compared to neighbouring countries, Belgium has a higher share of the low-educated who are men. In France, the Netherlands and Germany, the share of the low-educated who are men stood at 49%, 50% and 49%, respectively (Figure 1.8). As with the other demographic characteristics, the differences between Belgium and its neighbouring countries are small, casting some doubt on how much of the difference in low-educated employment rates they can explain (Box 1.2).

The past 20 years has seen a small and gradual shift in the composition of the low-educated from women to men. In 1998, 50% of the low-educated in Belgium were men, which rose to 51% in 2008. The same broad trend – though at a faster pace – held across European OECD countries, with the average share of men among the low-educated rising from 46% in 1998 to 52% in 2018. Even among countries neighbouring Belgium (France, Germany) where women still make up a majority of the low-educated, men comprise a slowly increasing share of the low-educated.

Figure 1.8. The majority of the low-educated in Belgium are now men

Share of low-educated who are men, 1998, 2008 and 2018



Note: Population aged 20-64 with a low education (ISCED levels 0-2). Countries and regions are sorted by the share of the low-educated population who are men in 2018.
Source: European Labour Force Survey (EU-LFS).

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1.5. Household composition and childcare may affect employment rates among the low-educated

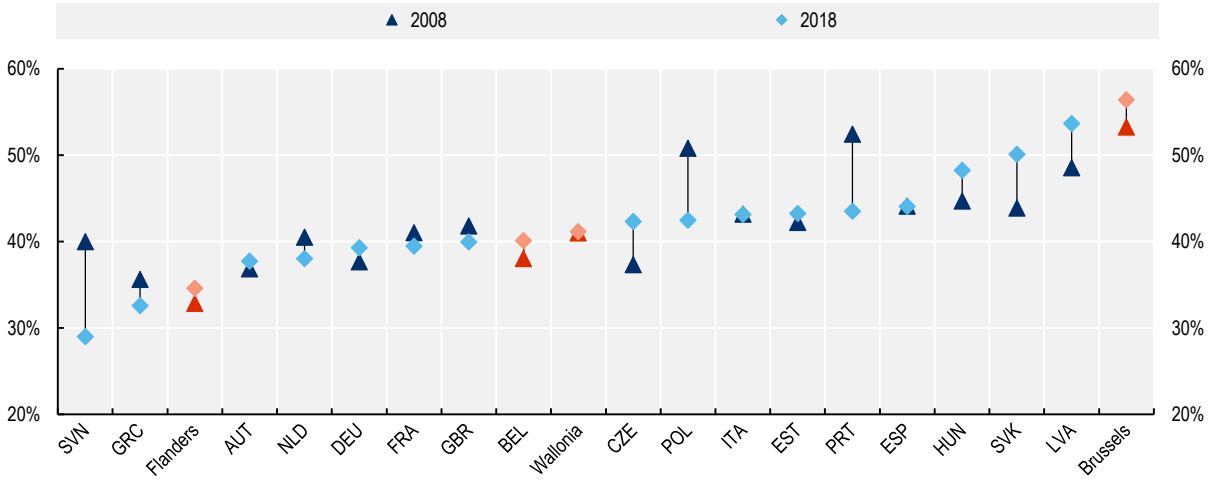
One issue known to suppress labour supply and employment rates, particularly for women, is childcare. If individuals find it difficult to find adequate, reasonably priced child care, it may make sense for them to stay home and care for children rather than enter the labour market (OECD, 2012[3]). There are at least two indicators for childcare as a detriment to labour market participation. The first is the design and

adequacy of the childcare system in any given country. The second is the underlying fertility rate, and whether the share of households with children has changed in any meaningful way.

Among the low-educated, the Brussels-Capital Region has the highest share of households with children. For the Brussels-Capital Region it is 56% while Wallonia finds itself around average among European OECD countries in the sample with 41%. This compares to an average of just 35% in Flanders, which is among the lowest of countries in Figure 1.9.

Figure 1.9. The share of households with children present has not changed appreciably over the past 10 years in Belgium

Share of households with a low-education and children present, 2008 and 2018



Note: Population aged 20-64 with a low education (ISCED levels 0-2). The share is defined as any household with persons present under the age of 15. Countries and regions are ranked by the share of households with children present in 2018.
Source: European Labour Force Survey (EU-LFS).

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Across countries, but within education groups, there is not a lot of variation in the share of households with children. On average, the higher the education of the household head, the more likely the household is to have children present. Thus, households headed by someone without an upper-secondary degree are less likely to have children present than households headed by someone with a higher level of education. Finally, there is little variation over time and within countries. On average the share of households with a child has moved very little over the past ten years falling from 42.2% to 41.6% between 2008 and 2018. Most of the drop is accounted for by countries in Eastern Europe.

Box 1.2. The lower employment rate among the low-educated in Belgium compared to neighbouring countries cannot be explained by differences in demographic composition

This chapter is concerned with building a demographic picture of the low-educated in order to get a broad sense of what groups will be most affected by any policy changes. A second, and equally important question is how the demographic composition of the low-educated in Belgium might contribute to the lower employment rate for the low-educated compared to neighbouring countries. The subject of employment rates and labour market outcomes for the low-educated are addressed in Chapter 2. Using a shift-share framework, this box pulls together the various demographic dimensions discussed in this

chapter to determine to what extent they help explain lower employment rates for the low-educated in Belgium compared to neighbouring countries.

To do this, the analysis focuses on the following decomposition of the difference in employment rates between Belgium and neighbouring countries:

$$y_b - y_g = \sum_i y_{i,b}\left(w_{i,b} - w_{i,g}\right) + \sum_i w_{i,g}\left(y_{i,b} - y_{i,g}\right),$$

where y_b is the employment rate for the low-educated in Belgium in 2018, and $y_g$is the corresponding employment rate for each of Germany, France and the Netherlands. The shift-share proceeds by partitioning the low-educated population into one of 48 cells (indexed by *i)* according to the demographic profile of the low-educated population for each country. The cells are defined by age group (prime-age, older working age), migration status, gender, presence of children in the household, and urban/rural location of the household. For each cell in each country, a corresponding employment rate ($y_{i,b}$, $y_{i,g}$) and population share ($w_{i,b}$, $w_{i,g}$) of that cell is calculated. The shift-share decomposes the difference in employment rates into the part that is attributable to the different demographic composition ($\sum_i y_{i,b}\left(w_{i,b} - w_{i,g}\right)$) of the low-educated across countries, as well as the within-cell difference in employment rates ($\sum_i w_{i,g}\left(y_{i,b} - y_{i,g}\right)$).

The results indicate that Belgium's demographics do not contribute to lower employment rates among the low-educated compared to neighbouring countries. Compared to Germany, differences in composition account for a little more than 10% in the difference in employment rates. Compared to France, Belgium's demographic differences play no role, and compared to the Netherlands, the Belgium's demographics actually act to increase employment rates among the low-educated compared to the counterfactual case where Belgium had the same demographic profile of the Netherlands among the low-educated.

The intuition for the result, which is clear from the rest of this chapter, is Belgium's demographics do not deviate appreciably from its neighbours. One area in which it does, and which is important for employment rates, is the gender composition of the low-educated population. Men are much more likely to be employed than women, and Belgium has a high relative share of the low-educated who are male, which helps to increase predicted employment rates.

1.6. The low-educated in Wallonia are disproportionately located in rural areas

The low-educated in Belgium are more likely to be located in towns and suburbs with medium density. Figure 1.10 shows the distribution of the low-educated across various geographies ranked by their degree of population density.[2] Compared to neighbouring countries, Belgium has a relatively high share of the low-educated living in medium-density towns and suburbs. In 2018, 56% of the low-educated in Belgium lived in suburbs and towns compared to 42% in Germany, 23% in France and 35% in the Netherlands. Even compared to all European OECD countries, Belgium has the highest share of the low-educated living in suburbs and towns of medium density.

The concentration of the low-educated in Belgium in suburbs and towns leaves very small shares in cities or rural areas. With 34% of the low-educated located in cities and 10% located in rural areas with low density, Belgium has the lowest share of the low-educated living in these urban geographies compared to neighbouring countries. The Netherlands has the highest share of the low-educated in cities (54%), and France has the highest share in rural areas (34%).

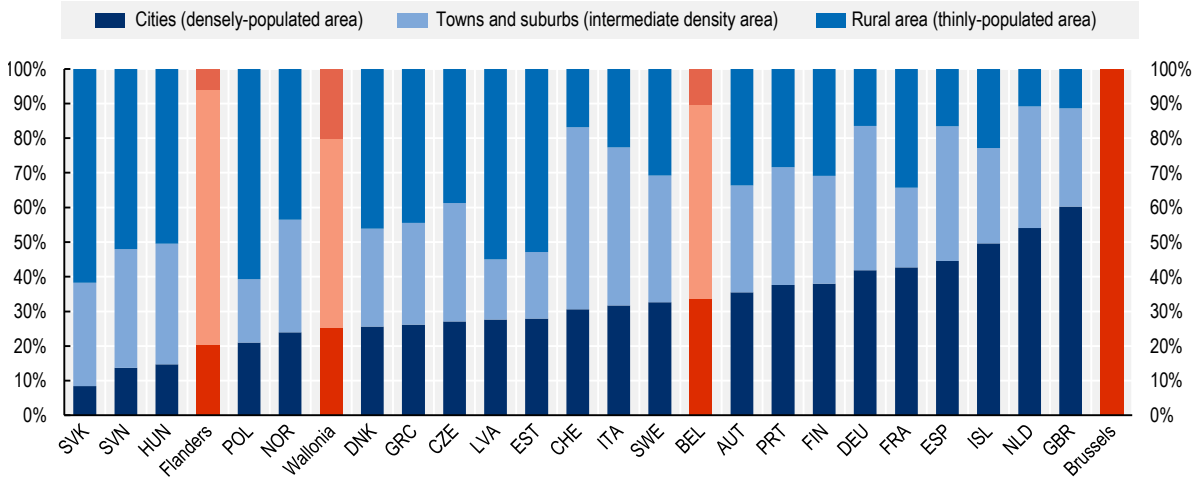
The distribution of the low-educated across urban geographies is not uniform across regions in Belgium. This is obviously the case with the Brussels-Capital Region, which lies entirely within an urban geography,

and therefore all low-educated in the Brussels-Capital Region live in a high density urban environment. More interesting is the case of Flanders and Wallonia. Flanders and Wallonia have relatively similar shares of the low-educated living in cities. Where they diverge is the shares in rural areas versus suburbs and towns with medium density. Flanders has 74% of the low-educated living in suburbs and towns compared to 55% in Wallonia. Wallonia has 20% of the low-educated living in rural areas compared to just 6% in Flanders. Compared to other regions in Belgium, the low-educated are much more concentrated in rural areas in Wallonia.

Rural areas present particular challenges for accessing jobs and essential government services. Across OECD countries, cities have been engines of firm creation and job growth over the past 20 years (OECD, 2019[4]). Rural areas, which tend to have less access to public transportation networks and broadband, and may have more difficulty accessing government employment services, have often seen lagging employment rates due partially to their geography (OECD, 2018[5]). Wallonia, with its higher share of the low-educated concentrated in a rural setting, presents a further challenge for the low-educated based simply on the existing composition of urban geography.

Figure 1.10. A high share of the low-educated are located in towns and suburbs in Belgium

Distribution of low-educated across urban geography, 2018



Note: Population aged 20-64 with a low-education (ISCED levels 0-2). Countries and regions are sorted by share of the low-educated in cities. Cities are defined as administrative units where at least 50% of the population lives in a 1km^2 grid with at least 1 500 inhabitants, and the city has at least 50 000 inhabitants total. Rural areas are defined as areas where more than 50% of the population living in an area with less than 300 inhabitants per 1km^2. Towns and suburbs fall in the middle by density and have at least 5 000 in habitants.
Source: European Labour Force Survey (EU-LFS).

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Notes

[1] For a comprehensive overview of the employment prospects of people of foreign origin in Belgium see (UNIA/FOD, 2020[6]). The report uses a more comprehensive definition of migrants and the foreign born than this report, which uses place of birth to facilitate cross-country comparability.

[2] Definitions of urban geography are based on the EuroStat definitions. Cities are defined as administrative units where at least 50% of the population lives in a 1km^2 grid with at least 1 500 inhabitants, and the city has at least 50 000 inhabitants total. Rural areas are defined as areas where more than 50% of the population living in an area with less than 300 inhabitants per 1km^2. Towns and suburbs fall in the middle by density and have at least 5 000 in habitants.

2 The labour market outcomes of the low-educated

This chapter reviews the labour market outcomes of the low-educated in Belgium, focusing on both job quantity and job quality aspects. The employment rate of the low-educated is very low compared to neighbouring countries, which is due in particular to a very low participation rate. There are also important regional differences in these outcomes. By contrast, job quality for the low-educated in Belgium is relatively high compared to neighbouring countries. The low-educated in Belgium who are in work enjoy relatively high wages and are less likely to be in non-standard work compared to their peers in neighbouring countries.

This chapter reviews the labour market for low-educated workers in Belgium. It focuses on two dimensions: job quantity and job quality. Along the job quantity dimension, Belgium has low employment rates for the low-educated, and unemployment rates which place it around the average compared to other European OECD countries. The dissonance between the two indicators can be explained by high rates of the population who leave the labour force due to disability or illness, and an elevated share of early retirement.

The overall picture of job quantity masks divergent labour market outcomes for the low-educated at the regional level. When restricting to just prime-age workers, the employment rate for the low-educated in Flanders is one of the highest among European OECD countries and its unemployment is one of the lowest. The corresponding employment and unemployment rates in Wallonia and the Brussels-Capital Region are among the worst in Europe.

Job quality for the low-educated in Belgium is relatively high compared to neighbouring countries. The low-educated in Belgium who are employed enjoy relatively high wages and low levels of non-standard work (temporary contracts, part-time work, and self-employment). There is much less regional variation in job quality than there is in job quantity. Earnings are relatively equal across regions, though Flanders enjoys somewhat lower levels of non-standard work and involuntary part-time employment.

2.1. Belgium has low employment rates, but there are important regional differences

2.1.1. Employment rates in Belgium are low

Employment rates in Belgium are low, especially compared to neighbouring countries. In 2018, the employment rate[1] for those aged 20-64 was 70.0%. For comparison, France had a slightly higher employment rate of 71.1%, while the rates in the Netherlands (79.3%) and Germany (79.8%) were significantly higher (Figure 2.1).

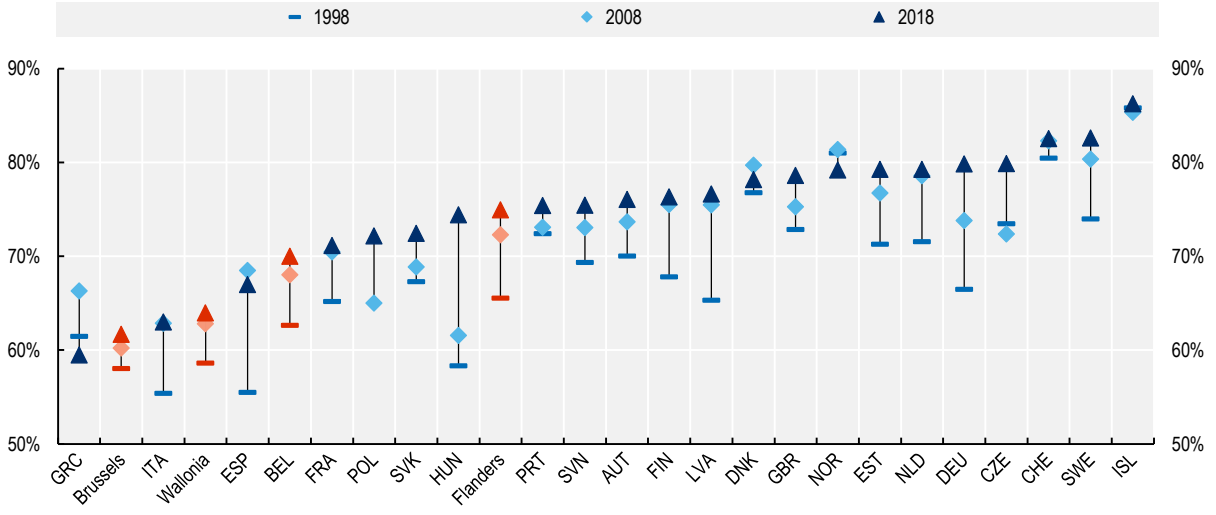
Although Belgium's employment rate is low in comparison to neighbouring countries, it has risen substantially over the past two decades. In 1998, the employment rate for Belgium stood at 62.6% increasing to 68.0% in 2008 and then to 70.0% in 2018. The increase of 7.4 percentage points over the period 1998 to 2008 exceeded the 6.2 percentage point average increase for the European OECD countries in the sample. The 2 percentage point increase in Belgium between 2008 and 2018 was equal to the increase across European OECD countries in the sample.

Looking deeper at the three main regions in Belgium, Flanders (74.9%) has a significantly higher employment rate than Wallonia (63.9%) and the Brussels-Capital Region (61.7%). The employment rates of Wallonia and the Brussels-Capital Region are comparable to those of the poorest performing European OECD countries, while the employment rate in Flanders is similar to the average for European OECD countries (75.4%).

The gap between the regions in Belgium has increased over time. In 1998, the employment rate in Flanders stood at 65.5% which was 6.9 percentage points higher than in Wallonia and 7.5 percentage points higher than in the Brussels-Capital Region. By 2008, that gap had widened to 9.5 percentage points between Flanders and Wallonia and 12.1 percentage points between Flanders and the Brussels-Capital Region. The gap widened further between 2008 and 2018 although more modestly, to 11.0 (Wallonia) and 13.3 (the Brussels-Capital Region) percentage points, respectively.

Figure 2.1. Belgium has low employment rates

Employment rates (persons 20-64) in 1998, 2008 and 2018



Source: European Labour Force Survey (EU-LFS).

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2.1.2. Employment rates are even lower among the low-educated

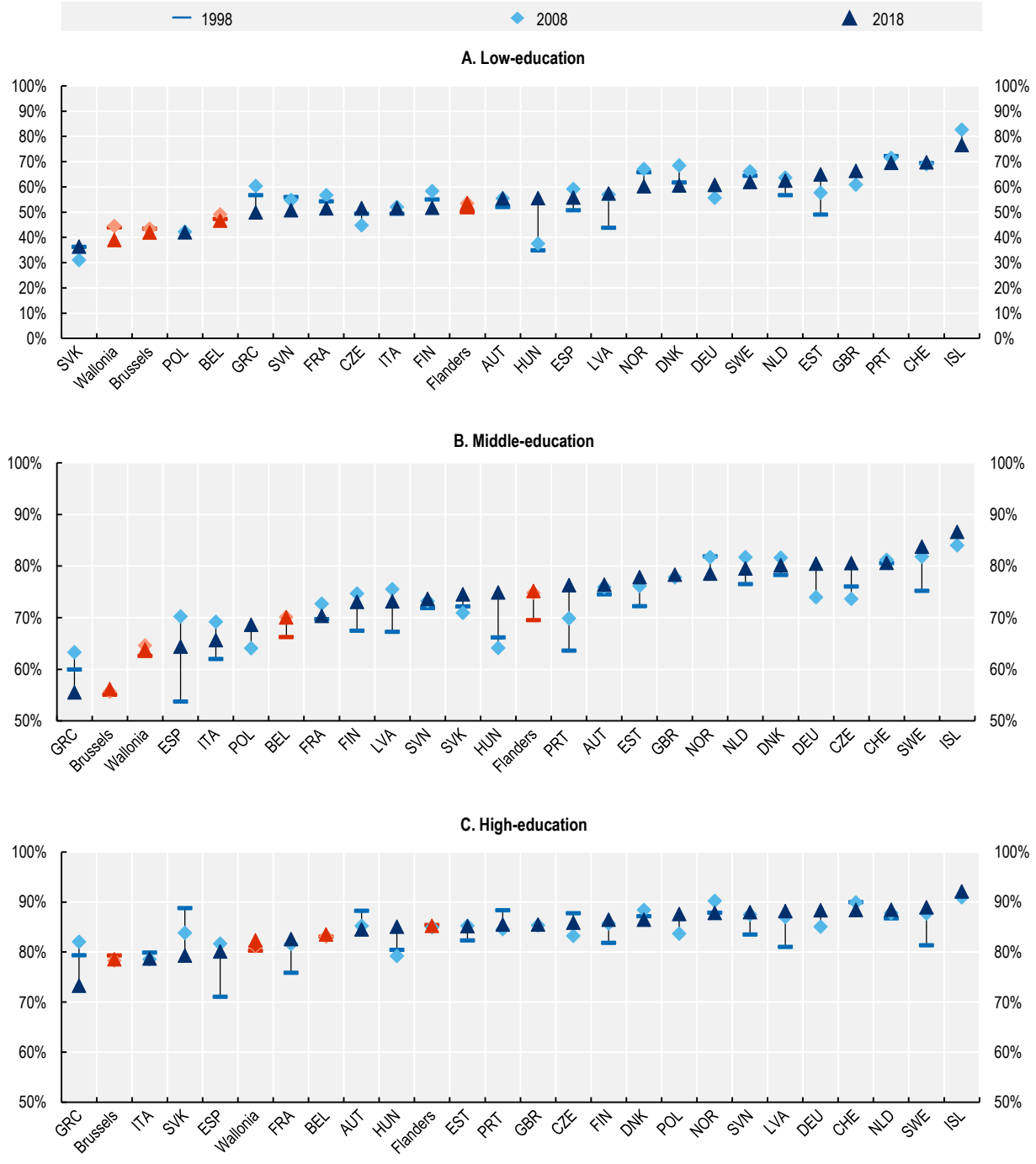
Employment rates tend to be lower among the low-educated. For European OECD countries in 2018, the employment rate among the low-educated was 57.0% compared to 74.9% for workers with at least an upper-secondary degree, and 85.2% for those with a tertiary degree (Figure 2.2).

Belgium has one of the lowest employment rates among the low-educated. At 46.6%, the employment rate for the low-educated in Belgium is higher only than that of the Slovak Republic and Poland. By contrast, Iceland and Switzerland achieve employment rates for the low-educated of 76.6% and 69.8%, respectively. Neighbouring countries Germany, the Netherlands and France have rates of 60.8%, 62.6% and 51.6%, respectively – all significantly higher than in Belgium.

The employment rate of the low-educated also varies significantly within Belgium. Wallonia (38.9%) and the Brussels-Capital Region (41.9%) have some of the lowest employment rates compared to OECD countries in the sample. Flanders has higher employment rates among the low-educated (53.6%), though it too lags neighbouring countries.

Figure 2.2 Employment is low in Belgium across education groups but particularly among those without a tertiary degree

Employment rates (persons 20-64) by education in 1998, 2008 and 2018



Note: Low-education refers to ISCED levels 0-2; middle-education to ISCED levels 3-4; and high-education to ISCED levels 5 and above. Countries and regions are sorted by ascending employment rate in 2018 for each education level, starting with the low-educated.
Source: European Labour Force Survey (EU-LFS).

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Perhaps most concerning is the drop in employment rates among the low-educated in the Brussels-Capital Region and Wallonia over the past 10 years. Since 2008, employment rates overall have grown in Belgium, but that growth has not filtered down to the low-educated. Employment rates for the low-educated have fallen by 2.5 percentage points in Belgium. They remained mostly stable in Flanders, but fell by 1.5 percentage points in the Brussels-Capital Region and by 5.5 percentage points in Wallonia.

2.2. Low unemployment rates in Flanders further reveal the regional divide in labour market performance

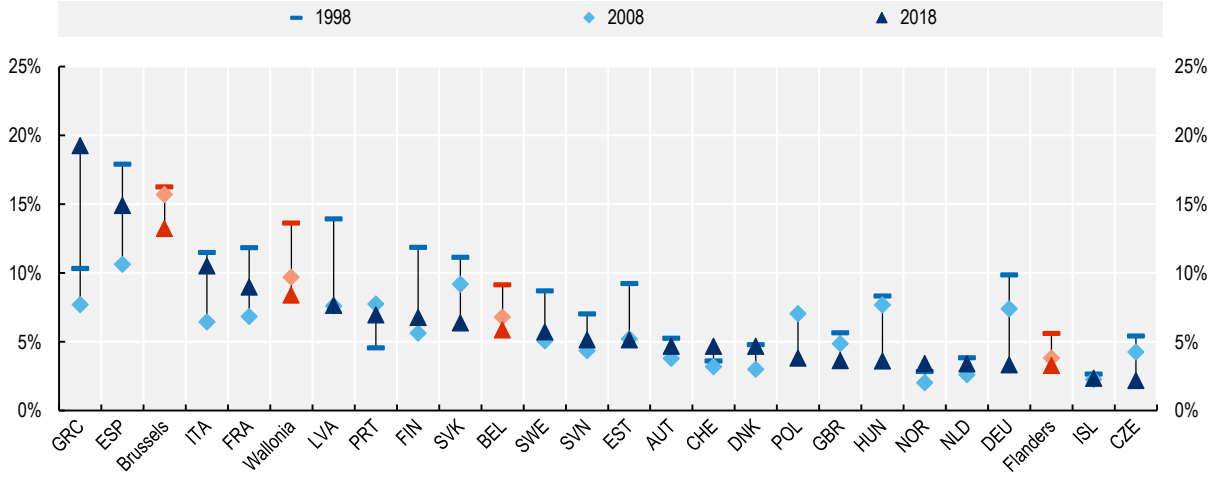
Employment rates are a robust guide to the underlying health of the labour market but they have some drawbacks. The employment rate makes no distinction between people who are looking for work and those who are not. The downside to this approach is that there are groups who quite clearly would not accept a job in any short time-span. Retired persons, people whose primary occupation is caregiving, and students are groups who are unlikely to consistently and actively seek employment. Countries with particularly generous retirement and education systems, for example, will tend to report lower employment rates even though their underlying labour markets may be performing well. Looking at unemployment rates, particularly side-by-side with employment rates, helps to remedy this problem.[2]

2.2.1. The unemployment rate in Belgium is average, indicating that high non-employment is primarily due to inactivity

In 2018, the unemployment rate in Belgium stood at 5.8%, which was 3.3 percentage points lower than in 1998 and 0.9 percentage points lower than in 2008 (Figure 2.3). While Belgium's employment rate puts it towards the lower end of European OECD countries in the sample, the unemployment rate puts Belgium solidly in the middle of the pack. The unemployment rate in Belgium is slightly lower than in France, but it significantly lags the Netherlands and Germany who have some of the lowest unemployment rates of OECD countries in the sample (3.4% and 3.3%, respectively).

Figure 2.3. Belgium's unemployment rate is average for European OECD countries

Unemployment rates (persons 20-64) in 1998, 2008 and 2018



Note: Countries and regions sorted by the unemployment rate in 2018.
Source: European Labour Force Survey (EU-LFS).

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The unemployment rate in Belgium masks even greater heterogeneity at the regional level than the employment rate. Unemployment rates of 8.4% in Wallonia and 13.2% in the Brussels-Capital Region place them near the bottom of European OECD countries, although with lower unemployment rates than France in the case of Wallonia. By contrast, at 3.3% in 2018, Flanders has one of the lowest unemployment rates among European OECD countries, on par with Germany and the Netherlands.

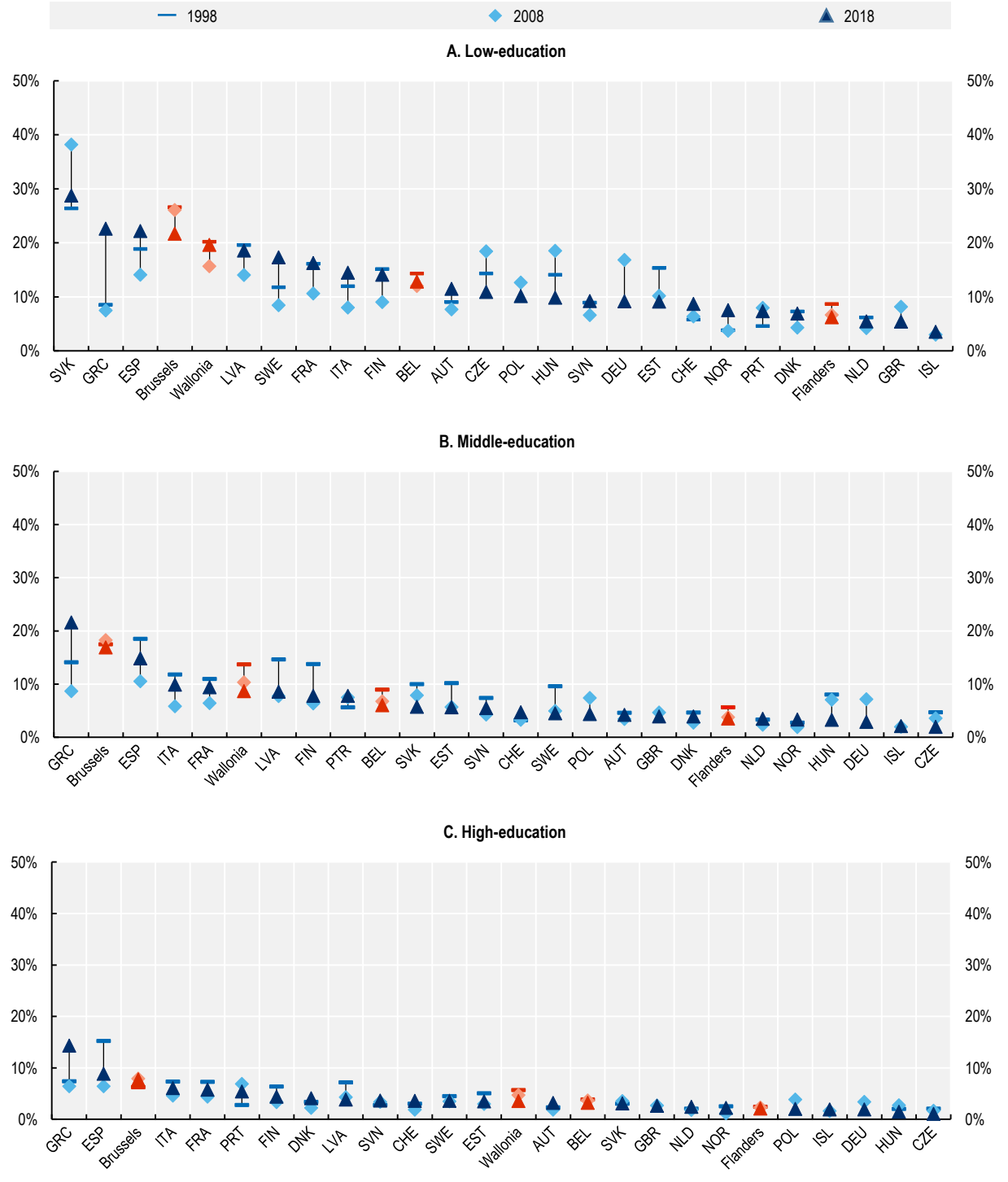
Breaking the unemployment rate down by education leaves this story unchanged. For low-educated workers, Belgium's unemployment rate (12.8% in 2018) places it towards the middle of European OECD countries (Figure 2.4). For those with an upper-secondary qualification, an unemployment rate of just under 6.0% again places Belgium somewhere in the middle of European OECD countries. The same holds for the population with a tertiary degree with an unemployment rate of 3.2%, although in this case Belgium's performance is slightly better than some peer countries (e.g. France, Sweden and Denmark). However, in just about every country in the sample, the unemployment rate for the population with a tertiary degree is uniformly low, and with less variance than the populations examined without a tertiary degree.

In contrast to employment rates where the performance of Flanders placed it in the middle of the pack, its unemployment is low among the low-educated. In 2018, Flanders had one of the lowest unemployment rates for low-educated workers among European OECD countries. With an unemployment rate of 6.2%, Flanders has a lower unemployment rate than Denmark, Norway and Germany. Only the United Kingdom, the Netherlands and Iceland had lower unemployment rates for low-educated workers. The difference between the relative performance of Flanders when using the employment rate and unemployment rate is mostly due to labour supply decisions (Section 2.3).

By contrast, Wallonia and the Brussels-Capital Region have some of the highest unemployment rates in the sample. Wallonia's unemployment rate stood at 19.6% and the Brussels-Capital Region's at 21.7% in 2018. Only Greece, Spain and the Slovak Republic had higher unemployment rates among the low-educated. Perhaps more alarmingly, while the unemployment in Flanders remained mostly stable over the last 20 years, the unemployment rate in Wallonia has actually risen over the past 10 years. The Brussels-Capital Region also experienced a decline in unemployment rates for low-educated workers over the last 10 years. The regional divergence in unemployment rates is therefore greater than the regional divergence in employment rates.

Figure 2.4. Belgium's unemployment rate also lags neighbouring countries

Unemployment rates (persons 20-64) by education in 1998, 2008 and 2018



Note: Low-education refers to ISCED levels 0-2; middle-education to ISCED levels 3-4; and high-education to ISCED levels 5 and above. Countries and regions sorted by the unemployment rate in 2018 for each education level.
Source: European Labour Force Survey (EU-LFS).

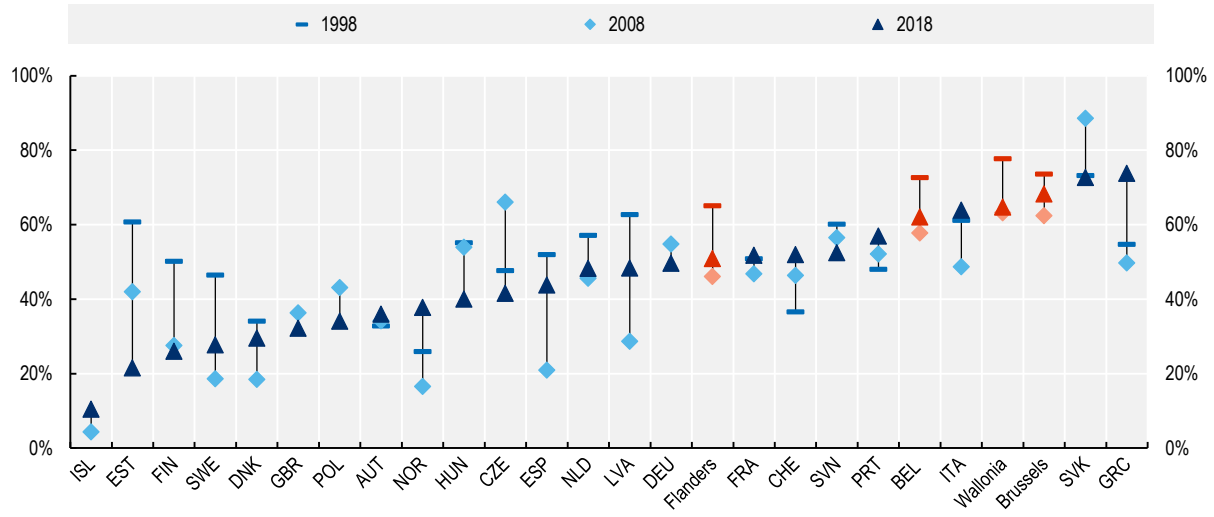
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2.2.2. Regional differences are also apparent in long-term unemployment rates

Long-term unemployment for the low-educated is high in Belgium compared to neighbouring countries. The share of the low-educated unemployed who have been unemployed for longer than one year stood at 62% in 2018. This rate is slightly higher than a decade earlier, but has fallen significantly compared to 20 years ago (Figure 2.5). The share of long-term unemployment is significantly lower in France (52%), Germany (50%) and the Netherlands (48%).

Figure 2.5. Long-term unemployment is much higher in Wallonia and the Brussels-Capital Region than in Flanders or neighbouring countries

Share of low-educated unemployed who have been unemployed for one year or longer, 1998, 2008 and 2018



Note: Data cover low-educated (ISCED levels 0-2), unemployed persons aged 20-64. Countries and Belgian regions sorted by the share of persons unemployed one year and over in 2018.
Source: European Labour Force Survey (EU-LFS).

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There are also regional disparities in the share of long-term unemployment, with the share being lower in Flanders (51%) than in the Brussels-Capital Region (68%) or Wallonia (65%).

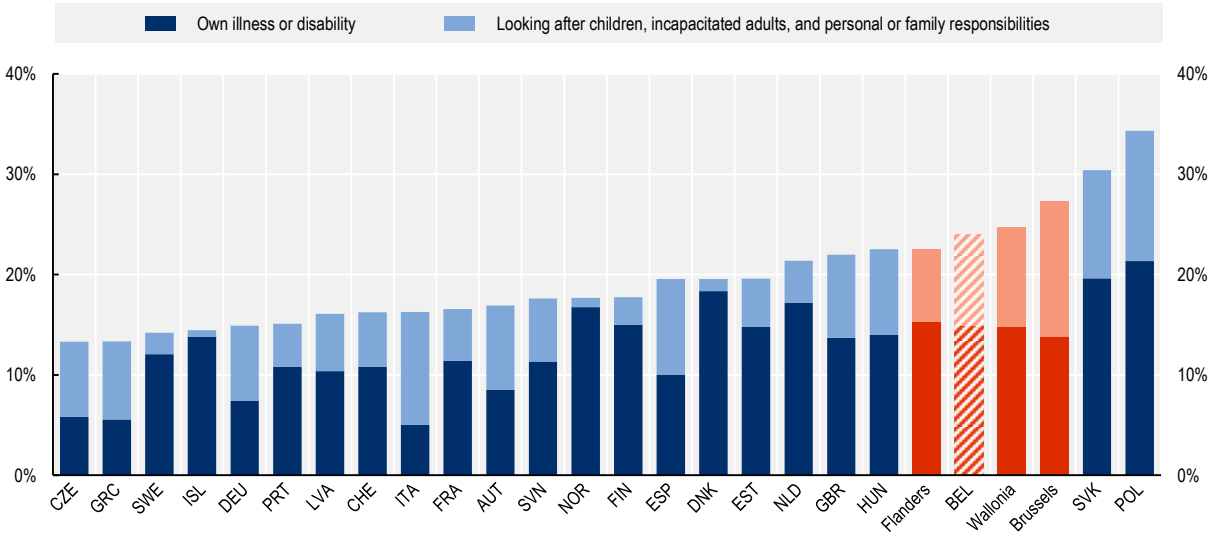
2.3. Labour supply issues are holding down employment rates in Belgium, but they are unable to account for all regional differences

Unemployment rates for the low-educated in Belgium, and especially in Flanders, look quite a bit better than one might expect by examining the employment rate. One problem with the unemployment rate is its inability to deal with issues around labour supply. The example of education and early retirement was previously discussed, but this also extends to countries with generous disability or unemployment insurance (Chapter 4), or countries with inadequate resources for child or elder care. In these cases, many potential workers may drop out of the labour force. They would therefore not be counted in the unemployment rate (possibly leading to a low unemployment rate), even though the employment rate might be low. This is the case of the labour market for the low-educated in Flanders, and to some extent the low-educated in Belgium overall.

A large share of non-employment in Belgium is due to disability or family caregiving responsibilities. Figure 2.6 shows the share of the population without an upper-secondary degree who are not in the labour force due to their own illness or disability, or who have personal or family caregiving responsibilities. The share in Belgium is 24.0% which is one of the highest shares of European OECD countries, behind only Poland and the Slovak Republic. Of the total, 14.9% is due to illness or disability, and 9.1% is due to caregiving.

Figure 2.6 Belgium has a high share of the low-educated unable to work due to disability, or family responsibilities

Share of the low-educated population unable to work due to disability or care-taking responsibilities, 2018



Note: Persons aged 20-64 with an educational attainment level of ISCED 0-2.
Source: European Labour Force Survey (EU-LFS).

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While disability and caretaking duties explain a relatively large share of non-employment in Belgium overall, the differences across regions are relatively small. The Brussels-Capital Region and Wallonia have the highest rates at 24.7% and 27.2%, respectively, which is just higher than the overall average in Belgium. Flanders with a rate of 22.5% is below the overall average.

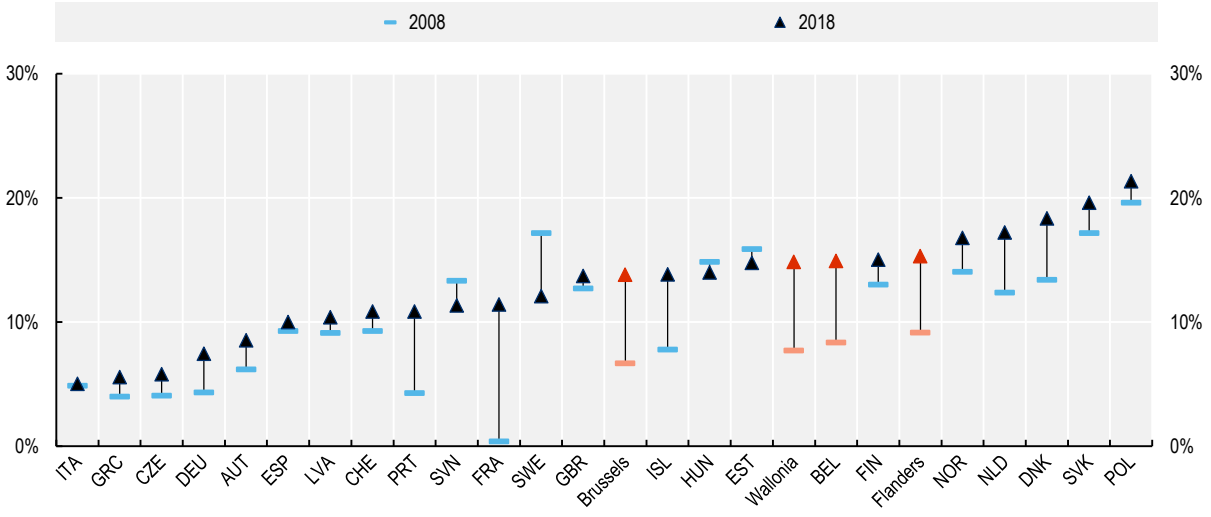
2.3.1. Non-employment due to disability or illness has been rising

The share of the population in Belgium not available to work due to disability or illness has been rising. Figure 2.7 shows the share of the population unavailable to work due to disability or illness in both 2008 and 2018. The share has risen in Belgium from 8.3% in 2008 to 14.9% in 2018. Only France had a higher percentage point increase over this period.

The share of the population unavailable to work due to illness or disability rose at similar rates across regions. From 2008 to 2018, the share rose from 9.1% to 15.3% in Flanders (6.2 percentage points), 7.7% to 14.8% in Wallonia (7.1 percentage points), and 6.7% to 13.8% in the Brussels-Capital Region (7.1 percentage points). The large and proportionate rise in the share of the low-educated population unavailable to work due to illness or disability is holding down employment rates in Belgium, but it is unable to explain the large difference in employment rates across regions.

Figure 2.7. The share of the population unable to work due to disability or illness has been rising in Belgium as well as most European OECD countries

Share of the population (aged 20-64) unavailable to work due to disability or illness, 2008 and 2018



Note: Countries and regions are sorted by the share in 2018.
Source: European Labour Force Survey (EU-LFS).

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2.3.2. Early retirement among the older working-age population is high in Belgium

A relatively large share of the population aged 55-64 is not available to work in Belgium due to early retirement. The share of the population aged 55-64 in 2016 who were retired stood at 22.3% in Belgium. This was substantially higher than in neighbouring countries Germany (14.7%) and the Netherlands (8.9%), but less than in France (30.9%).

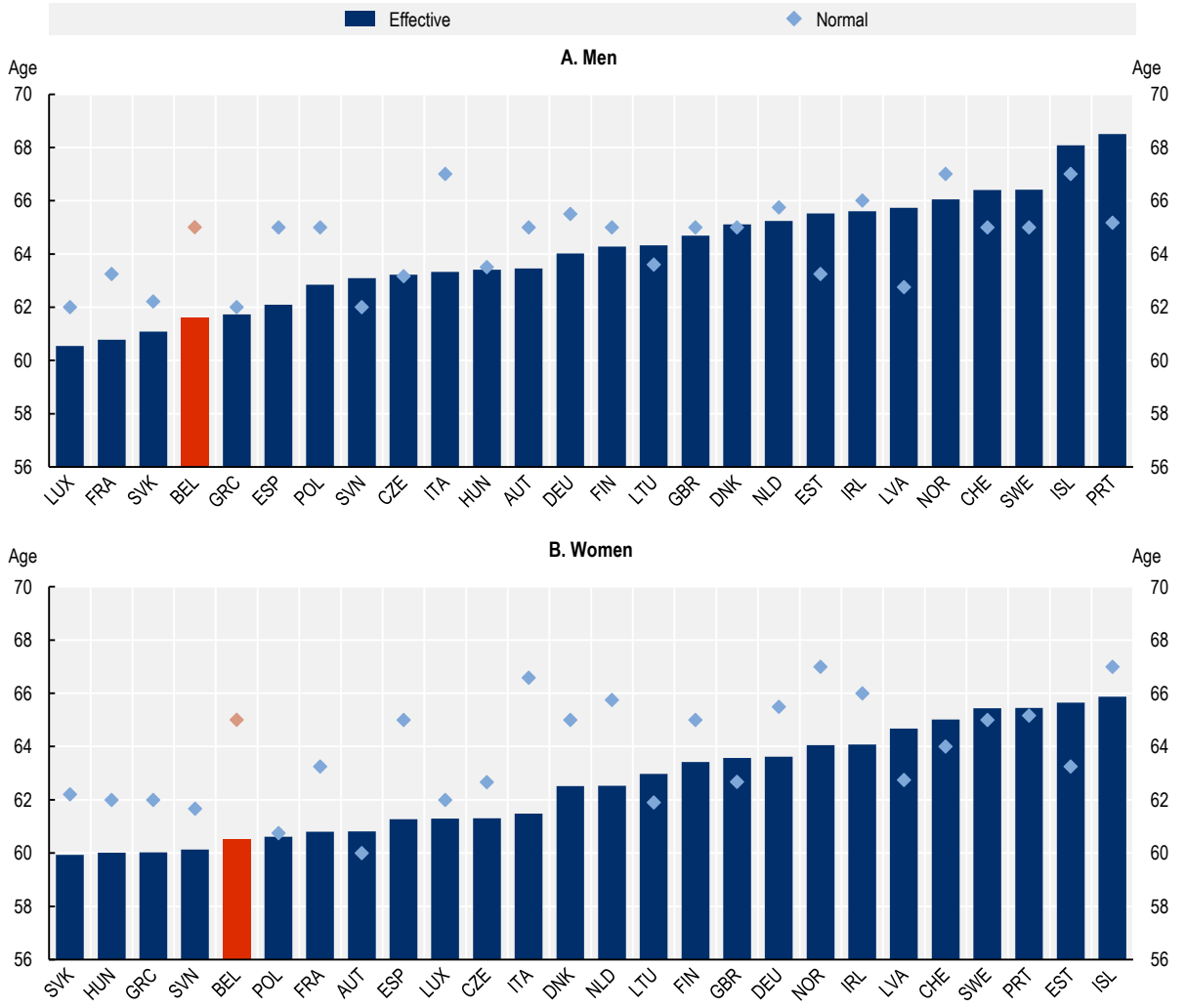
Just as with disability and illness, the share of the older working-age population unavailable to work due to early retirement cannot explain the large regional gaps in employment. The share in Flanders in 2016 is 23.6% compared to 24.3% in Wallonia. The Brussels-Capital Region has a significantly lower share unavailable to work due to retirement with 14.8%.

Although the share retired cannot explain the large regional difference in employment rates, it does appear to be holding down employment rates overall. Belgium has one of the lowest ages of effective labour market exit for older workers. Men leave the labour market at 61.6 years of age, on average, and women leave the labour market at 60.5 years of age. For comparison, the average age of effective labour market exit is slightly lower in France, but much higher in Germany and the Netherlands (Figure 2.8).

This helps explain the low employment rates for the low-educated older working-age population in Belgium. In 2018, 31% of low-educated workers aged 55-64 were employed compared to 40% in France, and 54% and 53% in Germany and the Netherlands, respectively.

Figure 2.8. Belgium has a high-share of early retirement

Average effective age of labour market exit and normal retirement age, 2018



Note: Effective retirement age is shown for the five-year period 2013-18. Normal retirement age is shown for individuals retiring in 2018 after a full career from labour market entry at age 22.

Source: OECD (2019[1]), "Effective age of labour market exit", in *Pensions at a Glance 2019: OECD and G20 Indicators*, https://doi.org/10.1787/888934042029.

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2.4. In Wallonia and the Brussels-Capital Region, labour market outcomes are poor for low-educated workers, regardless of migration background

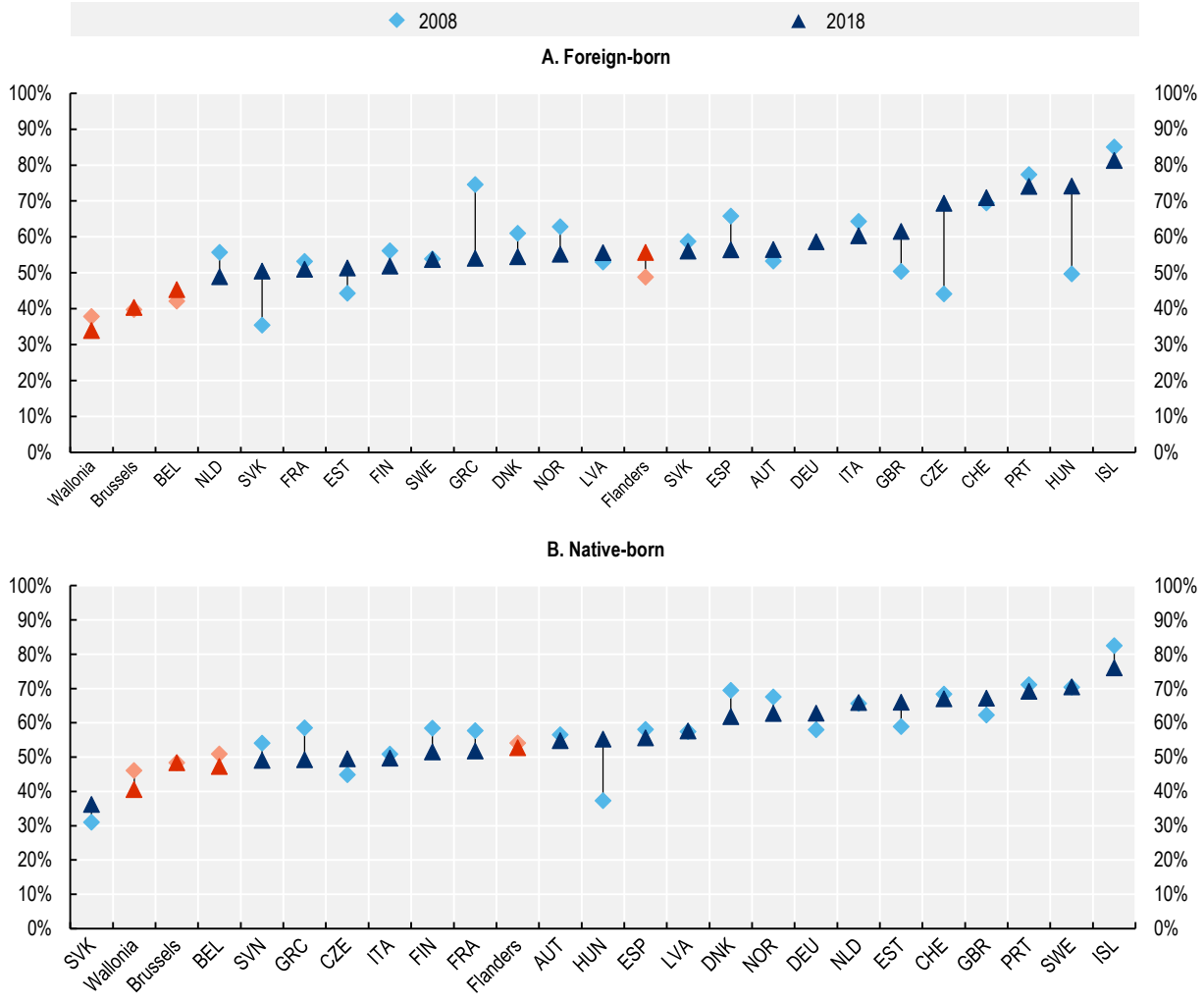
Belgium's relatively high share of migrants may also be holding down employment rates. The Brussels-Capital Region in particular has a high share of migrants (Chapter 1), whose employment rates are lower than those of natives. Belgium's relatively high share of migrants is only a small contributing factor to lower employment rates compared to neighbouring countries.

Employment rates for low-educated migrants are generally lower than their native peers. The employment rate for the low-educated, native population in 2018 was 47% in Belgium compared to 45% for migrants (Figure 2.9). In Germany and France the rates were 63% and 52% for the native population and 59% and

51% for migrants, respectively. The Netherlands has the largest differential among neighbouring countries between native and non-native employment rates for the low-educated, with 66% of the native population employed compared to 49% for migrants.

Figure 2.9. Native employment rates are only slightly higher than those of migrants

Employment rates for the low-educated population born in Belgium and migrants, 2008 and 2018



Note: Data cover the entire population aged 20-64 with a low-education (ISCED 0-2). "Native" is the population born in Belgium. "Non-native" includes all residents born outside of Belgium.
Source: European Labour Force Survey (EU-LFS).

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Across regions within Belgium, the difference in employment rates between natives and migrants varies greatly. In Wallonia and the Brussels-Capital Region, employment rates for low-educated natives exceed those of migrants, while native employment rates remain low. In Wallonia, the employment rate is 34% for migrants, and 40% for natives. In the Brussels-Capital Region, the employment rate for migrants is equal to natives in Wallonia at 40%, but lower than the 46% of natives employed in the Brussels-Capital Region. Finally, the employment rate for low-educated migrants (57%) in Flanders exceeds that of natives (53%).

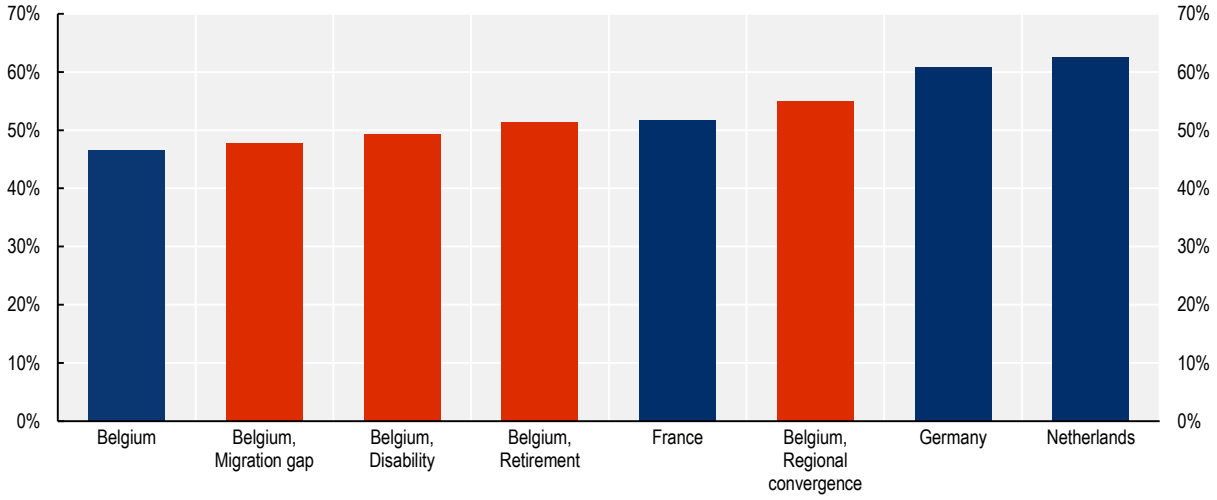
2.5. Bridging regional gaps in employment rates will help low-educated employment rates the most

The preceding section examined gaps in employment rates between various groups within Belgium, as well as employment gaps between Belgium and neighbouring OECD countries. One question that naturally arises is how important the various employment gaps are for closing the overall difference in low-education employment rates between Belgium and neighbouring countries. Answering this question can help policy makers decide which sets of policies will be the most effective in raising employment rates for the low-educated.

Figure 2.10 shows what would happen to the overall employment rate in Belgium if some of the employment gaps were eliminated/narrowed. In other words, it shows what would happen to the overall employment rate if migrants, persons with disabilities, older workers, as well as the low-educated in Wallonia and the Brussels-Capital Region had employment rates similar to those observed amongst comparison groups. Note that these counterfactual employment rates are not cumulative; they present the effect of boosting the employment rate of just one group at the time. The current employment rates for Belgium and neighbouring countries are also presented for comparison.

Figure 2.10. Narrowing regional differences in employment rates in Belgium would have the biggest impact on reducing the employment gap with neighbouring countries

Employment rates and counterfactual employment rates of the low-educated, 2018



Note: Data cover the low-educated (ISCED 0-2) population aged 20-64. Blue bars are actual employment rates and red bars counterfactual employment rates for Belgium. "Migration gap" refers to assuming parity between native-born and foreign-born employment rates. "Disability" assumes disability rates in Belgium fall to the average of France, Germany and the Netherlands. "Retirement" assumes the share in retirement among the older (55-64) working-age population falls to the share in the Netherlands. "Regional convergence" assumes employment rates by age in Wallonia and the Brussels-Capital Region converge to the employment rates in Flanders.
Source: OECD analysis of the European Labour Force Survey (EU-LFS).

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Closing the employment gap between native-born Belgians and the foreign-born population would result in the smallest increase in overall employment rates for the low-educated. The employment rate for the low-educated in Belgium would move from 46.6% to 47.7%. The increase is modest because employment gaps between the native- and foreign-born are small in Belgium for the low-educated.

Boosting the employment rate of the population with disabilities is the next most effective at increasing the overall employment rate. The employment rate would move to 49.2% if the employment rate of people with disabilities in Belgium moved to the average of Germany, France and the Netherlands. The biggest changes would be observed among the young and working age population (20-54) where the largest gaps in employment due to disability exist.

Decreasing the rate of retirement among the older (55-64) working-age population would result in the second largest increase in the employment rate in Belgium. The counterfactual employment rate for the low-educated in Belgium would rise to 51.4%. The analysis assumes that the share of the older working-age population who are retired (22%) falls to the lowest level among neighbouring countries (the Netherlands, 9%).[3]

Bringing the employment rate of the Brussels-Capital Region and Wallonia to the level observed in Flanders would result in the highest counterfactual employment rate. In this scenario, the employment rate for the low-educated in Belgium would move to 54.9%, surpassing that of France. This case assumes that employment rates – by age – in Wallonia and the Brussels-Capital Region are equal to Flanders. The biggest change is among prime-age workers where Flanders has a high employment rate compared to other OECD European countries (while Wallonia and the Brussels-Capital Region have quite low employment rates). For all regions, employment rates for the older working-age population remain low as all Belgian regions have low employment rates among this group compared to other European OECD countries (see Section 2.3).

2.6. Belgium performs relatively well on measures of job quality for low-educated workers

Employment rates for the low-educated in Belgium are low, although there is substantial regional variability. One possible reason for lower employment rates in Belgium compared to neighbouring countries could be higher job quality. Workers in Belgium may enjoy higher compensation and non-pecuniary benefits compared to neighbouring countries which increases the cost of hiring to employers and could result in lower employment. A similar dynamic could also be playing out across regions within Belgium: are better outcomes in Flanders related to lower job quality? This section reviews job quality for the low-educated in Belgium, and examines whether there is any trade-off between higher job quality and lower employment rates.

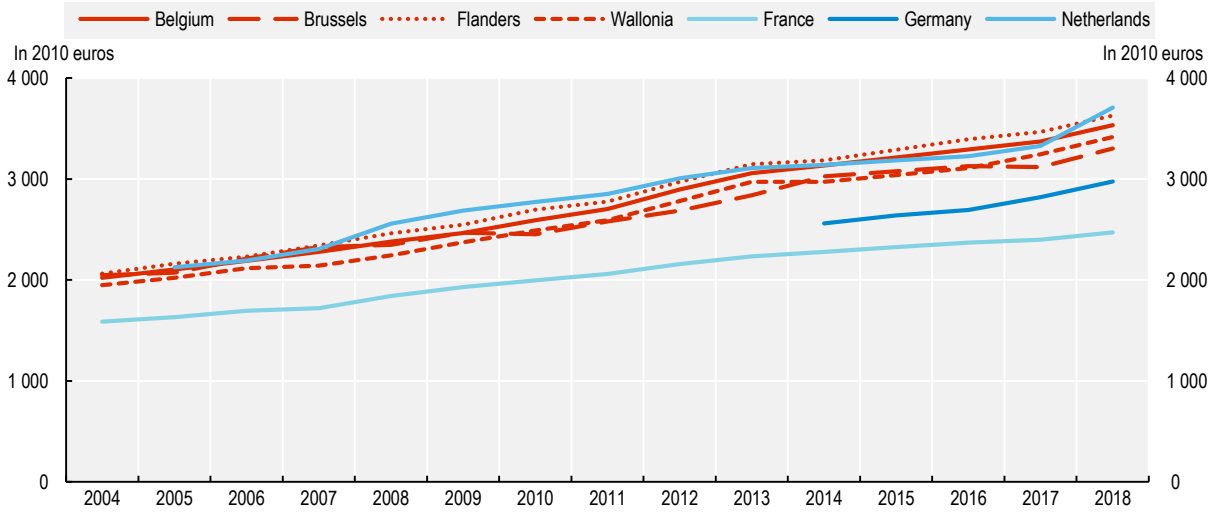
Belgium enjoys higher job quality compared to neighbouring countries, which combined with the lower rates of employment examined in the previous section might imply some trade-off between job quality and quantity. Within Belgium, however, Flanders not only performs better from a job quantity perspective, but also from a job quality one.

2.6.1. Earnings are high in Belgium both across regions and within education groups

Workers in Belgium have high earnings compared to peer countries. Figure 2.11 shows the evolution of real gross median monthly earnings for Belgium overall, and by region, compared to neighbouring countries. Only the Netherlands has slightly higher median earnings than Belgium. Gross median earnings in the Netherlands are EUR 3 710 compared to EUR 3 530 in Belgium. In contrast, Germany has significantly lower gross median earnings at EUR 2 980 per month and gross monthly earnings in France are lower still with EUR 2 470 per month.

Figure 2.11. Belgium has high earnings compared to neighbouring countries

Real median gross monthly earnings, 2004-18



Note: Data cover employed persons aged 20-64. Due to data availability, 2015 is an average of years 2014 and 2016.
Source: EU Statistics on Income and Living Conditions (EU-SILC).

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Despite large differences in employment rates across regions, median monthly earnings show little variation across regions in Belgium. Median monthly earnings in 2018 stood at EUR 3 630 in Flanders compared to EUR 3 420 in Wallonia and EUR 3 300 in the Brussels-Capital Region. Although earnings are slightly higher in Flanders, the difference is small compared to the difference with neighbouring countries.

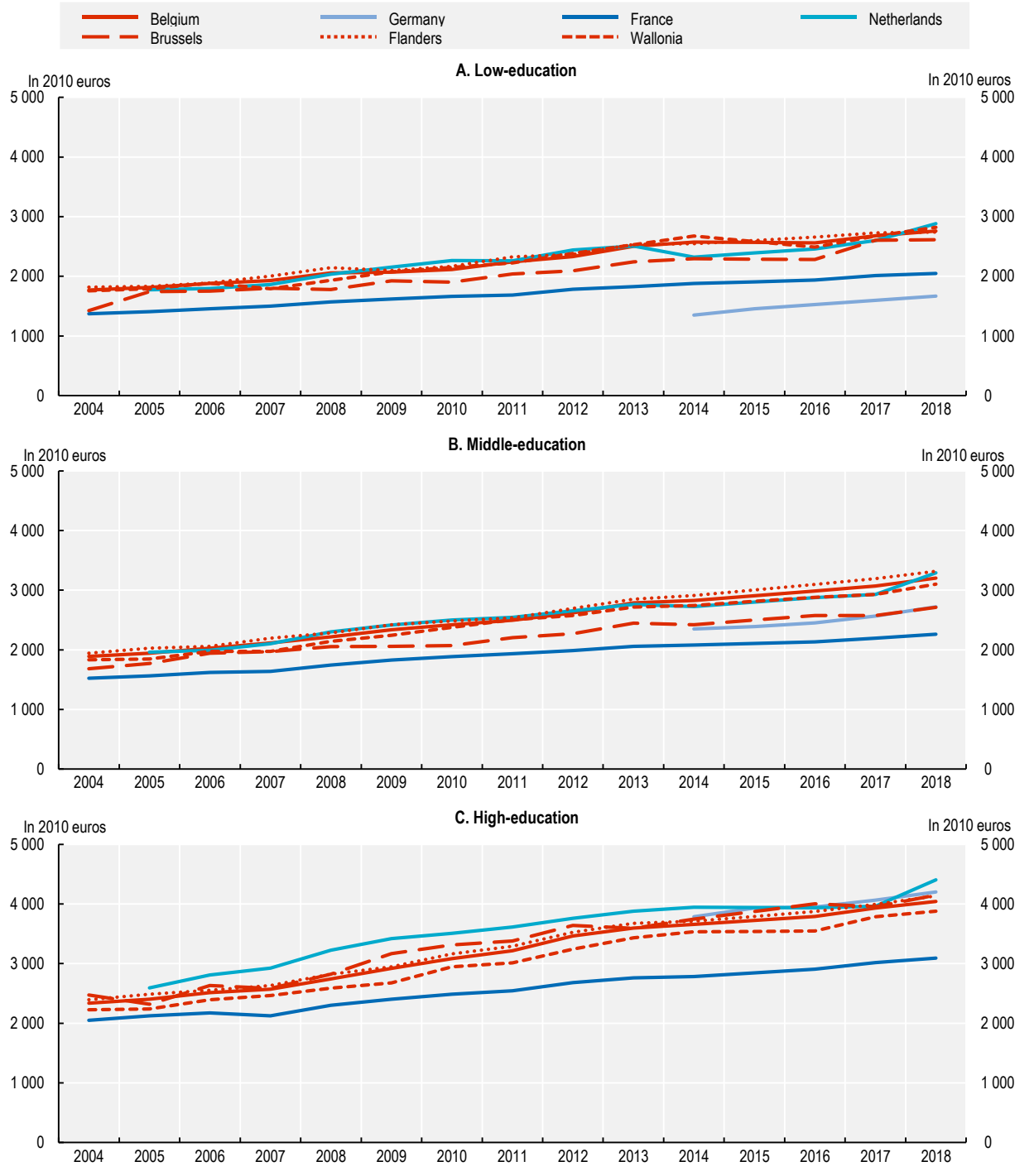
The same pattern holds for the low-educated. Median real gross monthly earnings have grown steadily in all countries in the sample. Germany has the lowest monthly earnings at EUR 1 670 per month compared to EUR 2050 in France. In Belgium and the Netherlands, the earnings for low-educated workers are considerably higher, at EUR 2 760 and EUR 2 880 per month, respectively (Figure 2.12).

At the regional level, for low-educated workers, monthly gross earnings show little variation. The median monthly earnings in Flanders were EUR 2 740 for low-educated workers compared to EUR 2 820 in Wallonia and EUR 2 610 in the Brussels-Capital Region. The lack of variation in earnings across regions for low-educated workers – combined with diverging levels of productivity – offers one reason for the large divergence in employment rates across regions (Chapter 4).

Finally, it should be noted that, although overall median earnings for low-educated workers mimic the same patterns seen overall, this is not uniformly true by education level. Germany is a particularly interesting case. Although median earnings in Germany are significantly lower than in Belgium and the Netherlands for low-educated workers, for workers with an upper-secondary degree, they are considerably higher and, for workers with a tertiary degree, median earnings in Germany are on par with Belgium and the Netherlands. In fact, earnings show far less inter-country variation for workers with a tertiary degree compared to those without.

Figure 2.12. Monthly earnings for the low-educated are higher in Belgium than in neighbouring countries and show little regional variation

Median real gross monthly earnings by education, 2004-18



Note: Data cover employed persons aged 20-64. Due to data availability, 2015 is an average of years 2014 and 2016. Low-education refers to ISCED levels 0-2; Middle-education to ISCED levels 3-4; and High-education to ISCED levels 5 and above.
Source: EU Statistics on Income and Living Conditions (EU-SILC).

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2.6.2. Differences in non-standard employment cannot explain the divergence in labour market performance between Belgium's regions

In addition to earnings, non-standard work constitutes an important dimension for low-educated workers. This section reviews the main dimensions of non-standard work: temporary employment, part-time employment and self-employment. Belgium has low rates of temporary employment, as well as relatively high rates of part-time employment among the low-educated with only small differences across regions. However, part-time employment is much more likely to be involuntary in the Brussels-Capital Region and Wallonia than in Flanders. Rates of self-employment are moderate and stable in Belgium, with only the Brussels-Capital Region showing high rates of self-employment.

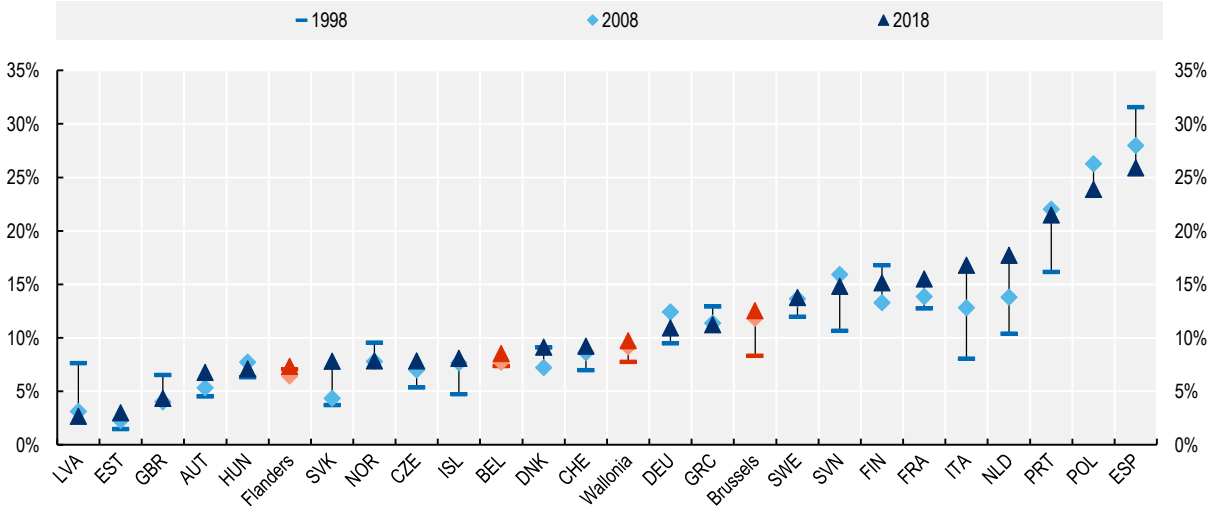
Belgium has a low share of temporary workers across education groups

The use of temporary contracts has become more prevalent in many OECD countries over the last 20 years. The use of temporary contracts often offers more flexibility to employers. However, this may come at the expense of job security as workers on fixed-term contracts are generally easier to dismiss in OECD countries compared to workers on indefinite contracts (OECD, 2013[2]).

The share of workers in Belgium on a temporary contract is not particularly high compared to other European countries. In 2008, 8.5% of workers in Belgium held a temporary contract (Figure 2.13). This rate is lower than in Germany, Greece and Sweden, and slightly higher than in Iceland, the Czech Republic and Norway. Among regions within Belgium, Flanders has the lowest incidence of temporary contracts. The share of workers on temporary contracts in Flanders is 9.7% compared to 12.6% in Wallonia and 15.7% in the Brussels-Capital Region. The use of temporary contracts does not appear to be a main explanation for the divergence in employment rates across regions.

Figure 2.13. Belgium has a low share of workers on temporary contracts

Share of employed (aged 20-64) on temporary contracts, 1998, 2008 and 2018



Note: Countries and regions sorted by share in 2018.
Source: European Labour Force Survey (EU-LFS).

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The share of temporary contracts is higher among low-educated workers than among workers with a secondary and a tertiary qualification. For low-educated workers in Belgium, the share employed on temporary contracts was 11.3% in 2018 (Figure 2.14), compared to 7.9% and 8.1% among medium- and high-educated workers, respectively. Over the past 10 years, the incidence of temporary contracts has increased the most among the low-educated – by about 22% compared to 13% and 6% for the middle-educated and high-educated, respectively.

Differences across regions in the incidence of temporary contracts among the low-educated are similar to the regional differences observed for all workers. In Wallonia, the share of the low-educated workers on a temporary contract was 12.6% compared to 15.7% in the Brussels-Capital Region and 9.7% in Flanders. Wallonia and especially the Brussels-Capital Region have seen an increase in temporary contracts for low-educated workers over the past 20 years. This includes the last 10 years, during which employment rates for these groups have declined. The use of temporary contracts increased 2.2 percentage points in Wallonia and 4.4 percentage points in the Brussels-Capital Region. Flanders, where employment rates for the low-educated have risen modestly over the past 10 years, has seen a considerably milder increase of 1.5 percentage points.

Belgium has a relatively high share of part-time workers, especially among those lacking an upper-secondary qualification

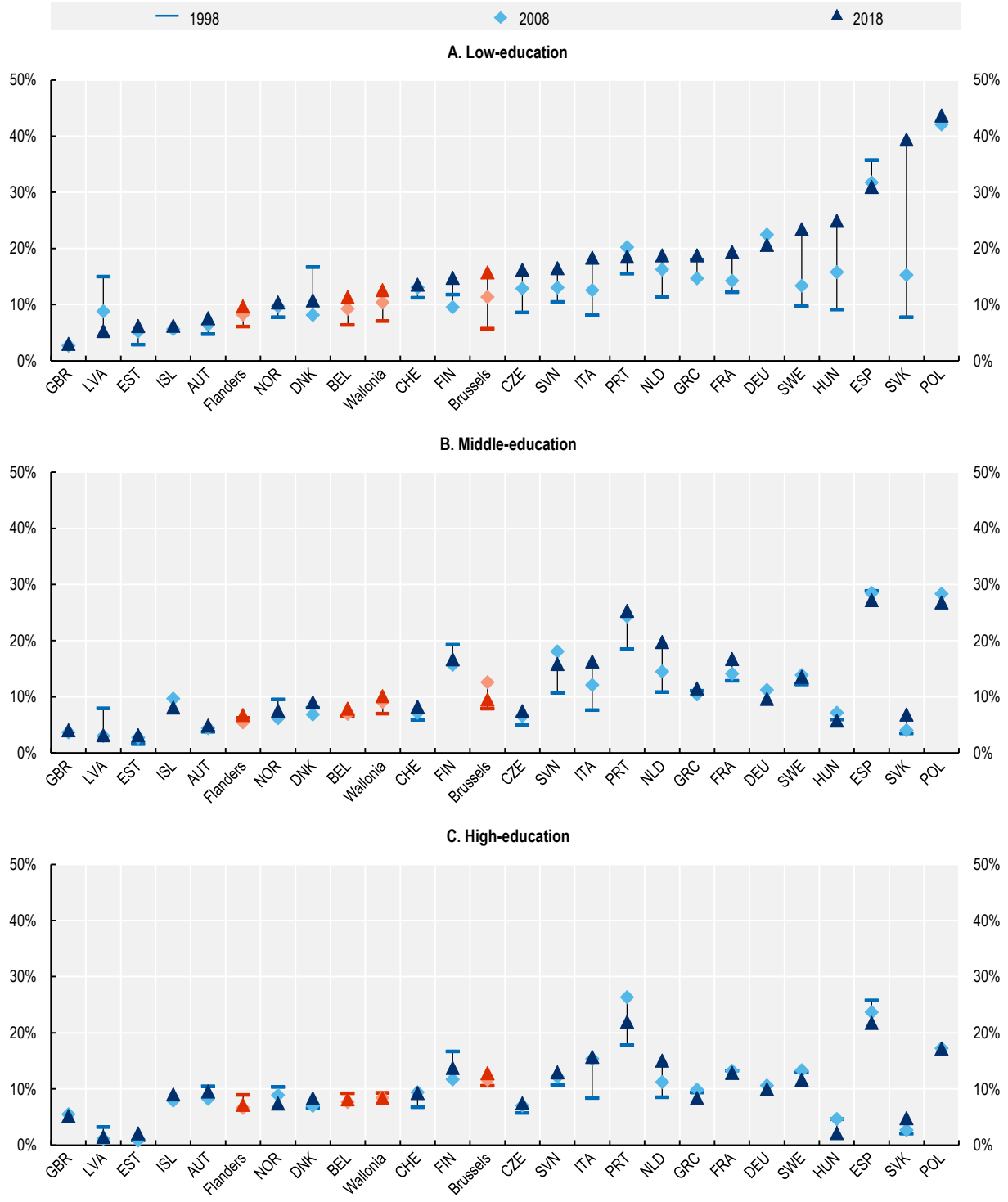
A greater share of part-time work may be one way to explain Flanders's decent employment rate and low unemployment rate relative to Wallonia or the Brussels-Capital Region. In this case firms in Flanders would rely to a much greater degree on a part-time work force, which would make the employment and unemployment rates rosier than they would at first appear. A work force of many part-time workers allows firms to tailor their staffing decisions more easily to daily or weekly shifts in labour demand.[4] Such production processes are quite common in many retail and service industries which employ many low-wage workers (Tilly, 1991[3]; Valletta, Bengali and van der List, 2020[4]).

At the same time, many people choose to work part-time in order to attend to caregiving, gradually retire or simply enjoy a better work-life balance. The case of part-time work and partial retirement is now an explicit strategy for some OECD countries to keep older workers attached to the labour force (OECD, 2019[5]). The reasons a country might have a high share of part-time work are therefore diverse, and it necessitates caution when interpreting inter-country differences.

Belgium has a relatively high share of part-time employment compared to other European OECD countries and this share has grown over the past 20 years. In 2018, the share of part-time work in Belgium stood at 24.3%, which is a sharp increase from the share in 1998 at 15.6% (Figure 2.15). The share of part-time employment in Belgium is lower than in Germany (26.7%) and the Netherlands (46.8%), but higher than in France (17.5%).

Figure 2.14. Lower-educated workers are more likely to be on a temporary contract

Share of employed (aged 20-64) on temporary contracts by education, 1998, 2008 and 2018

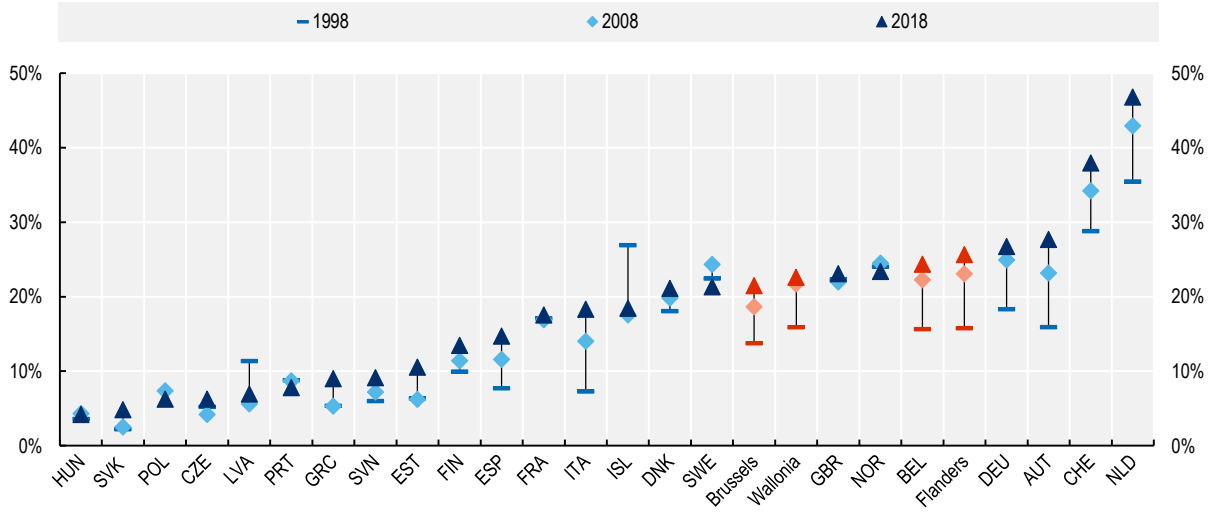


Note: Low-education refers to ISCED levels 0-2; middle-education to ISCED levels 3-4; and high-education to ISCED levels 5 and above.
Source: European Labour Force Survey (EU-LFS).

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Figure 2.15. Belgium has a relatively high share of part-time employment compared to European OECD countries

Part-time employment as share of all employment (ages 20-64), 1998, 2008 and 2018



Source: European Labour Force Survey (EU-LFS).

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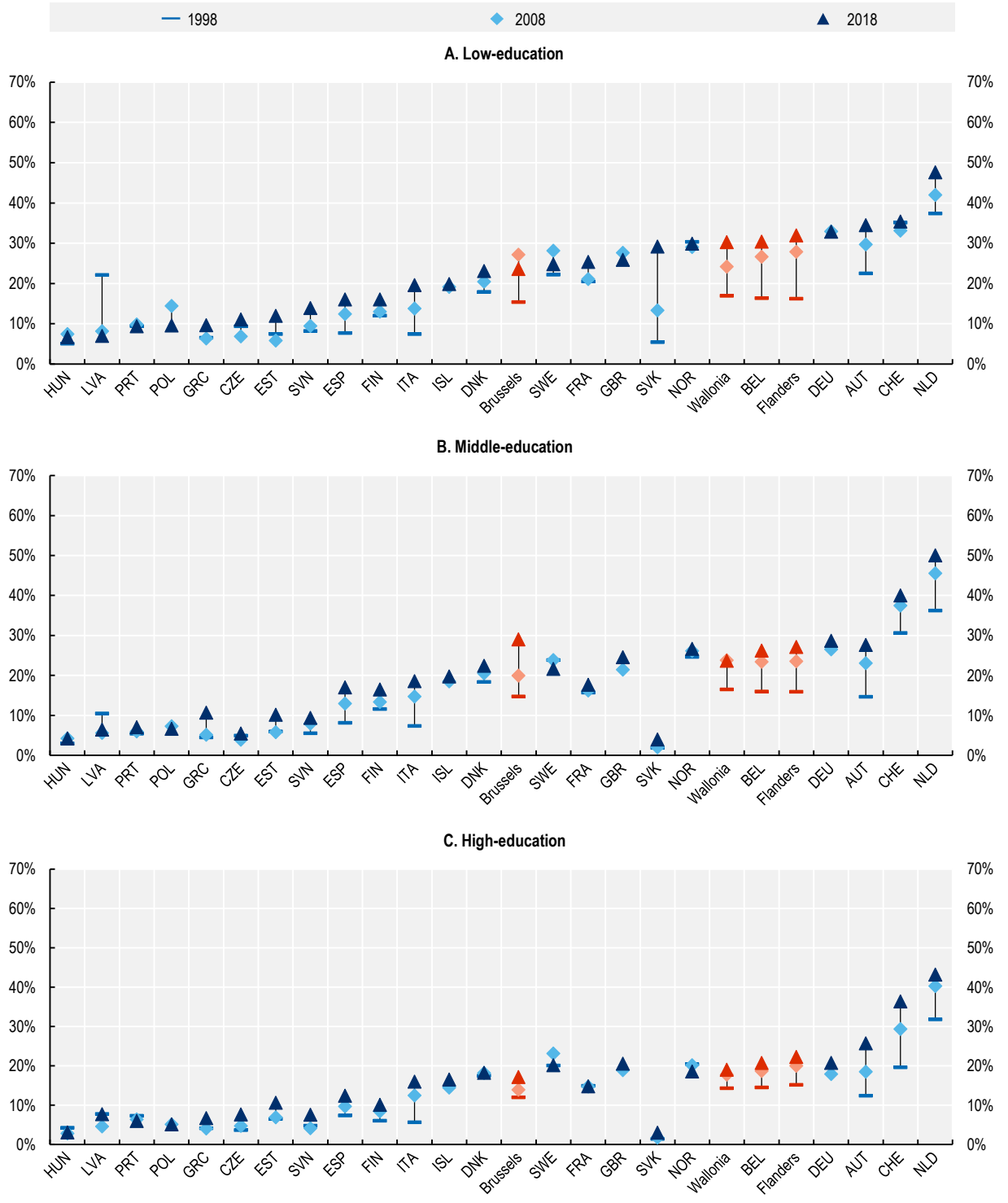
There is little variation in rates of part-time work between Wallonia and the Brussels-Capital Region, while Flanders has a slightly higher share. In 2018, the share of part-time work in the Brussels-Capital Region stood at 21.5% compared to 22.6% in Wallonia and 25.6% in Flanders.

Low-educated workers are more likely to work part-time. In 2018, the share of low-educated workers working part-time in Belgium was 30.3% (Figure 2.16). In Wallonia it was 30.2% and 31.9% in Flanders, while in the Brussels-Capital Region it was much lower at 23.6%.

All regions have seen a substantial increase in the share of part-time work among the low-educated. Since 1998, the share of low-educated workers working part-time increased by 13.3 percentage points in Wallonia, 15.8 percentage points in Flanders and 8.2 percentage points in the Brussels-Capital Region. While the share of part-time work also increased for both middle- and high-educated workers, the percentage point increase was more modest.

Figure 2.16. The low-educated are much more likely to work part-time

Part-time employment as share of all employment (ages 20-64), by education, 1998, 2008 and 2018



Note: Low-education refers to ISCED levels 0-2; middle-education to ISCED levels 3-4; and high-education to ISCED levels 5 and above.
Source: European Labour Force Survey (EU-LFS).

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Involuntary part-time employment is low, but with important regional variation

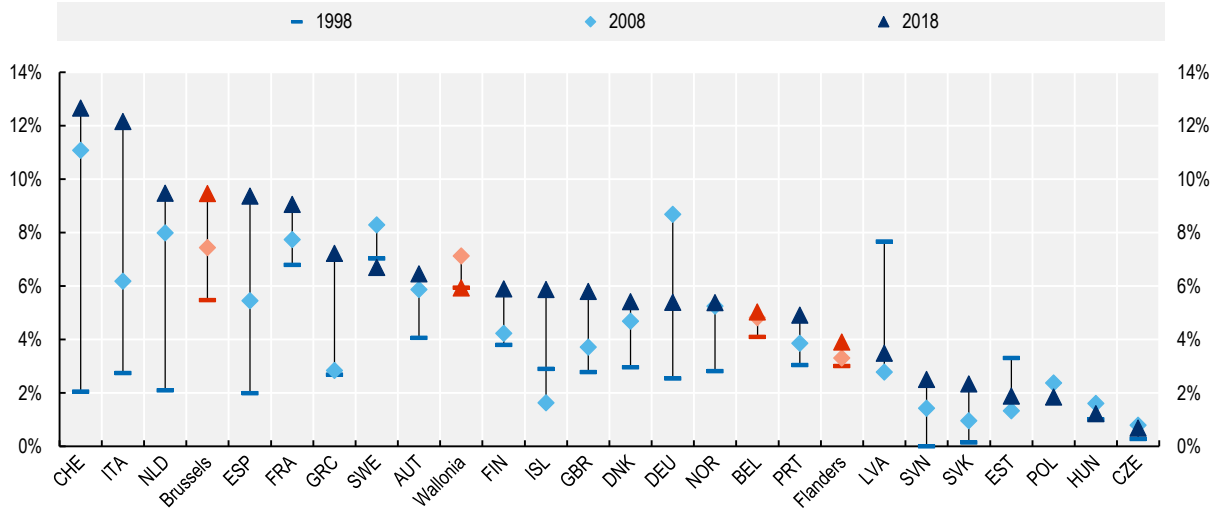
One of the challenges in interpreting part-time employment figures is whether or not it is voluntary. Part-time work may be a sign of affluence (people enjoying higher incomes with more leisure), or people with caregiving responsibilities. It can also be a sign of labour market distress with not enough hours available compared to desired hours. Involuntary part-time, defined here as the share of employed workers who are part-time and would like more hours, or those who would rather work full-time, is a measure of what share of part-time work is involuntary.

Involuntary part-time work in Belgium is relatively low compared to other countries, although it is higher in Wallonia and especially in the Brussels-Capital Region. Figure 2.17 shows the share of employed workers who say they would like more hours than their employers are offering them. In general, the incidence of involuntary part-time in Belgium is fairly low (5.0%). The incidence is lower in Flanders (3.9%) than in Wallonia (5.9%) and the Brussels-Capital Region (9.4%).

In Wallonia, the share of involuntary part-time among low-educated workers is slightly higher than the OECD average. Wallonia's rate (10.2%) is lower than in France and about equal to the Netherlands and Germany. Flanders's rate of involuntary part-time is lower with 5.7%. The Brussels-Capital Region performs particularly poorly with as many as 12.9% of low-educated workers working part-time involuntarily.

Figure 2.17. Involuntary part-time employment is low in Belgium

Involuntary part-time as a share of all employment (ages 20-64), 1998, 2008 and 2018



Note: Involuntary part-time is defined as part-time workers who could not find a full-time job, or who say they would like more hours.
Source: European Labour Force Survey (EU-LFS).

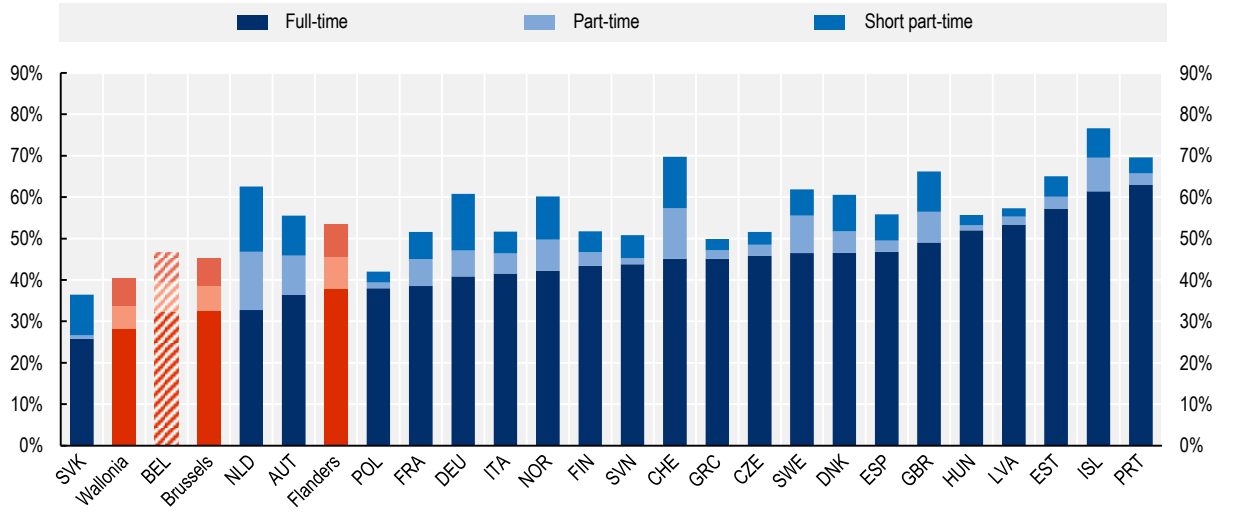
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Employment rates for Belgium's neighbours are buoyed by a greater share of part-time employment, but Belgium's full-time share is still extremely low

Figure 2.18 shows the same employment rates for the low-educated as in Figure 2.2, but decomposed into the shares of full-time, part-time and short part-time (defined as usual weekly hours less than 20). Belgium's share of the low-educated population in full-time employment (32.4%) is one of the lowest among European OECD countries, as well as the Netherlands (32.7%), France (38.5%) and Germany (40.1%).

Figure 2.18. The low-educated in Belgium are less likely to be engaged in part-time work compared to neighbouring countries

Employment rates decomposed into full-time, part-time, and short part-time for the low-educated, 2018



Note: Countries ordered by full-time employment rate. Data cover the low-educated (ISCED 0-2) aged 20-64. *Full-time* employment refers to persons working 35 or more usual weekly hours, *part-time* employment to those working between 20 and 34, and *short part-time* less than 20 hours usually per week.
Source: European Labour Force Survey (EU-LFS).

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Germany and the Netherlands in particular use much more part-time work, though they differ in the details. In Belgium, 14.1% of the low-educated population is engaged in part-time employment with it almost equally split between part-time and short-part time. In contrast, the Netherlands has almost as many of their low-educated population in part-time (29.8%) work as full-time (32.7%). Germany achieves higher overall employment rates with a relatively high share of the low-educated population engaged in short part-time work (13.7%).[5] Only France has comparable rates of part-time employment among the low-educated (13.1%).

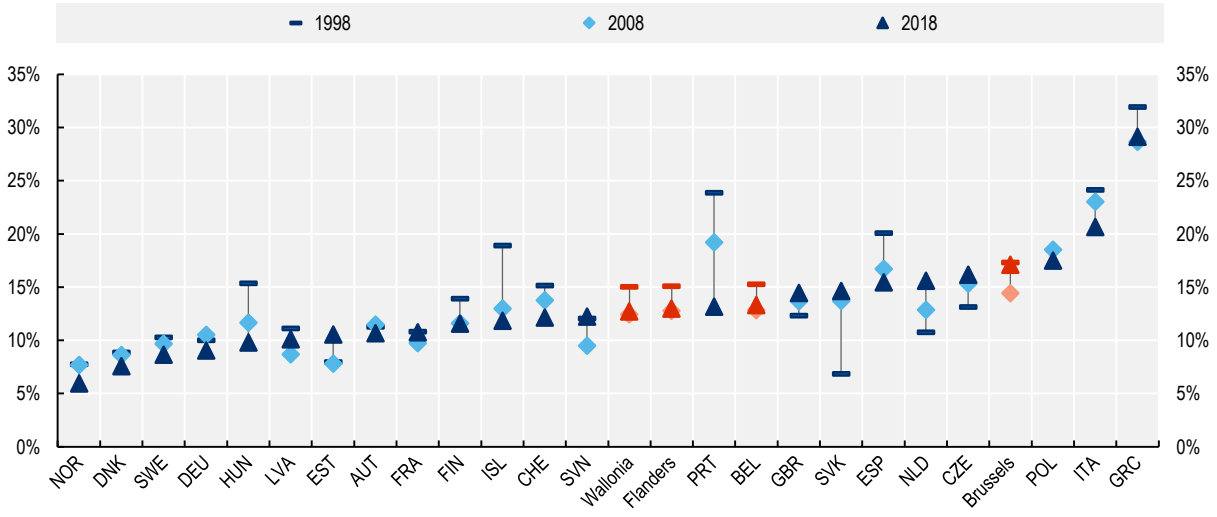
The share of self-employment in Belgium is average and shows little regional variation

The share self-employed in Belgium (13.3%) is about average compared to other European OECD countries and it has receded slightly over the last 20 years (Figure 2.19. The share of self-employment in Belgium is lower than in the Netherlands, but higher than in France and Germany.

Wallonia and Flanders have almost equal shares of self-employment (13.0% and 12.7%, respectively) while the share in the Brussels-Capital Region (17.1%) is higher. Over the last 20 years, Wallonia and Flanders have seen a small decrease in self-employment while the share in the Brussels-Capital Region has remained largely flat.

Figure 2.19. Belgium has an average share of self-employment

Self-employment as a share of the employed (ages 20-64), 1998, 2008 and 2018



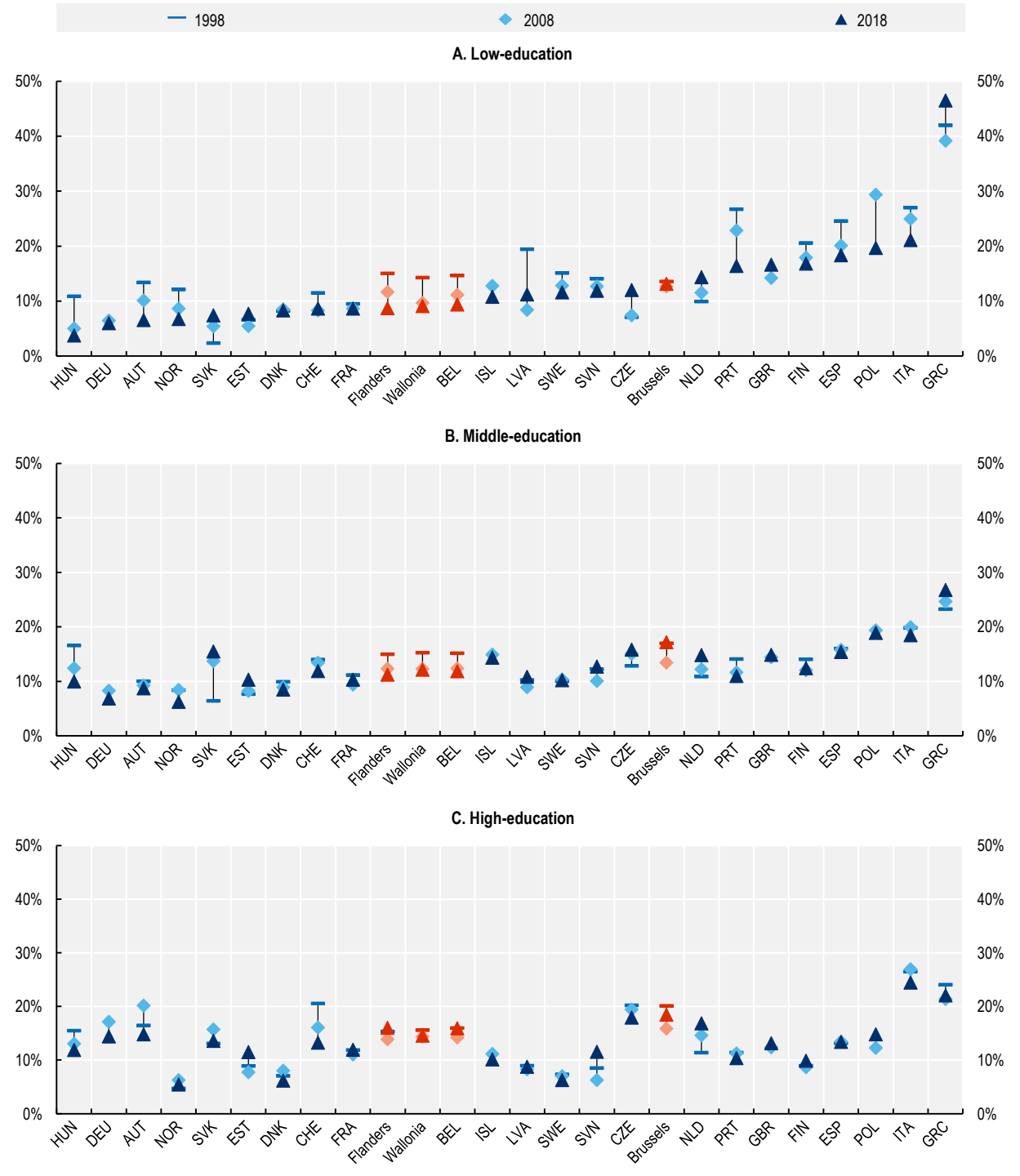
Note: The self-employed includes both own-account workers and those with employees.
Source: European Labour Force Survey (EU-LFS).

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The same patterns hold by education, with shares of self-employment in Wallonia and Flanders lower among the low-educated. In 2018, the shares of self-employment among low-educated workers were 8.7% and 9.0% in Flanders and Wallonia, respectively, compared to 9.4% in Belgium overall (Figure 2.20). The share of self-employment has also been falling among low-educated workers over the past 20 years.

Figure 2.20. The low-educated are less likely to be self-employed compared to those with more education

Self-employment as a share of the employed, by education, 1998, 2008 and 2018



Note: Data cover employed persons aged 20-64. Low-education refers to ISCED levels 0-2; middle-education to ISCED levels 3-4; and high-education to ISCED levels 5 and above. The self-employed includes both own-account workers and those with employees.
Source: European Labour Force Survey (EU-LFS).

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2.6.3. Temporary Work Agency (TWA) work is high and rising for the low-educated

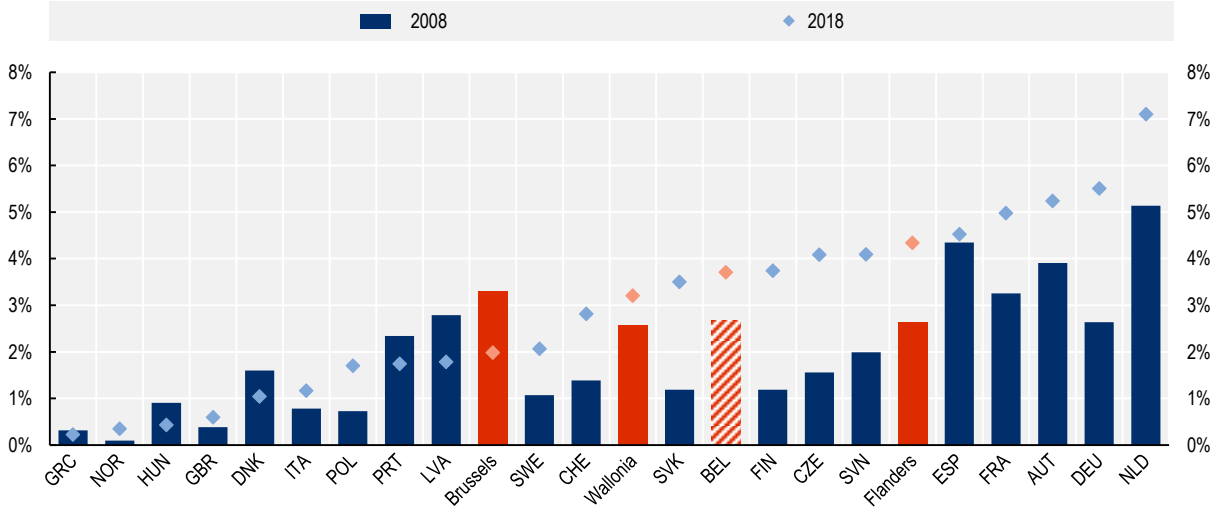
TWA employment refers to situations where a firm (lead or contracting) contracts with an employment agency (a temporary work agency) to provide labour on a temporary basis. TWA employment allows firms to fill temporary employment needs, as well as screen workers for direct hire positions. TWA firms may also provide free training to their workers to help with placement in a lead firm and act as a stepping stone for labour market entrants. Critics of TWA employment claim that it does not allow workers to build human capital and discourages meaningful job search resulting in workers cycling through temporary jobs (Autor, 2007[6]).

TWA employment is high and rising for low-educated workers in Belgium. In 2018, 4% of low-educated workers were employed through a TWA. This increased from 3% in 2008. Low-educated workers have a higher incidence of TWA employment compared to the overall employed population in Belgium, which sits at 2% in 2018. Part of this rise may be due to changes in employment protection legislation, which enlarged the number of reasons for using TWA employment (see Chapter 4, Section 4.7).

Compared to neighbouring countries, the incidence of temporary work agency is low in Belgium. In 2018, the Netherlands had the highest incidence of TWA employment of European OECD countries in Figure 2.21 with 7%. Germany had the second highest share (6%) and France had still a higher incidence than Belgium with 5%. Just as with Belgium, all countries have seen an increase in TWA employment over the past ten years.

Figure 2.21. Temporary Work Agency employment is rising for low-educated workers

The share of low-educated employed through a temporary work agency, 2008 and 2018



Note: The data cover the low-educated (ISCED 0-2) aged 20-64. Temporary Work Agency (TWA) employment is employment where workers have a contract with a TWA.
Source: European Labour Force Survey (EU-LFS).

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At a regional level, the share of temporary work agency employment is higher in Flanders (4%) than in Wallonia (3%) or the Brussels-Capital Region (2%).

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Notes

[1] The employment rate is the share of the entire population employed at a given point in time. It includes in the denominator both people who are unemployed and searching for a job, as well as people who are retired, in school, or otherwise not searching for employment. The employment rate is a robust measure of employment in that it does not depend on whether people claim to be actively looking for employment, which can be fickle and unreliable even over short time spans (ILO, 2008[7]).

[2] Unemployment rates ask people if they are actively looking for work. They therefore give a good indication of a person's likelihood of finding a job if they want one. They also exclude the population who says they are not actively looking for work which helps with populations who are not in the labour market. If there are many individuals who are willing and able to work, but for whom no work exists, this will show up in high unemployment rates, and it likely means labour markets are not working properly.

[3] Moving to the average of France, Germany and the Netherlands (18%) results in a more modest increase in overall employment rates (48.1%).

[4] In addition to managing fluctuations in labour demand, there is some evidence that full-time workers earn a pay premium relative to part-time workers even after accounting for worker characteristics. Part-time employment may therefore directly reduce labour costs for employers.

[5] Germany's high share of short part-time work for the low-educated is likely due to the Hartz labour market reforms in the early 2000s which greatly expanded "mini jobs", which are usually part-time jobs paying less than EUR 450 a month (Jacobi and Kluve, 2007[8]).

3 The future for low-educated workers in Belgium

This chapter takes a forward-looking view of the labour market for low-educated workers in Belgium, focusing on both job quantity and quality, as well as on issues of skills gaps and mismatches. The number of jobs occupied by low-educated workers in Belgium is forecast to decline, as is their employment rate. In the future, the remaining jobs for low-educated workers will be primarily in elementary occupations, but the industry composition of those jobs will continue to shift towards services. The shift towards service industries is likely to bring lower job quality for low-educated workers.

This chapter takes a forward-looking view of what the labour market for low-educated workers might look like in Belgium in the absence of any new policy interventions. The chapter focuses on the projected quantity of jobs for the low-educated, as well as on the issue of skills gaps and mismatches. The chapter then examines what projected shifts in the employment distribution of the low-educated across industries might imply for the quality of their jobs in the future.

Continuing a long-prevailing trend, the low-educated are expected to make up a decreasing share of the labour force over the next 10 years. However, the number of jobs occupied by low-educated workers is forecast to decline at an even faster pace, meaning that their employment rate is likely to decline even further (while in neighbouring countries Germany and the Netherlands, it is expected to rise). The shortage of jobs for the low-educated occurs in a context of considerable labour market tightness overall (at least before the COVID-19 crisis hit). In the future, the remaining jobs for low-educated workers will be primarily in elementary occupations, but the industry composition of those jobs will continue to shift towards services. The shift towards service industries is likely to bring lower job quality for low-educated workers.

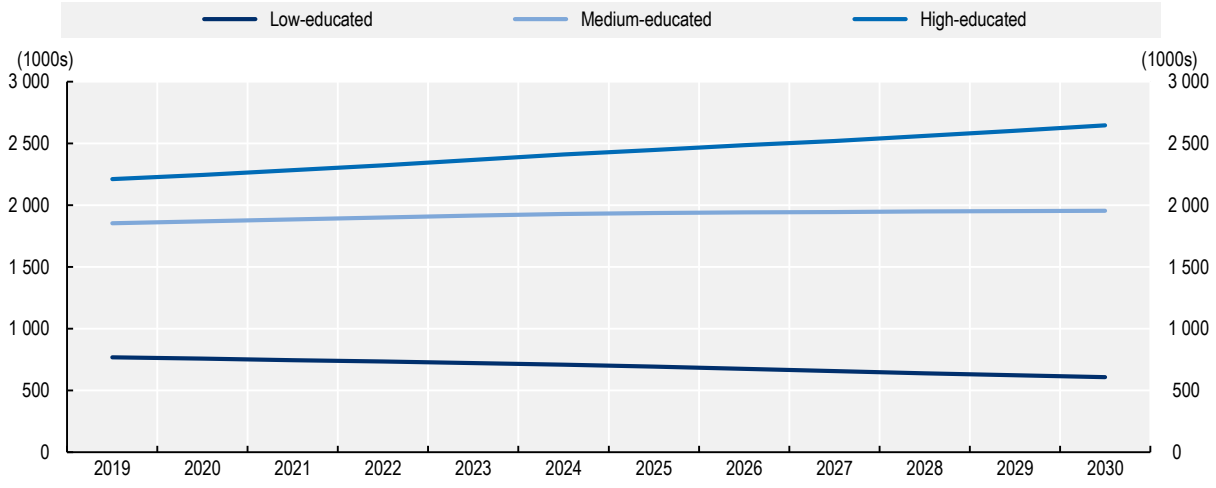
3.1. The share of low-educated workers will continue to fall, but so will their employment rate

The share of the labour force who are low-educated is expected to shrink as younger cohorts entering the labour market have increasingly more education. Over the past 30 years, each successive young cohort has tended to get more education than previous cohorts (Chapter 1). The net result for almost all European OECD countries is a shrinking share of the labour force composed of low-educated workers in the absence of any other policy interventions.

While the number of low-educated in the population is expected to fall in Belgium, so is the number of jobs held by low-educated workers. Between 2019 and 2030, Cedefop[1] estimates that the number of jobs held by low-educated workers in Belgium will fall from 770 000 to 610 000 – i.e. by 21% (Figure 3.1). By contrast, the number of jobs held by medium- and high-educated individuals is forecast to grow by 100 000 (+5%) and 430 000 (+20%), respectively.

Figure 3.1. The number of jobs for the low-educated is expected to fall

Employment trends by education, 2019-30



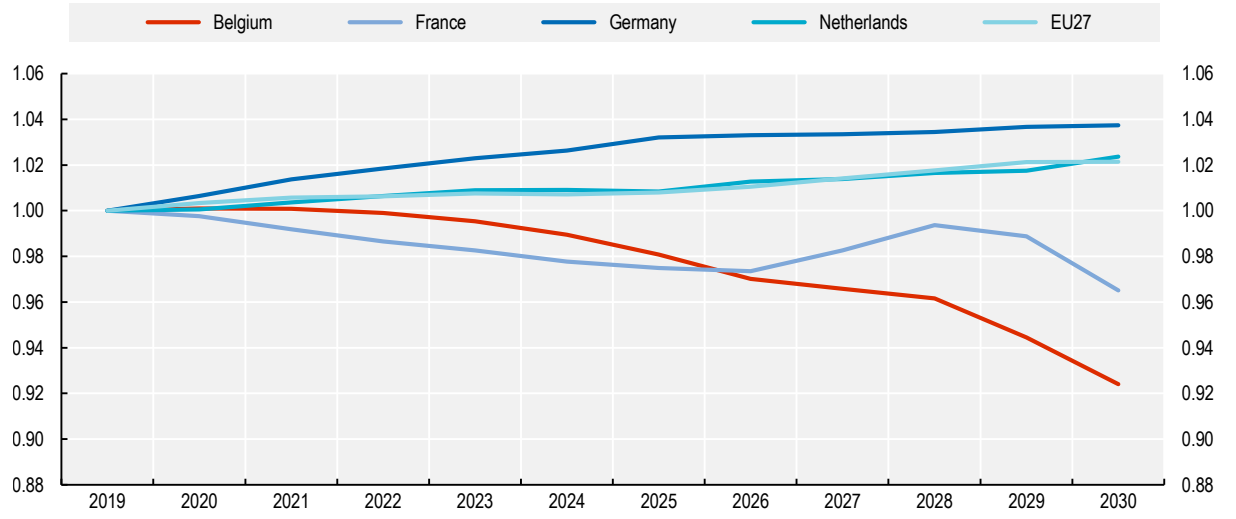
Note: Employment refers to the number of people in work (headcount) or the number of occupied jobs in the economy. Employed is defined as someone who worked at least one hour in the reference period for financial or non-financial reward.
Source: Cedefop Skills Forecast.

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The employment rate for the low-educated is also expected to fall in Belgium, but this is not an inevitable consequence of a shrinking share of low-educated workers. In neighbouring countries France, Germany and the Netherlands, the number of jobs occupied by the low-educated is also expected to decline, however the employment rate for the low-educated is only expected to fall in Belgium and in France (and considerably more so in Belgium than in France). By 2030, the employment rate among low-educated in Belgium could be 7 percentage points lower than it is now (Figure 3.2). In France, it is expected to be 3 percentage points lower. By contrast, in the Netherlands and Germany, it could be 2 and 3 percentage points higher, respectively.

Figure 3.2. The employment rate for the low-educated in Belgium is expected to fall

Projected change in employment rate (index: 2019=1), 2019-30



Note: The forecast of the employment rate is obtained by combining the Cedefop forecast of the labour force and the Cedefop forecast of employment trends. These two forecasts use different data sources and are not necessarily compatible. The employment forecast uses national accounts data and is on a workplace basis. These data can include multiple jobholding and cross-border commuting. The labour force forecast is based on labour force surveys and is on a residence basis. Due to these differences in frame, the employment forecast is not constrained by the labour force forecast. There can therefore be instances where the forecast for employment is higher than the forecast for total labour supply, especially in the longer term. Cedefop advises against estimating future employment rates based on comparing demand and supply. These caveats should be borne in mind when interpreting the figure.
Source: OECD calculations based on Cedefop Skills Forecast.

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3.2. Imbalances are emerging in the Belgian labour market between the skills needed and the skills supplied

The falling demand for low-educated workers documented in the previous sub-section already translates into skills mismatches in the Belgian labour market which are worsening over time. Chapter 2 has documented large (and worsening) differences in employment and unemployment between individuals with different educational attainment, which is one indicator that low-educated workers are in over-supply relative to demand.

Previous OECD research has also documented skills imbalances in the Belgian labour market. For example, the OECD Skills for Jobs indicators show that almost seven out of ten jobs facing skills shortages in Belgium require high skills, compared to just five out of ten in the OECD on average (OECD, 2018[1]). Similarly, Belgium has a high share of under-qualification[2] compared to most other OECD countries: 22.4%

of workers in Belgium are estimated to be under-qualified for the job that they are doing, compared to 18.4% across the OECD on average (OECD, 2017[2]).

This sub-section presents some additional evidence on this (growing) mismatch between the demand for, and supply of low-educated workers in Belgium. In particular, it shows that the worsening labour market outcomes of the low-educated occurred in the context of an increasingly tight labour market overall (prior to the COVID-19 crisis), and that there are strong regional and sectoral dimensions to the imbalance in demand and supply for low-educated workers. The final sub-section indicates that upskilling could offer a partial solution to the imbalance in labour demand and supply of low-educated workers given that many of the emerging shortage occupations require medium-level skills.

3.2.1. Despite dire job prospects for the low-educated, the labour market showed signs of tightness before the COVID-19 crisis

Before the COVID-19 crisis, the Belgian labour market showed signs of tightness even as the low-educated increasingly struggled on the labour market. Since the global financial crisis, the job vacancy rate in Belgium (i.e. the ratio of job vacancies to the number of occupied posts + job vacancies) had been steadily increasing from 1.5 in 2010 to 3.5 in 2019. This ratio is high by international standards (2.3 in the EU-28 on average), which suggests that employers in Belgium found it difficult to fill positions, despite the high level of non-employment among the low-educated. This indicates a significant level of mismatch in the labour market. The job vacancy rate in Belgium was similar to that in the Netherlands (3.3) and in Germany (3.3) (Table 3.1).

Table 3.1. Prior to the COVID-19 crisis, the Belgian labour market showed signs of tightness

Job vacancy rate, 2010-19

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EU-28	1.2	1.4	1.4	1.4	1.5	1.6	1.8	2.0	2.2	2.3
Belgium	1.5	1.8	2.4	2.4	2.2	2.4	2.8	3.4	3.5	3.5
Netherlands	1.5	1.6	1.4	1.2	1.4	1.7	2.0	2.5	3.0	3.3
Germany	1.6	2.3	2.2	2.1	2.3	2.4	2.4	2.7	3.1	3.3

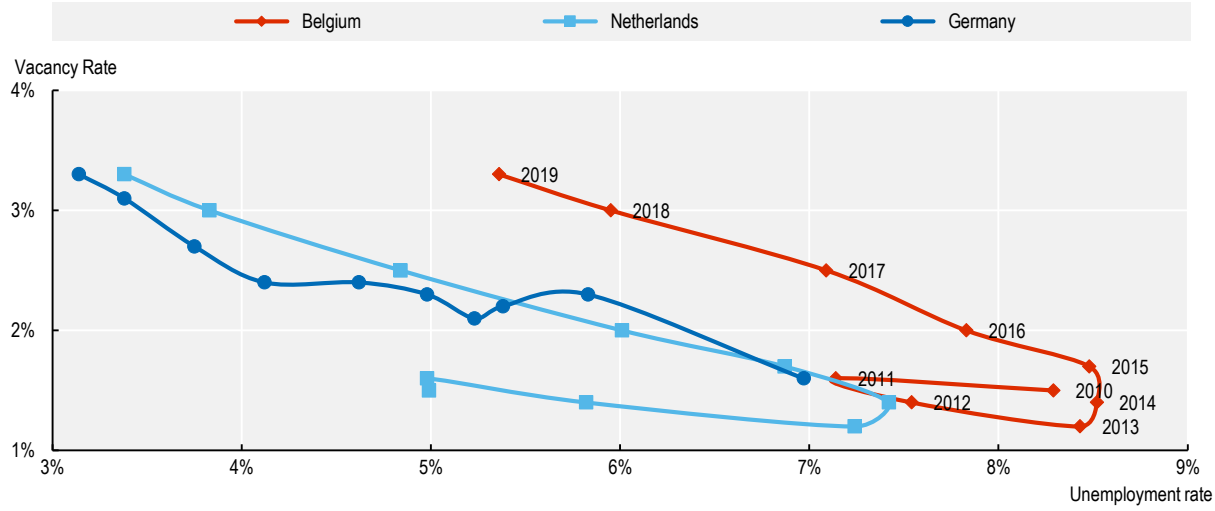
Note: Job vacancy rate = number of job vacancies / (number of occupied posts + number of job vacancies).
Source: Eurostat.

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Movements in the Beveridge curve confirm this increasing tightness of the labour market, but also indicate that labour market efficiency is higher in Germany and the Netherlands than in Belgium. The Beveridge curve relates the vacancy rate to the unemployment rate and serves as a measure of the efficiency with which labour markets match available workers to available jobs. In all three countries, the vacancy rate has increased since the global financial crisis as the unemployment rate has dropped (Figure 3.3). It is also clear that for a similar vacancy rate, the unemployment rate is considerably higher in Belgium than in Germany and the Netherlands, which indicates that the matching process in Belgium is far less efficient that in neighbouring countries.

Figure 3.3. Labour market matching is less efficient in Belgium than in Germany and the Netherlands

Beveridge curve, Belgium, Germany and the Netherlands, 2010-19



Source: Eurostat Job Vacancy Statistics for the vacancy rate. OECD Labour Force Statistics for the unemployment rate.

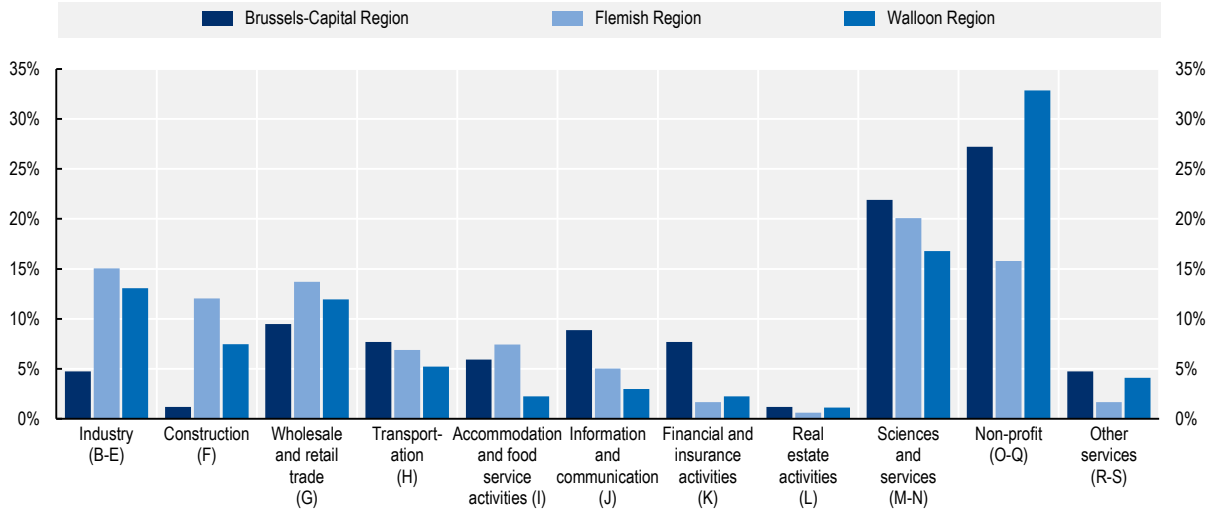
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3.2.2. The matching challenge has a regional (and sector) dimension

Vacancy data confirm a strong regional element to the matching challenge in Belgium. Overall, there were around 140 000 vacancies in Belgium at the end of 2019, nearly 70% of which were in Flanders, just over 10% in the Brussels-Capital Region, and nearly 20% in Wallonia. By comparison, 24% of the unemployed are based in Flanders, 33% in the Brussels-Capital Region and 43% in Wallonia. These differences across regions are confirmed by the job vacancy rate, which is much higher in Flanders (3.9% in 2019) than in Wallonia (2.7%). There are also important differences across regions in terms of the composition of vacancies, with a much larger share of vacancies in Flanders being in industry, construction, and retail and wholesale trade. In Wallonia, a third of vacancies are in the non-profit sector (Figure 3.4).

Figure 3.4. The distribution of vacancies across industries varies by region

Share of total job vacancies in each region by industry (Q4 2019)



Note: Shares add to 100% by region. Letters in parentheses refer to NACE classification.
Source: Statbel, https://statbel.fgov.be/en.

StatLink https://stat.link/y27ncd

3.2.3. Shortage occupations lists reveal many opportunities for workers with a secondary qualification

Each year, the regional public employment services in Belgium publish a shortage occupation list.[3] In 2020, the list of shortage occupations was much longer in Flanders (218 occupations) than in the Brussels-Capital Region (108 occupations) and Wallonia (72 occupations), again highlighting differences across regions in employment opportunities.

Very few of those shortage occupations (less than 1%) require low-educated workers. The vast majority require an upper secondary qualification (nearly two thirds) – although, in the Brussels-Capital Region, the share of shortage occupations that require a tertiary qualification is much higher than in the other regions (43% versus around 22% in both Flanders and Wallonia).

Upskilling would offer better employment opportunities to many low-educated workers. There are many training courses available for the unemployed who are interested in pursuing a career in one of these shortage occupations. In many cases, individuals can continue receiving unemployment benefits while they undertake such courses. Evidence for the Brussels-Capital Region suggests that vocational training programmes that are directly related to a shortage occupation are much more likely to result in employment (18 percentage points) than vocational education programmes overall (view Brussels, 2018[3]).

3.3. Forecasts indicate that low-educated workers will increasingly move into lower-pay industries

The projected decline in employment for low-educated workers is likely to include some reshuffling of workers across occupations and industries. Younger workers will find opportunities in occupations or industries, which may differ from those where earlier cohorts found work. Mid-career workers who are displaced may need to switch industries or occupations to continue their careers. This section examines

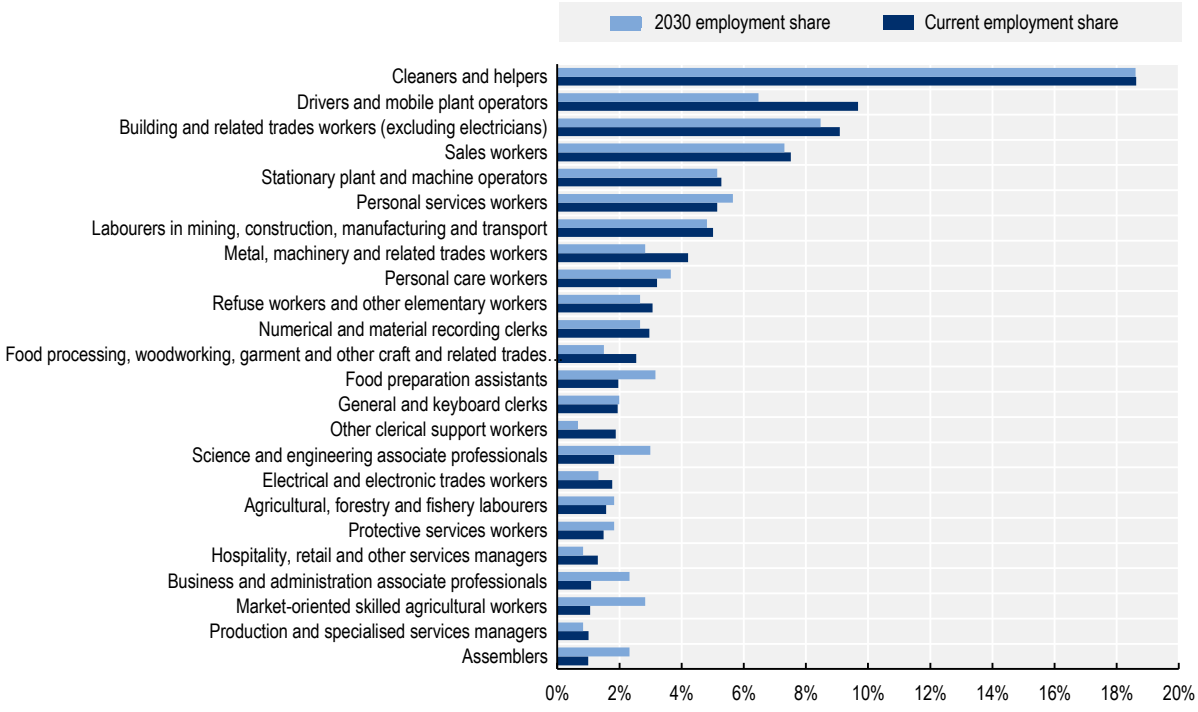
which occupations and industries are forecast to employ low-educated workers in the next 10 years, and what this implies for future job quality for low-educated workers.

3.3.1. The low-educated are forecast to remain in elementary occupations

The low-educated in Belgium are concentrated in elementary service occupations. In 2018, the occupation employing the highest share of the low-educated is cleaners and helpers with 19% (Figure 3.5). The next two occupations employing the highest share of low-educated workers are drivers and mobile plant operators (10%) and building trades workers (9%). Combined, these three occupations employ over one third of low-educated workers in Belgium.

Figure 3.5. Employment in Belgium is projected to grow in occupations that do not employ low-educated workers

Current (2018) and projected (2030) occupation distributions (for low-educated workers in Belgium



Note: Only occupations with at least 1% employment share are shown.
Source: 2018 occupation shares from European Union Labour Force Survey (EU-LFS). 2030 occupation shares derived from Cedefop.

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The distribution of employment across occupations will remain concentrated in elementary occupations. Cleaners and helpers are forecast to remain the occupation employing the most low-educated workers (19%). Building trades are projected to employ the second most low-educated workers (9%), and sales occupations are projected to grow into the occupation employing the third-most low-educated workers (7%). Drivers and mobile plant operators are expected to experience the largest decline in overall employment share. The current and continued reliance on cleaning occupations for low-educated employment may pose problems for workers going forward as these occupations are increasingly outsourced to service firms (see Box 3.1).

Box 3.1. Domestic outsourcing risks diminishing job quality for many jobs performed by the low-educated

Domestic outsourcing, or the subcontracting of jobs to outside firms, is a trend that is by no means new, but continues to affect workers in OECD countries including the low-educated. The defining feature of domestic outsourcing is that the subcontracted work was, or could be, done within the boundaries of the lead firm (i.e. the firm outsourcing the job). The result is often jobs moving from high-wage to lower-wage industries.

Classic examples of domestic outsourcing concern the work of janitorial, cafeteria, and security services. Workers in these support occupations perform labour within the physical boundaries of a lead firm, often on a regular and ongoing basis, but a secondary firm is often their legal employer.

Domestic outsourcing is not limited to low-wage service jobs. Professional services firms also provide high-skill labour such as information technology, accounting, human resources and legal services to lead firms. Crucially, the lead firm chooses to contract with a secondary firm (or even an own-account worker) to provide these services instead of employing the workers directly in-house, as many companies did in the past.

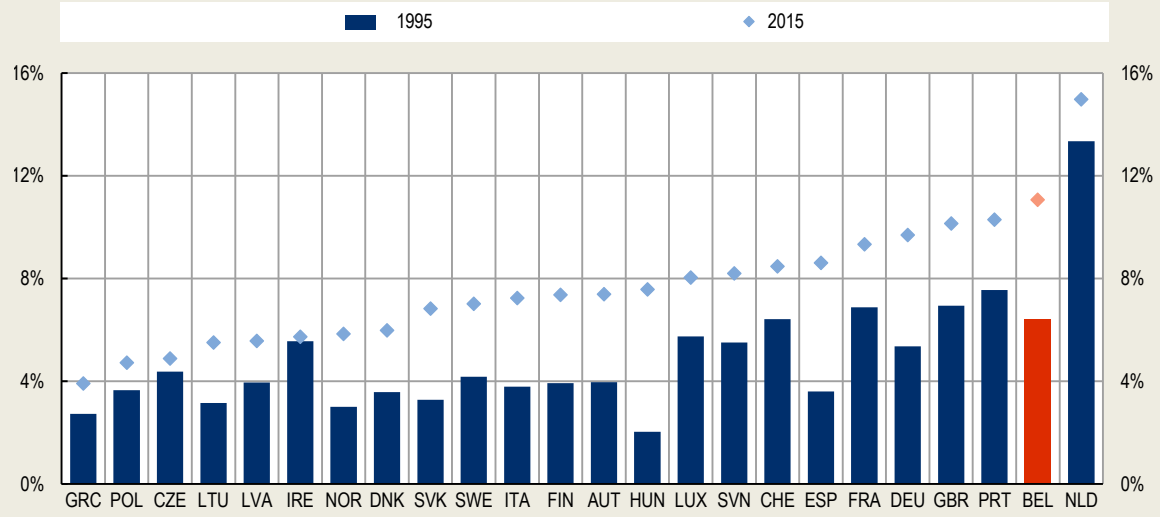
Firms may outsource the work of support roles and even core functions for a variety of reasons. First, firms may want to more flexibly control their labour demand for non-core occupations. This will result in greater specialisation within firms and possibly to greater productivity. Second, firms may subcontract work to reduce wage and benefit costs. This is particularly true in high-wage industries or unionised firms. Although this is an active and nascent area of research, studies from the United States and Germany find that outsourced workers in low-skill support occupations earn less and are subject to lower job quality compared to similar workers employed in the lead firm (Dube and Kaplan, 2010[4]; Freedman and Kosová, 2014[5]; Ji and Weil, 2015[6]; Goldschmidt and Schmieder, 2017[7]).

Documenting the rise of domestic outsourcing often focuses on the professional and business services (PBS) industry (ISIC rev 4. “M/N”). This industry is unique in that it mostly provides services to other firms rather than end customers. It is also bifurcated by skill providing both high-skill technical or legal services, but also janitorial, security, and general employment services to firms. While far from perfect, PBS provides the best cross-country comparison for the rise of domestic outsourcing, which has a heavy concentration of industries shown to be engaged in outsourcing relationships (Weil, 2019[8]).

Compared to other European OECD countries, Belgium has a high and growing share of outsourced workers. Part of this is likely due to the implementation of the service cheque programme initiated in 2008 (see Chapter 4), but the rise is similar to that observed in many other OECD countries. In 2015, 11% of employment in services was performed by workers in Administrative and Support Service activities (ISIC rev4 “N”), which is nearly double the share in 1995 (Figure 3.6). This industry comprises firms providing lower-skilled services to other firms, and its growth is outpacing growth in services overall. Only the Netherlands has a higher share of service employment (15%) in administrative and support services than Belgium.

Figure 3.6. Domestic outsourcing is growing in most European OECD countries

Employment share of administrative and support service activities in services, 1995 (or closest year) and 2015



Note: STAN data for category D77T82 "Administrative and support service activities [N]" divided by D45T99 "Total services". Closest year to 1995 available is 1998 for Ireland, and 2001 for Poland.
Source: OECD Structural Analysis Database (STAN), http://www.oecd.org/industry/ind/stanstructuralanalysisdatabase.htm.

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3.3.2. Manufacturing is expected to experience the biggest loss of low-educated workers

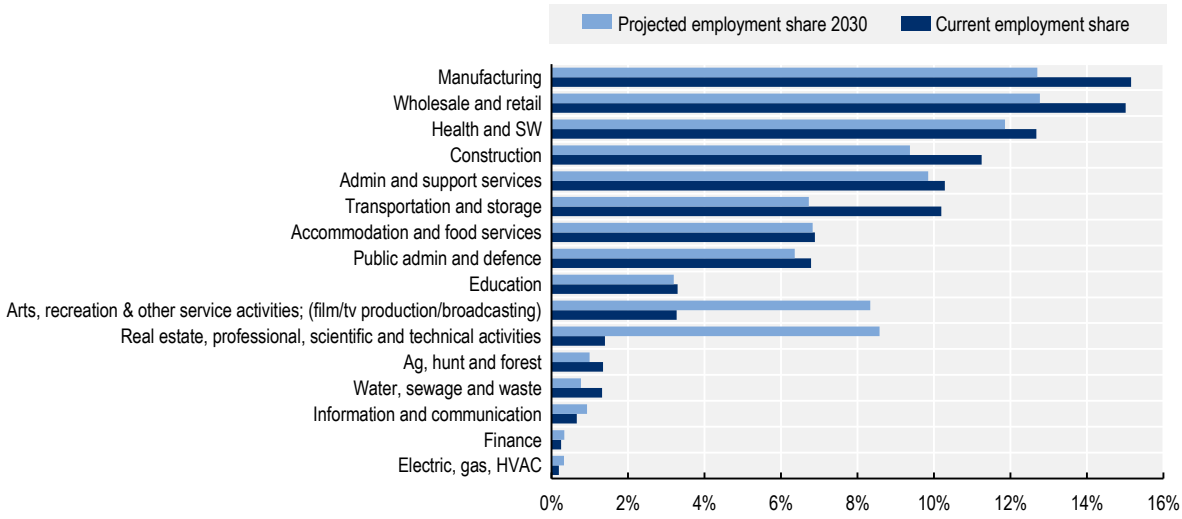
Low-educated workers are currently most likely to be employed in manufacturing as well as in wholesale and retail trade. Figure 3.7 shows the distribution of employment of low-educated workers across industries in 2018 and the projected employment distribution in 2030. The four industries most likely to employ low-educated workers in Belgium in 2018 are Manufacturing (15.2%); Wholesale and Retail (15.0%); Health and Social Work (12.7%) and Construction (11.3%). The least likely to employ low-educated workers are Finance; Electric, Gas, and Heating; and Information and Communication.

Industries with a significant shrinking share of the low-educated population are principally the industries which now employ the most low-educated workers: Wholesale and Retail as well as Manufacturing. By 2030, the distribution of low-educated workers in Belgium is expected to shift away from Manufacturing and towards high- and low value-added services. The biggest shift will be towards Arts, Recreation and Other Services as well as towards Real Estate, Professional, Scientific and Technical activities. The latter is somewhat surprising, as professional services tends mostly high-educated workers. It may be related to the general rise in firm-to-firm service industries (see Box 3.1).

It has sometimes been argued that the growth of the circular economy the greening will lead to significant job creation, including for the low-skilled. While OECD work confirms that green growth policies will create new jobs, particularly in sectors with low emission intensities, it will also result in job destruction in emission-intensive sectors. The overall impact of decarbonisation policies on employment is therefore expected to be positive, but small. In addition, low-skilled workers will generally be more affected by these transitions than other categories of workers (Chateau, Bibas and Lanzi, 2018[9]).

Figure 3.7. The share of the low-educated working in manufacturing is expected to fall

Current (2018) and projected (2030) industry distribution of low-educated workers in Belgium



Note: Industries with less than 1% employment share not shown.
Source: 2018 industry shares from European Union Labour Force Survey (EU-LFS). 2030 industry shares derived from Cedefop.

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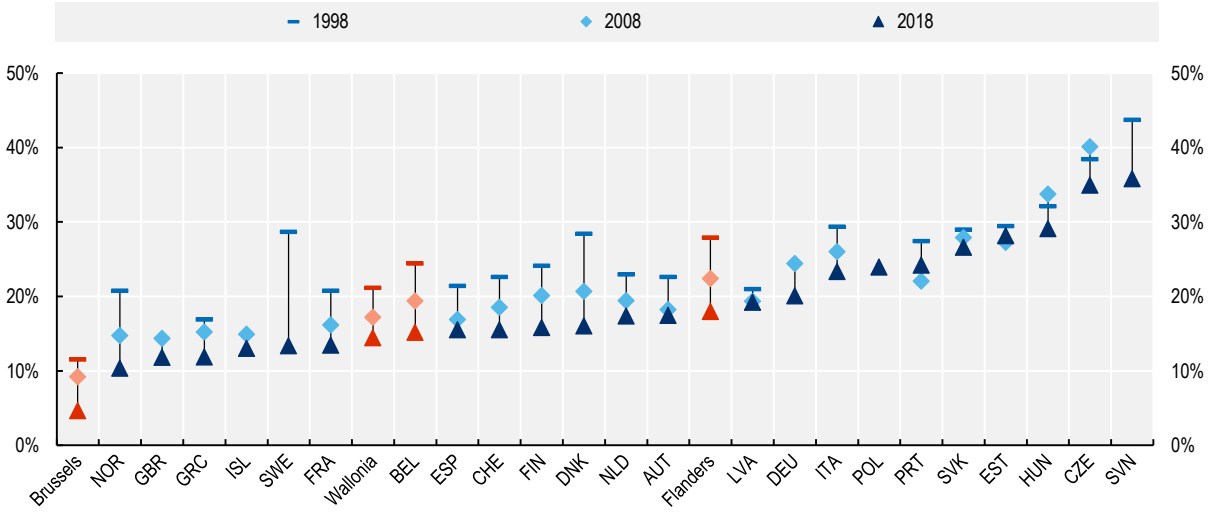
The loss of employment share in manufacturing is a long-term trend

Manufacturing has traditionally been a high-wage industry employing a large share of low-educated workers. Economists have long recognised that even after adjusting for worker characteristics, industry wage differentials persist and confer higher pay to otherwise similar workers who find employment in high-wage industries (Krueger and Summers, 1988[10]; Gibbons and Katz, 1992[11]). Manufacturing is perhaps the best example of a high value-added industry that consistently delivers higher pay, and has also traditionally employed a large share of workers without a tertiary education (Helper, Krueger and Wial, 2012[12]; OECD, 2020[13]).

For low-educated workers, the shift away from manufacturing has been a long and steady trend. Belgium's share of low-educated workers employed in manufacturing (15.2%) is lower than in neighbouring countries Germany (20.4%) and the Netherlands (17.1%), but higher than in France (13.5%). For all countries involved, the share has declined over the past 10 years (Figure 3.8). The share of low-educated workers employed in manufacturing in Belgium has been declining for the past 20 years, falling from 24.4% in 1998. This is a larger percentage point decline than in either the Netherlands or France.[4]

Figure 3.8. The share of low-educated workers employed in manufacturing has experienced a slow, steady decline

Share of low-educated workers employed in manufacturing, 1998, 2008 and 2018



Note: Data cover all employed persons aged 20-64 with a low-education (ISCED 0-2).
Source : European Labour Force Survey (EU-LFS).

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In Belgium, Flanders has the largest share of low-educated workers employed in manufacturing, but it has also experienced the largest percentage point decline. In 2018, the share of low-educated workers employed in manufacturing in Flanders was 17.9%, a higher share than in the Netherlands, but lower than in Germany. Wallonia and the Brussels-Capital Region had lower shares of low-educated workers in manufacturing: 14.4% and 4.6%, respectively. Although Flanders retains the highest share of the low-educated employed in manufacturing, its share has fallen the most over the past 20 years. The share in Flanders fell from 27.9% in 1998 to 17.9% in 2018, compared to Wallonia where the share fell from 21.1% to 14.4% over the same period. The fall in the Brussels-Capital Region was similar to Wallonia (6.9 percentage points). In 1998, 11.5% of the low-educated in the Brussels-Capital Region were employed in manufacturing where today manufacturing employment has mostly disappeared. The shift away from manufacturing is by itself concerning for the labour market outcomes of low-educated workers, but changes *within* manufacturing are another merging trend to watch (Box 3.2).

Box 3.2. Posted workers are an emerging trend in some industries employing a high share of low-educated workers

The freedom of firms to provide services across borders within the EU was established in 1959, and it is one of the cornerstones of the European Union. Under this principle, firms established in one member state are allowed to post their workers to another member state to perform a work mission for a limited duration of time (12 months since the revised version of the Posted Workers Directive adopted in 2018). Sending firms do not have to establish themselves in the country where the work mission is performed, nor are they required to hire workers in this country. Crucially, workers posted from the sending country are exempt from all social security contributions and labour taxes in the country of work, and stay affiliated to the social security regime in the country where the sending firm is established. These provisions can make labour much cheaper in countries with high social security contributions. They are

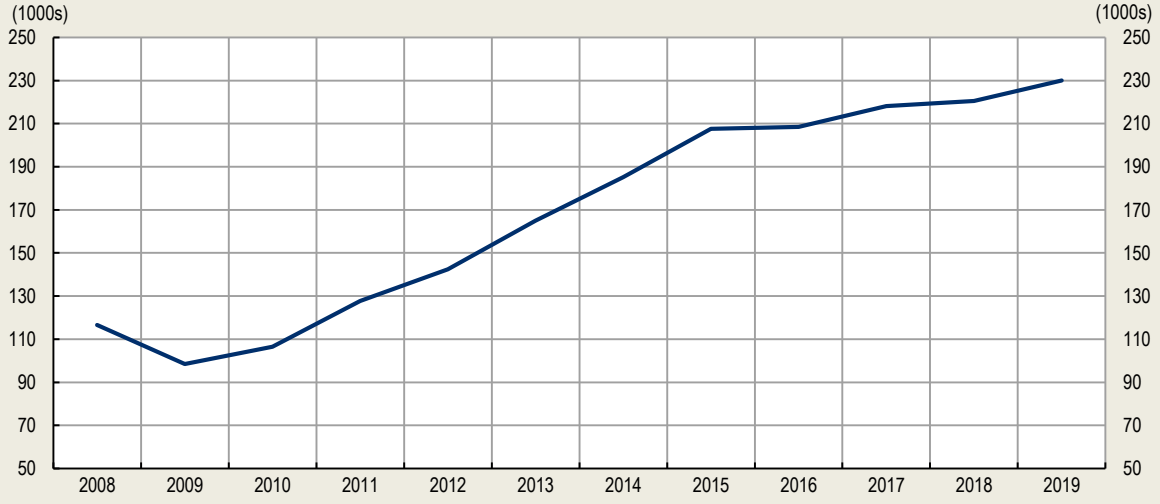
also exempt from labour market rules in the destination country with the exception of the minimum wage, minimum paid leave, and legal maximum duration of work. Starting in 2020, posted workers will have to adhere to all mandatory laws of remuneration in the host country.

Belgium is one of the main destination countries for posted workers. Since 2007, Belgium collects detailed administrative data on the number of workers posted by foreign companies to its territory. From 2008 to 2019, the number of unique posted workers to Belgium doubled from approximately 100 000 workers in 2009 to over 230 000 in 2019 (Figure 3.9). These numbers somewhat understate the penetration of posted workers into the Belgian labour market as workers can be posted for multiple assignments (so the number of assignments could be greater than the number of workers). In 2019, the number of posting missions to Belgium reached 800 000 performed by 230 000 unique posted workers. Posted workers represent a substantial share of Belgian domestic labour force, as they account for roughly 3% of the working age population and 4.5% of total domestic employment in 2019.[1]

Posting is concentrated in a few sectors in Belgium. Most posted workers are employed in construction and specific sub-sectors of manufacturing, such as metal works and electrical installation, which tend to employ, and pay high wages to low-educated workers. The effect of posted workers on domestic workers employed in industries with high shares of posted employment remains an open research question. Specifically, it is unclear whether foreign posted workers are complements to domestic workers, which would possibly spur demand for domestic workers, or whether, conversely, posted workers are substitutes for domestic workers, and depress domestic employment as well as wages and working conditions. The latter would be due to the various loopholes in the original rules around posting workers.

Figure 3.9. Belgium is experiencing a continuous increase in posted workers

Unique workers posted to Belgium, 2008-19



Note: Number of unique workers posted each year to Belgium recorded by the social security administration over the period 2008-19. A unique worker can be posted several times over the period.
Source: Muñoz (forthcoming[14]), 'Workers Across Borders: Equity-Efficiency Trade-offs in Mobility Policies".

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[1] Comparing the number of posted workers to the number of domestic employed gives a first approximation of domestic labour market exposure to posting. This approach is however imperfect as it does not translate posting employment in full time equivalents. For a discussion of this issue see De Wispelaere, Chakkar and Struyven, (2020[15]).

3.3.3. Job quality for low-educated workers is likely to decline slightly

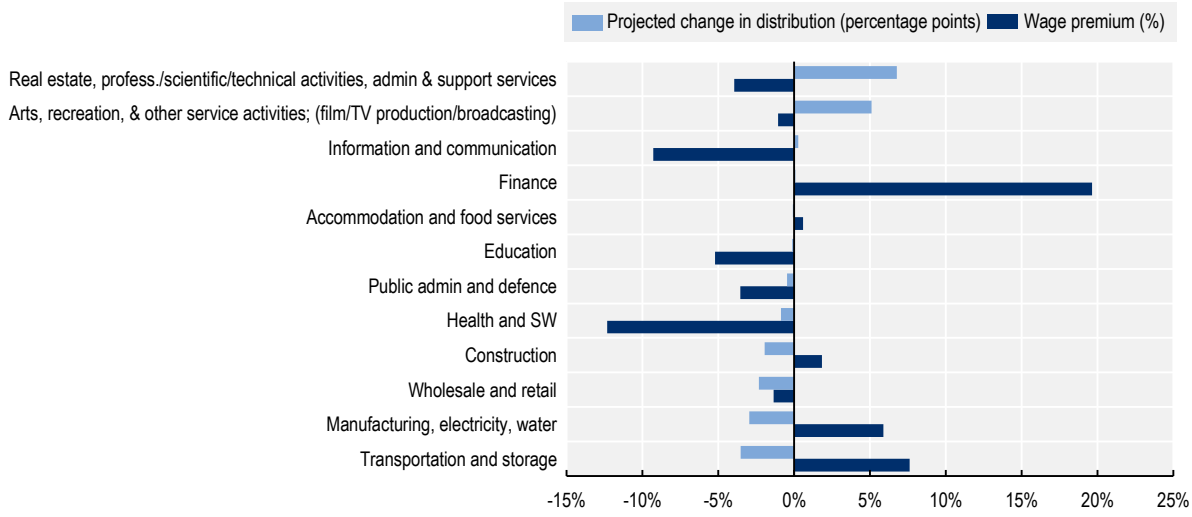
The gradual reallocation of low-educated workers across industries will have implications also for the quality of the jobs that they will be able to obtain. Job quality in some industries is higher than in others. This section estimates the possible implications of the reallocation of low-educated workers across industries for job quality. Using a regression framework to adjust for worker characteristics, industry wage premiums are estimated for low-educated workers in Belgium as well as the probability of being in non-standard work.[5] On the assumption that job quality within industries remains constant over time, the projected reallocation of workers across industries would imply a modest decrease in wages and an increase in the incidence of non-standard work for low-educated workers.

Structural changes are likely to lead to lower pay for low-educated workers

Low-educated workers in Belgium are projected to move into lower wage industries. Figure 3.10 shows the estimated industry wage premium and the projected percentage point change in the industry distribution of low-wage workers. Real Estate and Professional Services and Arts and Entertainment are expected to see the largest increases in the share of low-educated workers. These sectors have negative wage-premiums of -3.9% and -1.0%, respectively, implying that, for a given set of characteristics, low-educated workers are paid less in those industries than in others.

Figure 3.10. Employment for the low-educated in Belgium is projected to shift towards lower-wage industries

Change in projected industry distribution (2019-30) and industry wage premiums (2014-18) for low-educated workers in Belgium



Note: Wage premiums expressed as the percentage difference from the average wage among low-educated, full-time workers in Belgium pooling years 2014-18. The wage premium regression adjusts raw inter-industry wage differences to account for demographic differences of workers across industries.
Source: 2018 industry shares from European Union Labour Force Survey. Long-run growth forecasts from Cedefop. Wage premiums estimated from EU-SILC.

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By contrast, the share of low-educated workers in high-wage industries is expected to fall. Manufacturing currently employs the largest share of low-educated workers and it is projected to employ the second largest share in 2030, being overtaken by wholesale and retail trade. Manufacturing is also projected to

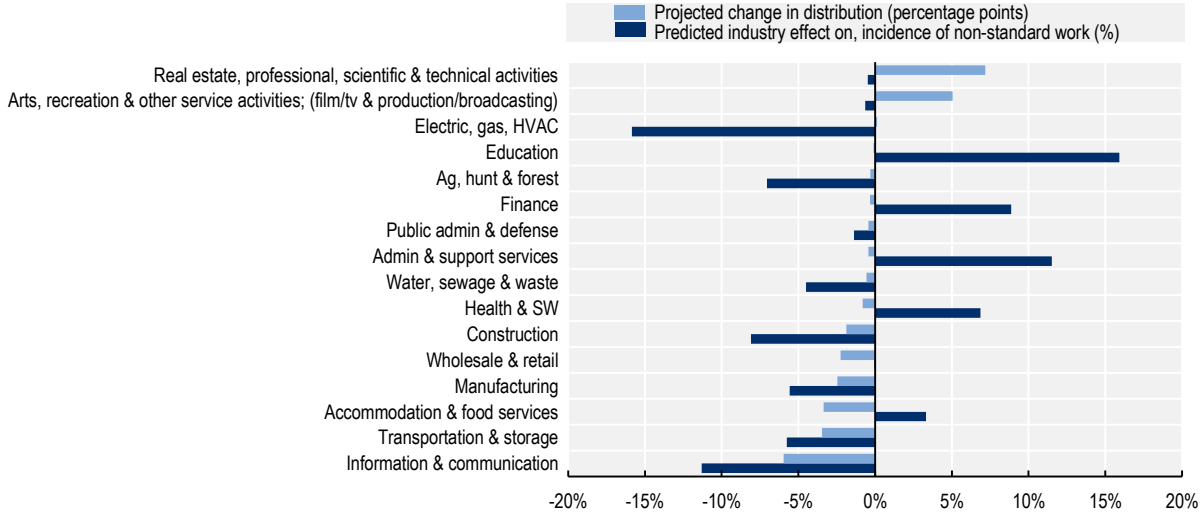
lose the largest share of low-educated workers. Manufacturing has one of the highest estimated wage premiums for low-educated workers (5.9%). The shift away from manufacturing therefore will have negative consequences for the pay of low-educated workers. Holding industry wage-premiums fixed, the projected change in the employment distribution of low-educated workers will result in a 1.4% decline in wages for the low-educated by 2030.

The incidence of non-standard work is expected to increase slightly

Just as with wages, the shifting employment distribution for low-educated workers will result in a modest increase in non-standard work. The total change in the projected share of non-standard work is small – a 0.4 percentage point increase or 1.2%. The underlying dynamics are more subtle as both the industries gaining the most low-educated workers and those losing the most (same as in Figure 3.7), are industries less likely to employ non-standard workers. However, manufacturing and information and communication are particularly unlikely to use non-standard work (shrinking industries), while the industries gaining employment shares are only marginally less likely to employ non-standard workers on average (Figure 3.11).

Figure 3.11. Low-educated employment is also projected to shift towards industries who employ more non-standard working arrangements

Change in projected industry distribution (2019-30) and incidence of non-standard work (2014-18) for low-educated workers in Belgium



Note: Non-standard work includes workers on fixed-term contracts or part-time hours. Incidence of non-standard work expressed as percentage difference from average rate of non-standard work among low-educated, full-time workers in Belgium pooling years 2014-18. Incidence of non-standard work regression adjusted to account for demographic differences of workers across industries. Projected change in the employment distribution is the percentage point difference in industry shares between 2018 and the projected 2030 distribution.
Source: 2018 industry shares and incidence of non-standard work from European Union Labour Force Survey (EU-LFS). Long-run growth forecasts from Cedefop.

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Notes

[1] Cedefop is one of the EU's decentralised agencies, supporting development of European vocational education and training (VET) policies. As part of their work, they also release various labour force projections.

[2] The qualification mismatch index calculates the share of workers in each economy/occupation that are under- or overqualified to perform a certain job. This is done by computing the modal (i.e. most common) educational attainment level for each occupation in each country and point in time, and use this as a benchmark to measure whether individual workers' qualifications match the "normal" education requirement of the occupation.

[3] The data used here are taken from the shortage occupation lists published by the three Belgian public employment services: Le Forem for Wallonia (https://www.leforem.be/former/horizonsemploi/metier/index-demande.html); VDAB for Flanders (https://www.vdab.be/trends/knelpuntberoepen); and Actiris for The Brussels-Capital Region (http://www.actiris.be/Portals/36/Documents/NL/2019-knelpuntberoepen.pdf).

[4] EU-LFS data does not go back to 1998 for Germany. Belgium's share of manufacturing declined more than Germany from 2008 to 2018, which is the available reference point in Figure 3.7.

[5] For industry wage premiums, the results obtain from fitting an OLS model by regressing real (2010 euros) log gross monthly earnings for full-time, low-educated workers on a set of worker and firm characteristics (age, sex, education, firm size) pooling over years 2014-18. The regression results are used to estimate residuals at the individual level, which are then averaged by industry. The estimated average residual for each industry is rescaled by the mean log real wage from 2014-18 giving the industry wage premium net of worker characteristics. The same procedure is employed for non-standard work but using a linear-probability model. All results for non-standard work are industry-specific, percentage point deviations from the mean incidence of non-standard work among low-educated workers.

4 The role of policy and institutions

This chapter focuses on policies and institutions that have a potential impact on the labour market performance of the low-educated, including: minimum wages, collective bargaining, taxation, unemployment benefits, activation measures, training, and employment protection legislation, amongst others. The chapter focuses on comparisons between Belgium and neighbouring countries to identify areas where reforms offer promise for improving outcomes for the low-educated in Belgium. The chapter concludes that high labour costs and poor work incentives are likely to be barriers to better labour market outcomes for the low-educated in Belgium, and that further investments in education and lifelong learning will be required.

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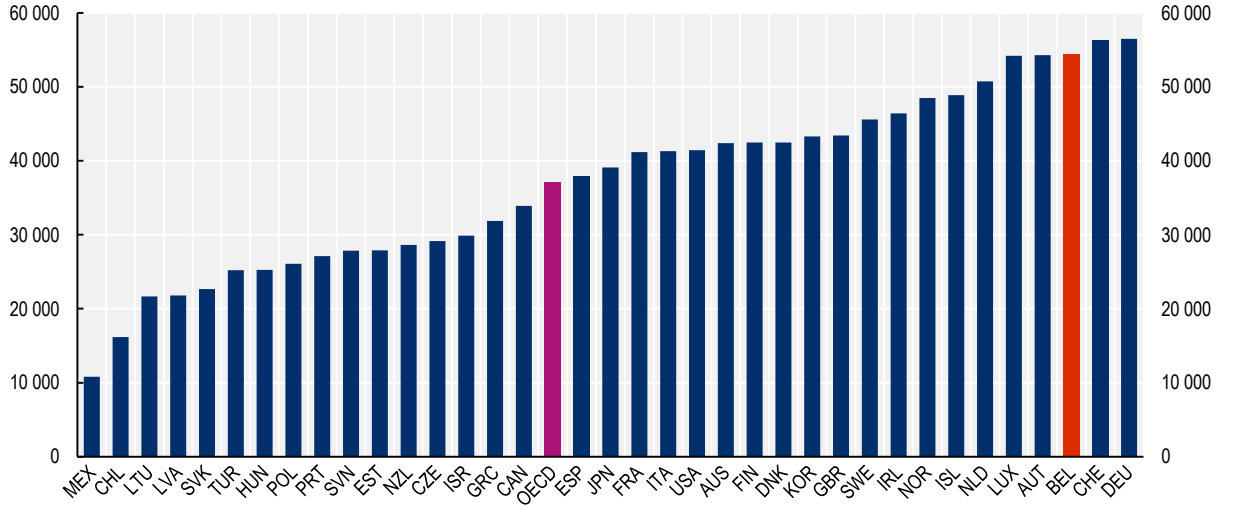
The analysis suggests that the collective bargaining system in Belgium may contribute to wages that exceed productivity for some low-educated workers, resulting in lower employment. Particular aspects of the collective bargaining system that merit attention are: minimum wages set in sector collective agreements and their automatic indexation. Both on the demand and supply side, further reforms to taxes and social security contributions could also play a part in lifting the employment rates of low-educated workers. There is scope to improve work incentives, both by addressing generous out-of-work benefits for some groups and tightening requirements for continued receipt of unemployment benefits. Greater use of flexible work is unlikely to make a significant difference, however the gap in regulation between permanent and fixed-term contracts should be narrowed so as to encourage employers to hire low-pay workers on permanent contracts.

4.1. On average, labour costs in Belgium are high

Labour costs in Belgium are amongst the highest in the OECD. Annual gross labour costs in Belgium for single workers earning 67% of the average wage[1] were USD 54 408 in 2018 (with equal purchasing power). Only Germany and Switzerland had higher labour costs (USD 56 483 and USD 56 252, respectively). Labour costs for this group in Belgium were 7% higher than in the Netherlands, and 32% higher than in France. They were also higher than in the Nordic countries (Figure 4.1).

Figure 4.1. Labour costs are high in Belgium

Annual total gross labour costs, single person no children earning 67% of average wage (in USD using PPP), 2019



Source: OECD (2020[1]), Taxing Wages 2020, https://doi.org/10.1787/047072cd-en.

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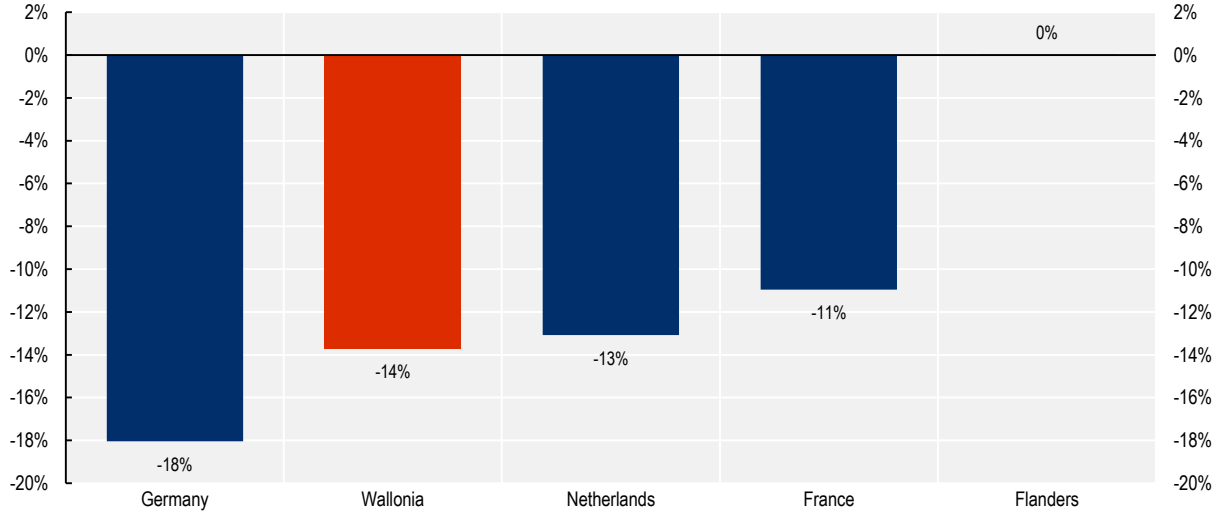
4.1.1. High labour costs reflect high productivity

To a large extent, labour costs are higher in Belgium simply because productivity is higher, and this will be reflected in higher wages (see Chapter 2, Section 2.2). Indeed, Belgium is one of the most productive economies in the world (OECD, 2019[2]). Productivity in Belgium is higher than in neighbouring countries. Belgium's productivity exceeds that of France by 11%, the Netherlands by 13% and Germany by 18%.[2]

However, there are important regional differences in productivity within Belgium. Of the three regions, the Brussels-Capital Region has the highest productivity, exceeding the overall average in Belgium by 25%.[3] Productivity in Flanders is roughly equal to the Belgian average and it is 14% higher than in Wallonia. Wallonia's productivity is on par with that of neighbouring countries France, the Netherlands and Germany (Figure 4.2).

Figure 4.2. Productivity is high in Belgium and in Flanders

Real gross value added per worker relative to Belgian average, 2017-18



Note: All values are the average of 2017 and 2018 for each entity expressed relative to Belgium overall. For 2017 and 2018 Belgium overall has equivalent productivity to Flanders. The Brussels-Capital Region not shown.
Source: OECD Regional Statistics, http://www.oecd.org/regional/regional-statistics/.

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4.1.2. Labour costs may exceed productivity for some low-educated workers

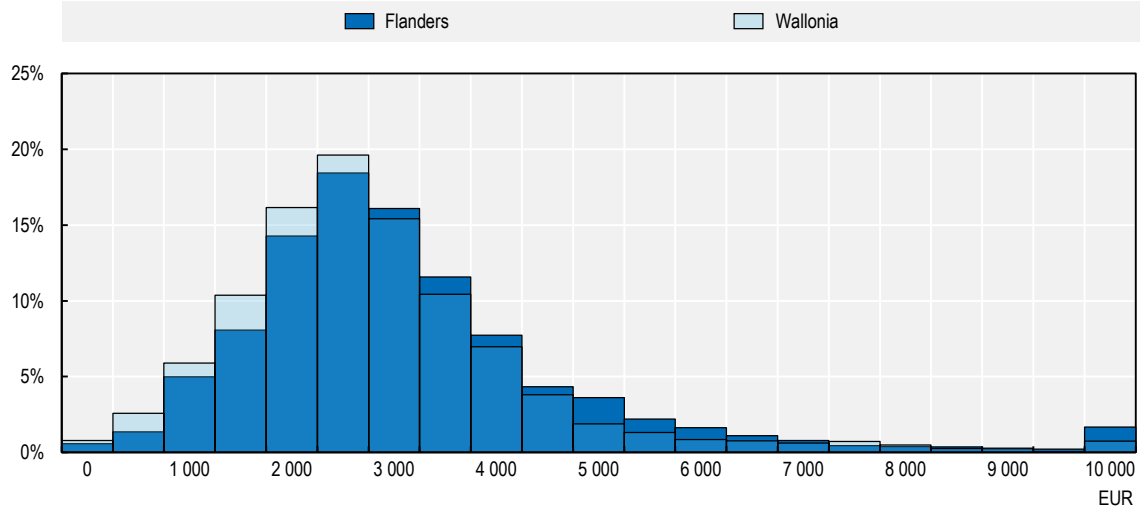
Wages (and hence labour costs) are determined by complex wage-setting mechanisms that vary across countries. In addition to decentralised wage bargaining between individual workers and firms, these mechanisms include labour market institutions and laws such as the national minimum wage (Section 4.2.1) and collective bargaining agreements (Section 4.2.2). Particularly when these labour market institutions put strong pressure on wage-setting negotiations, the result may be wages that depart from productivity, at least for some groups of workers.

As shown in the main findings and policy pointers section of this report (Figure 7), low-educated workers in Belgium tend to have considerably higher wages than similar workers in neighbouring countries (and France and Germany in particular). Higher wages for low-educated workers may be justified in Flanders, where productivity is considerably higher than in neighbouring countries. In Wallonia, however, where productivity is 14% lower (and on par with neighbouring countries), earnings are quite similar to Flanders for the low-educated. The earnings distribution for the low-educated in Wallonia is more similar to Flanders

(Figure 4.3) than to neighbouring countries.[4] Higher wages than can be supported by the underlying productivity of workers may result in lower employment among these workers (Section 4.2.7).

Figure 4.3. The earnings distributions of the low-educated are virtually the same in Wallonia and Flanders

Distribution of gross monthly labour earnings for the low-educated in Wallonia and Flanders



Note: Date cover dependent employees aged 20-64 with a low-education (ISCED levels 0-2). Earnings are real 2018 euros for years 2016-18 pooled. The distribution is truncated at 10 000 EUR.
Source: OECD estimates based on EU statistics on Income and Living Conditions (EU-SILC), https://ec.europa.eu/eurostat/web/microdata/european-union-statistics-on-income-and-living-conditions.

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4.2. Wage setting institutions contribute to high labour costs

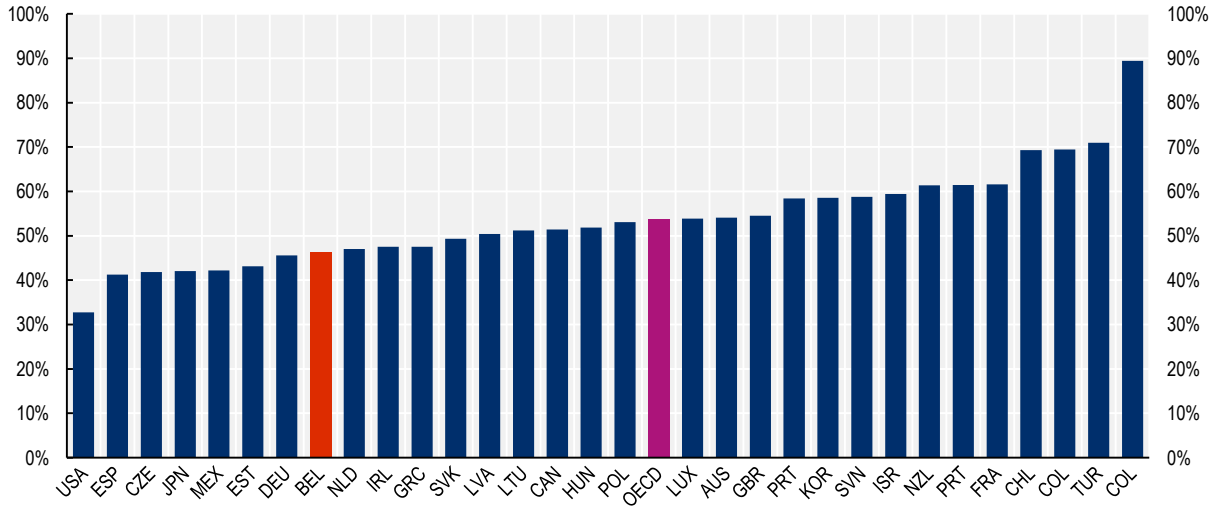
4.2.1. The national minimum wage does not appear high in Belgium, but it is superseded by much higher sector minimum wages

At reasonable levels, minimum wages are unlikely to cause substantial job loss. The weight of the evidence suggests that moderate increases in a minimum wage set at reasonable levels are unlikely to have significant negative employment effects – although more vulnerable groups might be more adversely affected (OECD, 2015[3]).

The national minimum wage in Belgium[5] is in line with that of Germany and the Netherlands. In 2018, the minimum wage in Belgium stood at 46% of median wages and 39% of average wages. This is comparable to Germany (46% and 40%) and the Netherlands (47% and 39%) (Figure 4.4). Only France has considerably higher minimum wages than Belgium (62% and 50% of median and average wages, respectively) – but wages overall are lower in France and there are also important rebates in social security contributions which mean that labour costs at the minimum wage are similar to Belgium, Germany and the Netherlands (see Annex 4.C).

Figure 4.4. The national minimum wage is not particularly high in Belgium

Minimum relative to median wage of full-time workers, 2018



Source: OECD Minimum relative to average wages of full-time workers dataset https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE.

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In practice, the national minimum wage in Belgium only applies to a very small portion of workers. The OECD estimates that only around 1% of employees in Belgium earn at the national minimum wage. This is because the majority of sectoral bargaining agreements in Belgium set their own minimum wage and, on average, these sector minimum wages are around 20% higher than the national minimum wage (see Box 4.1) This is very different from the French system, for example, where collective agreements seldom raise the minimum wage above the national minimum (Plasman, 2015[4]).

Box 4.1. Sector minimum wages in Belgium

There are around 100 joint committees and 200 joint sub-committees in Belgium that decide on wages across the country. An analysis of the collective bargaining agreements reached by these committees suggests that nearly all set a minimum wage higher than the national minimum wage. On average, the sector minimum wages are around EUR 12 – which is 20% higher than the national minimum wage (which is just under EUR 10).

In some sectors, agreements set lower wages for new entrants. Most often, the full sector minimum wage will then be reached after a period of 3 to 24 months. The vast majority of collective bargaining agreements also set lower wages for young workers as well as for students. Many sectors have a full seniority pay structure (although the majority do not).

Only a handful of agreements vary by region. This is the case in some of the quarries and ports, but it is most visible in the metal works industry where wages vary by province and range between EUR 12.29 and EUR 13.07. In the plastics processing industry, there is also up to a EUR 1 difference in minimum wages between the provinces of Limburg and West-Flanders.

Regional minimum wages are quite common in some of the social and public sectors (e.g. education, care for the disabled, the socio-cultural sector, health and well-being, social housing) – which is related to the fact that regional authorities are competent in these fields. There are also a handful of agreements that allow minimum wages to vary according to firm size (with lower minimum wages in smaller firms).

Source: OECD analysis based on the Sector Minimum Wage Database maintained by the Ministry for Employment, Labour and Social Dialogue (https://werk.belgie.be/nl/themas/verloning/minimumlonen-paritair-subcomite/databank-minimumlonen).

4.2.2. Wage bargaining in Belgium is highly centralised and co-ordinated, which can promote good macroeconomic performance and reduce inequality

Wage-setting in Belgium is highly centralised and coordinated. While sector-level bargaining is in many ways the most important bargaining level in Belgium, it is framed by a number of centralised instruments and is characterised by a high level of coordination. First, there is the national minimum wage (see above). In addition, a national-level, cross-industry agreement covering the entire economy is concluded between social partners every two years within the National Labour Council. This national agreement sets an upper limit for wage growth at all levels which must be respected by social partners (see below). Within this framework defined at national level, lower levels are free to negotiate collective agreements on wages. However, in principle, lower-level agreements can only improve (from the employees' perspective) what has been negotiated at a higher level.

Collective bargaining in Belgium is highly inclusive and achieves a high level of coverage. At the sector level, there are 100 joint committees and 200 joint subcommittees deciding on pay levels, working time arrangements, training and other work place amenities. These sectoral collective agreements apply to all employers and employees covered by the joint committees or subcommittees concerned. Every company and employee is assigned to a sectoral joint committee. This is done almost automatically when the employee is registered within the company for the social security system. Collective bargaining in Belgium covers around 95% of workers in the labour market, making it, besides Austria and France, the country with the highest collective bargaining coverage in the OECD area. Belgium has high union density and is also one of the only OECD countries where this union density has been increasing. Also unusual is that employees in small firms represent a larger share of trade union members in Belgium than those in large firms. Finally, Belgium has very high employer organisation density: 80% of employees in the private sector work in firms associated with an employer organisation.

Centralised and co-ordinated bargaining systems, like the one in Belgium, have many advantages. Combined with high collective bargaining coverage, such systems have been found to be associated with many good economic outcomes: they tend to be correlated with higher employment, lower unemployment, lower wage inequality and a higher-quality work environment (OECD, 2018[5]). This is because co-ordination helps the social partners to account for the business-cycle situation and the macroeconomic effects of wage agreements on competitiveness.

4.2.3. Automatic wage indexation has some advantages, but may also contribute to the problem

Belgium is quite unique among developed economies in that wages are automatically indexed to inflation. In Europe, only Cyprus and Luxembourg have similar systems. Wage indexation was popular in the past during times of high inflation (e.g. the 1970s), but neighbouring countries the Netherlands and France abandoned it in 1982. France still maintains some form of indexation, but it only applies to the national minimum wage.

There are some advantages to wage indexation. For example, it can, in theory, contribute to peace in industrial relations. Also, there is an automatic stabiliser argument for wage indexation: even in an economic downturn, wage increases linked to indexation will support consumption. However, it comes at a potentially high cost. In the past, the OECD has warned numerous times that wage indexation can cause wages to grow faster than domestic productivity (OECD, 2015[6]) and that it reduces adjustment to real shocks that would require internal devaluations, important in a currency union. Other organisations (e.g. the European Central Bank) have raised similar concerns, pointing out that wage indexation involves the risk of upward shocks to inflation lasting longer and potentially leading to a wage-price spiral (ECB, 2008[7]). In addition, there is little evidence that purchasing power cannot be maintained in the absence of indexation (De Schryder, Peersman and Wauters, 2019[8]).

4.2.4. Seniority pay structures are unlikely to have a large negative impact on the employment outcomes of low-educated workers

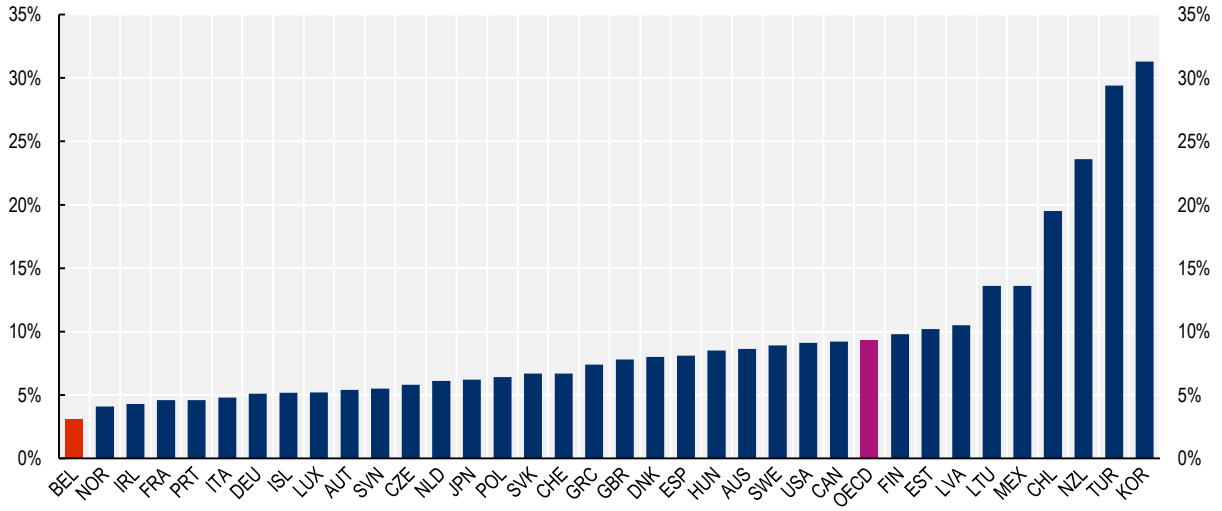
Many collective agreements in Belgium, though not all, contain a seniority-based pay structure. Such pay structures have both advantages and disadvantages. On the one hand, productivity tends to increase with experience (up to a certain level) and therefore there might be an argument for automatic wage adjustments to reflect this. In addition, increasing wages with seniority might also be a way for firms to strengthen worker loyalty and/or motivation (Zwick, 2009[9]). However, if wages increase too steeply, a seniority-based pay structure may dampen professional mobility (due to its effect on reservation wages) and decrease employment opportunities of older workers as their wages and productivity levels diverge.

It is unlikely that seniority pay structures have a strong negative impact on the employment rates of the low-educated in Belgium. While it is true that Belgium has the lowest recruitment rate of older workers (aged 55-64) in the OECD (Figure 4.5), research has demonstrated that there are other, more important barriers to the employment of older workers in Belgium than seniority pay structures, including: early retirement, low participation in lifelong learning, and limited occupational mobility (HRW, 2014[10]). Similarly, the OECD has shown that there is little relation between pay policies and the retention rates of older workers across EU Member States (OECD, 2017[11]). Finally, seniority wages are less likely to affect the employment outcomes of low-educated workers, since an analysis of collective bargaining agreements has shown that seniority pay structures are most common in white-collar (and therefore more high-skill) occupations (HRW, 2014[10]).

While seniority pay structures may not be a major barrier to the employment outcomes of low-educated workers in Belgium, they may still contribute to overall high wage costs and, therefore, affect the employment of low-educated workers indirectly. The Belgian government has, in the past, led by example and adjusted pay structures for public employees. One direct option would be to ban seniority wages given their close connection which age and that age discrimination is illegal (the fact that seniority in Belgium is transferrable within or even beyond sectors confirms this close link). A more indirect option would be to encourage the social partners to give consideration to this issue as part of their wage negotiations. Pay structures which limit seniority pay to a certain number of years, and then give an increasing weight to performance-related pay, operate successfully in other OECD countries (e.g. Netherlands and the United Kingdom) and could serve as a model (HRW, 2014[10]).

Figure 4.5. Belgium has the lowest hiring rate of older workers in the OECD

Employees aged 55-64 with job tenure of less than one year as a percentage of total employees, 2018



Note: The OECD average excludes Colombia.
Source: OECD Scoreboard on older workers, 2008 and 2018, https://www.oecd.org/employment/ageingandemploymentpolicies.htm.

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4.2.5. The government has had to intervene to maintain competitiveness

Without government intervention, the wage-setting system in Belgium has had a tendency to result in wages rising faster than productivity and, therefore, in unit labour costs rising faster than in neighbouring countries. This happened, for example, between 2006 and 2012. The government then stepped in with a range of measures to try and maintain competitiveness with its main trading partners, France, Germany and the Netherlands. First, there was the "wage moderation" (*loonmatiging* / *moderation salariale*) which blocked any wage increases over and above inflation for the period 2013-14. Then, the government temporarily suspended wage indexation for the years 2015-16 (*indexsprong* / *saut d'index*). Third, the government launched the "tax shift" in 2016 (see below) which gradually reduced non-wage costs over a period of four years. Finally, the government revised the wage norm (*loonnorm* / *norme salariale*) legislation. The wage norm is set every two years at the national level and determines the margin for wage negotiations at the sector level. It takes into account expected inflation in Belgium as well as expected wage developments in neighbouring countries over the coming two years. Since 2017, the calculation of the wage norm has included an ex ante "correction term" (*correctieterm* / *terme de correction*) as well as a "safety margin" (*veiligheidsmarge* / *marge de sécurité*). The correction term takes into account the historical wage handicap between Belgium and its main trading partners. If the wage handicap is negative (i.e. Belgium is less competitive than its neighbours) then the margin for wage negotiations is reduced accordingly. The safety margin is there to allow for situations where inflation might have been underestimated or wage growth in the neighbouring countries overestimated. The safety margin therefore further reduces the remaining margin for negotiation, to make sure that wage developments in Belgium stay in line with those of the neighbouring countries.

4.2.6. The wage-setting system leaves little room for adjusting wages in line with productivity

Once the wage norm is set, sectoral bargaining takes place within the margin agreed at national level. This margin allowed for a 1.1% increase in wages over and above inflation in each of the periods 2017-18 and

2019-20, which is limited. Minimum wages and pay scales are adjusted within sector collective bargaining agreements and, while firm-level agreements can in theory be struck as well, there will be very little left to negotiate at firm-level. Most sector collective agreements contain very detailed pay scales that set pay by seniority, occupation, etc.

The Belgian wage-setting system has previously attracted criticism from the OECD in the context of slow productivity growth and there have been calls for increased flexibility at the firm-level to set wages in line with productivity (OECD, 2019[2]). Indeed, research has shown that hourly productivity is higher in firms in Belgium that have a firm-level agreement (complementing the sector-level agreement) (Garnero, Rycx and Terraz, 2020[12]). While this result on its own should be taken with some caution (the study does not establish causality), it goes in the same direction and adds to the other evidence in OECD (2018[5]).

That being said, there is some flexibility in the Belgian system to allow wages to reflect productivity, and this appears to be growing over time. A relatively old estimate suggests that around 25-30% of private sector workers in Belgium see their working conditions collectively renegotiated at the firm level (Du Caju, Rycx and Tojerow, 2012[13]). In addition, variable/performance-related pay has been on the rise in the form of "bonus plans" (*bonusplannen* / *plans bonus*) and the "profit bonus" (*winstpremie* / *Prime bénéficiaire*) (Box 4.2). A recent study confirmed that a considerable share of employees in Flanders benefit from variable pay. A survey of 3 600 employees showed that 45% received some form of variable pay – including 72% of managers, 50% of specialists, 25% of blue-collar workers, and 37% of "*uitvoerende bedienden / employés exécutants*" (executive clerks) (Baeten and De Ruyck, 2018[14]). Blue-collar workers are more likely to benefit from a collective bonus, while managers and specialists benefit more from an individual bonus.

Box 4.2. Variable pay in Belgium: The Bonus Plan and the Profit Bonus

The Bonus Plan

Since 2007, firms have been allowed to pay (some of) their employees a bonus if pre-agreed (but uncertain) collective performance targets are achieved. This "bonus plan" receives favourable tax treatment as long as the bonus does not exceed EUR 3 413 per year and per worker. One study showed that in 2005, only 5% of employees benefited from bonus plans, but that the share had risen to 20% in 2011 and to 40% in 2014 (Hudson, 2014[15]).

The Profit Bonus

Another mechanism is the "profit bonus", which was substantially revised in 2017 and allows firms to share (part of) its profits in a particular year with (all of) its employees. Again, this bonus benefits from a favourable tax treatment (for both the employer and the employee). The firm can choose to give all its employees the same amount, or to give them a bonus proportionate to their wage. The former can be attributed following a simple decision taken through majority voting at a general meeting at the firm-level, while the latter requires a collective agreement. Estimates show that, while in 2017, only 54 firms let their employees participate in their profits, that number had risen to 738 in 2018. In 2018, firms paid out EUR 92.5 million in bonuses under this scheme and 50 000 employees benefited, primarily in smaller firms (more than half the firms who made use of the scheme had fewer than 10 employees). The average employee received EUR 920.54 gross (or EUR 744.21 net) (Vanoost, 2019[16]). The difference between the "profit bonus" and the "bonus plan", is that the former has to be paid to all employees of the firm and that it depends on growth and profitability, rather than on achieving certain targets (as the bonus plan does).

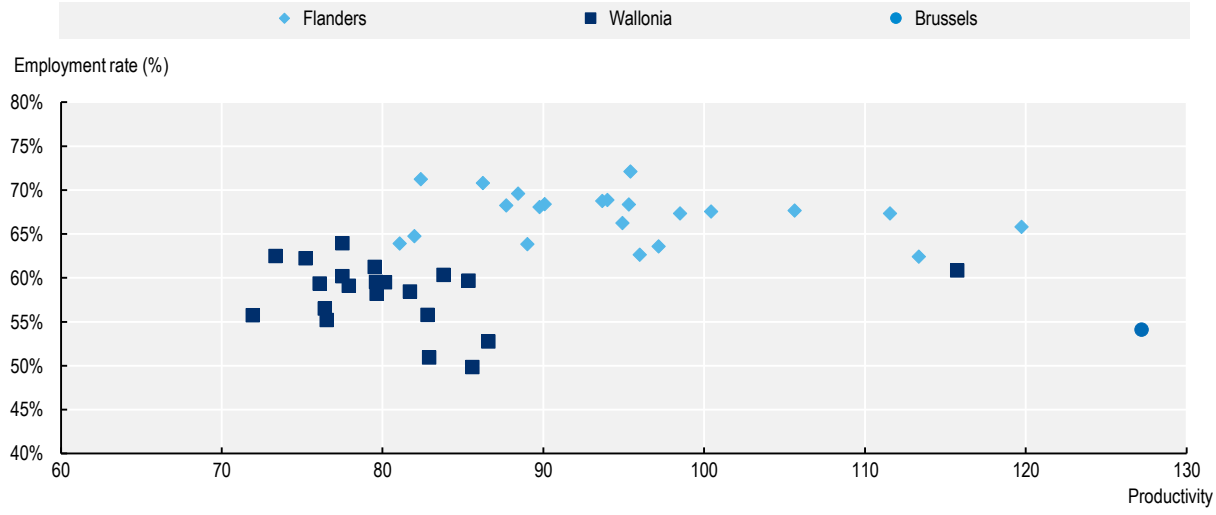
4.2.7. Bargained wages vary little across regions, which could result in a disconnect with local productivity and hence lower employment

Wages for low-educated workers differ little between Flanders and Wallonia (see Figure 4.3), despite a 14% difference in productivity. This regional discrepancy between wages and productivity has been demonstrated by a number of researchers to date (Konings and Marcolin, 2014[17]; Nautet, 2918[18]; IMF, 2019[19]). As a result, labour costs are likely to exceed productivity for some low-educated workers (particularly in Wallonia), and this may hurt their employment prospects.

There is some evidence in Belgium of this misalignment between productivity and earnings, and the effect it has on employment rates. Figure 4.6 shows productivity and employment rates at the NUTS 3 level (*arrondissement*) in 2016 for all workers, regardless of education. There is a positive correlation between productivity and employment rates in Belgium even though, in theory, there is no reason why employment rates should be correlated with productivity. In a decentralised wage bargaining economy with free movement of workers, firms and workers will, in theory, bargain wages in line with the underlying productivity in a given region. This, in turn, should result in wages adjusting across regions until employment rates equalise. If institutional factors align to set wages equally across regions failing to take into account productivity differences, wages may be set too high relative to productivity in some lower productivity regions causing firms to demand fewer workers and driving down employment rates. A positive regional correlation between productivity and employment rates often characterises countries with large regional productivity differences and little margin in the wage setting system to reflect these productivity differences in wages (Boeri et al., 2020[20]).[6]

Figure 4.6. Employment rates are positively correlated with productivity

Employment rates and productivity by arrondissement, 2015 and 2016



Note: The level of analysis is the arrondissement (NUTS 3). Employment rates are defined for the whole population aged 15-64. Productivity is the average gross value added per worker in thousands of constant euros. Productivity and employment rates are averaged over 2015 and 2016.
Source: OECD Regional Statistics, http://www.oecd.org/regional/regional-statistics/.

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Some sector collective agreements in Belgium have tried to address the discrepancy between wages and productivity by setting minimum wages or pay scales that vary by region/province (Van der Linden, 2008[21]). These are few, however, and the regional differences in wages tend to be very small (see also Box 4.1). One option going forward would be for the government to consider the administrative extension of collective bargaining agreements only in cases where there is clear evidence that regional differences in productivity have been considered and, where appropriate, have been reflected in wages.

At an aggregate level, more firm-level bargaining may help reduce regional discrepancies in wages and productivity, but it is unlikely that this would do much for low-wage workers unless derogation from sector minimum wages and automatic indexation is possible. Rusinek and Tojerow (2014[22]) find that the more the firm level plays a role in wage setting in Belgium, the more regional differences in productivity translate into wage differences. However, this is only true at the high end of the wage distribution, where wages can be increased in line with productivity. At the bottom of the wage distribution, firms cannot negotiate wages down from what has been agreed in sector collective agreements.

Allowing firms greater flexibility to further negotiate sector-level agreements would likely help disparities in regional employment rates. If firms were allowed to derogate from sector agreements and/or automatic indexation under certain circumstances, it would be possible to achieve a closer alignment between productivity and wages in cases where these were not well aligned. Both Germany and the Netherlands make wide use of general opening clauses which allow firm-level agreements to deviate from the minima or the standards set in higher-level agreements, as long as there is agreement with unions. While Belgium could encourage the use of such opt-out clauses in sector agreements (e.g. by not extending agreements unless they contain such clauses, as France did in its reform of 2017 (Carcillo et al., 2019[23])), three challenges remain. First, any opt-out clauses need to be closely regulated (otherwise they risk leading to downward competition between firms and even undermine the regulatory capacity of collective agreements). Second, larger firms tend to use such clauses more than smaller ones, since the latter often lack the capacity and/or worker representation to take advantage of such clauses. Third, in Belgium, it is only the representative from the national trade union, not the local trade unionists, who can sign a collective agreement (even at enterprise level).

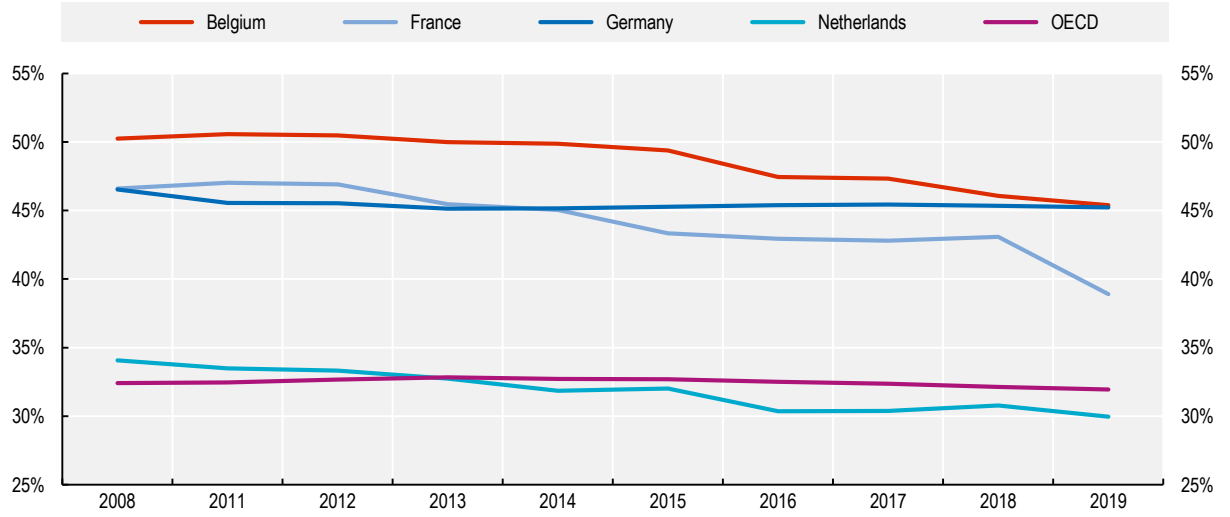
Another possible reform would be to move towards a system of organised decentralisation. In particular, sector collective agreements in Belgium tend to set very detailed pay scales which, in combination with indexation, leave little room for wages to be set at the firm-level. A system which works relatively well in some countries (e.g. Denmark) is to have “corridor agreements”, which only set minimum and maximum levels for wage levels/growth at the sector level, allowing more room for negotiation at the firm-level.

4.3. High labour costs in Belgium also reflect high taxes

Higher labour costs in Belgium also reflect the fact that taxes and social security contributions tend to be quite high. At 45.4%, Belgium has the highest tax wedge[7] in the OECD for single workers with no children earning 67% of the average wage. Recent reforms (the “Tax Shift” – see below) have brought the tax wedge in Belgium closer to that of Germany. However, it remains 6.5 percentage points above the tax wedge in France, and more than 15 percentage points above the tax wedge in the Netherlands (and the OECD average) (Figure 4.7). High taxes will increase the cost of hiring to employers. It will also reduce take-home pay for workers and work incentives. Both of these issues are discussed in turn.

Figure 4.7. Despite recent reforms, the tax wedge in Belgium remains very high

Tax burden as a percentage of labour costs, single persons without children, at 67% of average wage, 2008-19



Source: OECD (2020[1]), *Taxing Wages 2020*, https://doi.org/10.1787/047072cd-en.

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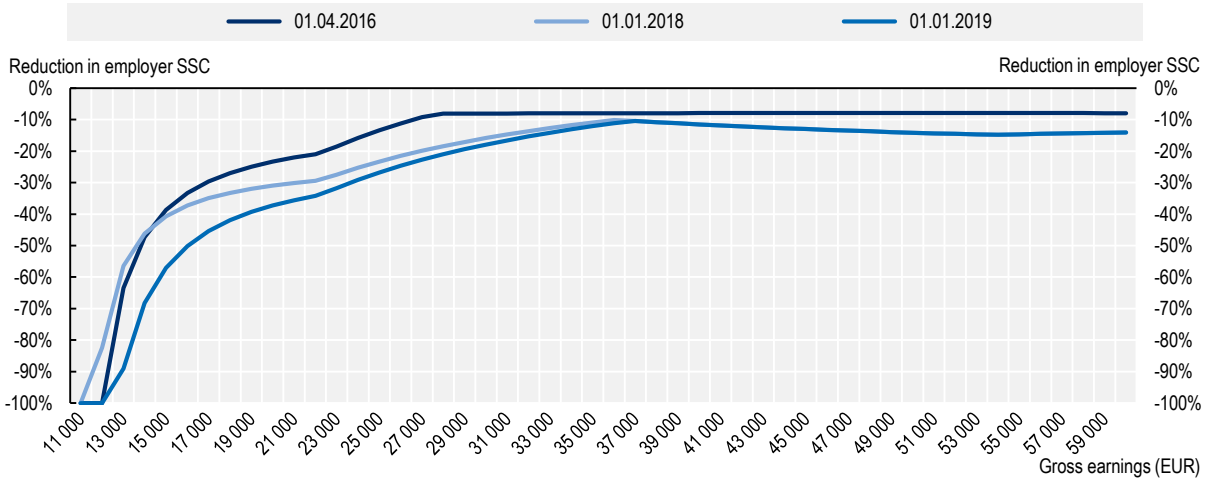
4.3.1. Employers in Belgium face high social security contributions, despite recent reforms

Recent reforms in Belgium have reduced taxes on labour payable by both employers and workers. On 10 October 2015, the Belgian government announced a "Tax Shift" with the key aim of boosting job creation as well as take-home pay. The changes, voted in on 18 December, were to be implemented over a period of four years, starting 1 April 2016, and covered: personal income tax, social security contributions, corporate tax, VAT, excise duties, amongst others. The basic idea was to lower taxes on labour and make up the shortfall by increasing taxes on capital, as well as through taxes on 'environmental unfriendly activities' and 'unhealthy activities'. Annex 4.A provides a detailed overview of the changes that happened to the calculation of employer social security contributions as a result of the tax shift. In sum, the basic rate for employer social security contributions was reduced from 34.79% of gross earnings before the reform to 26.69% on 1 January 2019. However, this was accompanied and counterbalanced by a decrease in the fixed reduction (i.e. the reduction applicable to all workers, regardless of their earnings) and, then, its abolition. The variable amount of deduction (i.e. the reduction that depends on earnings) was abolished for higher earners. For lower earners, the income threshold was increased so that more workers would become eligible for the reduction, but the employer SSC rate was reduced from 16.2% to 12.8% in 2018, and then increased again to 14% in 2019.

What these reforms meant in practice is that workers with the lowest earnings benefited from the largest reductions in employer social security contributions. The net effect of the reforms on labour costs can be more easily observed in Figure 4.8, which shows the percentage reduction in absolute employer social security contributions due at each level of gross earnings (in comparison to what would have been due in April 2014). In addition to the reductions in social security contributions for low-pay workers, there were some reductions for higher earners as well. The workers who benefited least from the reform (i.e. saw the smallest reductions in employer SSCs) were workers earning around EUR 37 000.

Figure 4.8. Reductions in employer social security contributions were greatest for workers with the lowest earnings

Percentage reduction in total employer social security contributions due, by level of gross earnings, 2014-19



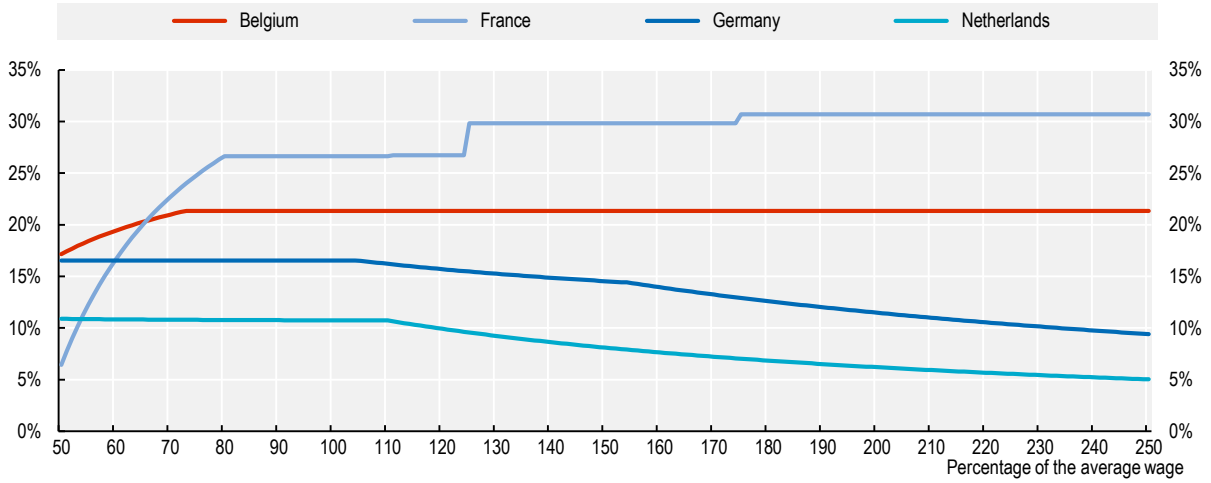
Note: All reductions shown as percentage of employer social security contributions due in April 2014.
Source: OECD estimates based on data from *OECD Taxing Wages*, https://dx.doi.org/10.1787/047072cd-en.

StatLink https://stat.link/25eoil

Despite the reform, employers in Belgium still pay high social security contributions compared to employers in neighbouring countries. For a single worker without children earning 67% of the average wage, employer social security contributions in Belgium represented 20.6% of total labour costs in 2018. While employer SSCs are even higher in France (24.2% of total labour costs), they are significantly lower in both Germany and the Netherlands (16.2% and 10.5%, respectively).[8] Moreover, on very low earners (<58% of the average wage), employer SSCs are also lower in France than in Belgium. While there are few differences between Belgium and its neighbouring countries in terms of the costs of hiring a worker at the national minimum wage (see Annex 4.C), very few workers in Belgium earn the minimum wage. The average earnings of low-educated workers are considerably higher than the minimum wage and much closer to 67% of the average wage (in fact, they are slightly above 67% of the average wage).

Figure 4.9. Employer social security contributions in Belgium are high

Employer social security contributions as a share of labour costs, single persons without children, 2019



Source: OECD (2020[1]), *OECD Taxing Wages*, https://dx.doi.org/10.1787/047072cd-en.

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The evidence suggests that lower taxes can increase employment, particularly when they are targeted

Using data for 21 OECD countries over the period 1982-2003, Bassanini and Duval, (2006[24]) found that lower labour taxes raise employment. Their baseline specification implies that a 10 percentage point reduction in the tax wedge in an average OECD country would increase the employment rate by 3.7 percentage points. A review of the literature by Ramos et al., (2017[25]) concluded that the employment effects from lower employer social contribution rates (or functional equivalents such as hiring subsidies) tended to be modest – although policies targeted at a specific group were more effective than general or non-targeted ones.

Most studies evaluating the impact of labour taxes on employment in Belgium also find that reductions in taxes increase employment. Many of these studies are based on models which estimate the potential/theoretical impact. For example, (Joyeux and Stockman, (2003[26]) use a macroeconomic labour market model to estimate the employment impact of reductions in employer social security contributions in 1995 and 2000. According to their estimates, at least 12 200 new jobs were created in 1995 and 35 700 in 2000 as a result of the reductions. Goos and Konings, (2007[27]) is an exception in that it is a proper evaluation of past reforms. They use a panel of firm-level data to estimate the effects of reductions in social security contributions aimed at manual workers in the late 1990s and find that these increased full-time manual employment and (to a lesser extent) pre-tax wages of manual workers. In an ex ante assessment of the Tax Shift, Bijnens and Konings, (2020[28]) estimated that a reduction in non-wage costs of 1% would result in an increase in employment of around 0.50% in the first year of the reduction, and an additional 40% of the previous year impact in each subsequent year. In addition, the “service voucher” scheme in Belgium, which subsidises the hiring of domestic workers by private households, has also shown that it can promote (formal) employment (Box 4.3).

The OECD’s own analysis of the Tax Shift suggests that, even though it was not necessarily the provinces with the highest shares of low-educated individuals that benefited most from the Tax Shift, there was an increase in the relative employment rate of low-educated workers in the provinces that benefited most from the Tax Shift (Box 4.4).

Box 4.3. Service Vouchers and the employment of low-skilled workers

"Service vouchers" (*dienstencheques* / *titres-services*) in Belgium are subsidies for private households purchasing domestic services (e.g. cleaning, laundry, ironing, shopping, cooking, etc.). The domestic workers officially work for a service voucher company (where they have an open-ended contract). Private households purchase vouchers (up to a certain ceiling, depending on household characteristics) and they can subsequently deduct part of this cost from their taxes. For example, in 2020, a service voucher in Flanders costs EUR 9.00, of which 20% is tax-deductible, so that the individual will end up paying EUR 7.20 per voucher. The cost of service vouchers and the amount that is tax deductible has varied over time and across regions. In addition, the service voucher company receives EUR 14.60 from the government per voucher.

The service voucher system was introduced in 2004. The primary objective was to tackle undeclared work. By making formalisation of domestic work more financially attractive, the hope was that more private households would declare such work. The scheme was hugely successful if judged by the number of workers involved. In 2018, there were around 150 000 workers employed by service voucher companies. These workers are primarily low-skilled and female (only 2% of workers are male) and are also disproportionately from an immigrant background. An evaluation of the scheme showed that the scheme raised the employment rate of low- and medium-educated women: each new service voucher employee created a new job for 0.87 low- and medium-skilled women (Desiere and Goesaert, 2019[29]). However, the scheme does come at a huge cost to government. There is also evidence that the size of the subsidies matter, and that demand fell in Wallonia when the tax deduction was substantially reduced (Goffin et al., 2018[30]).

Belgium is not the only country that subsidises the purchase of low-skilled services by private households (Goffin et al., 2018[30]). France has the *Chèque emploi service universe* (Cesu), Sweden the *ROT-avdrag*, and Finland the *Kotitalousvähennys*. One difference between those countries and Belgium, is that their subsidies are available for more than just domestic work, and can often also be used for small maintenance and repair work, gardening, study aids, child and elderly care, amongst others. Extending the service voucher scheme to such activities should also be considered in Belgium – although the cost of doing so is likely to be a major barrier.

Box 4.4. OECD Estimates of the Impact of the Tax Shift (Reductions in Employer SSCs)

The reductions in employer social security contributions as part of the Tax Shift in Belgium should, in theory, have encouraged employers to hire more workers. Moreover, this hiring should have benefited low-wage workers more since the relative reduction in employer security contributions was greater for them.

Evaluating the impact of this reform is not straightforward, however, because the changes were implemented nation-wide and applied to all workers and firms at the same time, so there is no control group which would allow to check what would have happened in the counterfactual situation where the employer social security contributions had not changed.

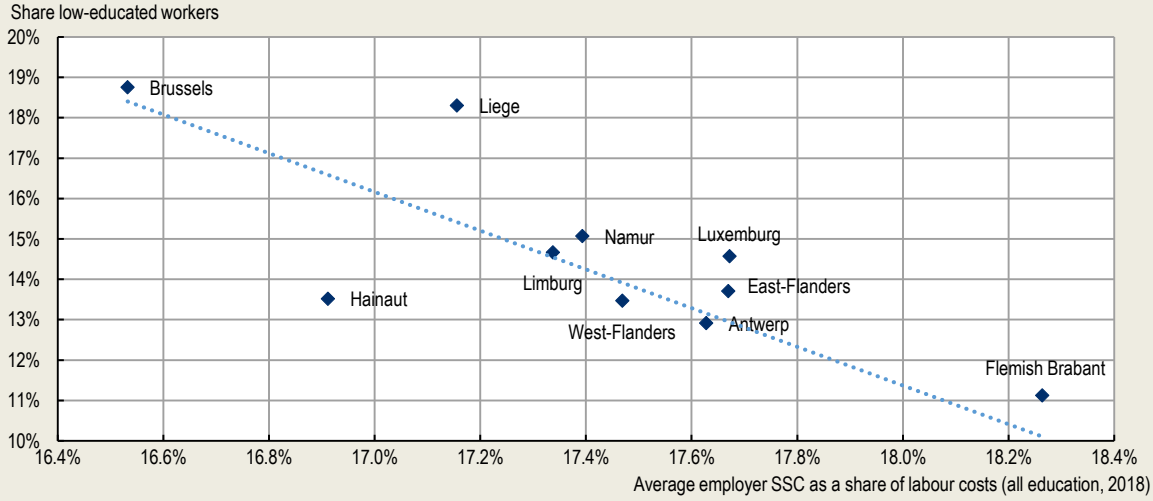
That being said, the reductions in social security contributions were larger for some workers than for others. Firms that are more reliant on low-wage workers may, therefore, have benefited more from the

reform and hired more new workers than firms that rely more on high-wage labour. Exploiting such variation, however, would require firm-level data, which was not available for this analysis.

Instead, this box provides some descriptive evidence on how the reductions in social security contributions benefited various provinces in Belgium differently, and what relationship exists with (changes in) the employment rate of the low-educated over time.

The first point to note is that, in provinces with a higher share of low-educated individuals, the average social security contributions per employee (regardless of education) paid by employers (as a share of total labour costs) tend to be lower. This makes sense, since social security contributions tend to be lower for low-wage workers (who tend to be disproportionately low-educated) (Figure 4.10).

Figure 4.10. Average social security contributions (as a share of labour costs) tend to be lower in provinces with a higher share of low-educated workers



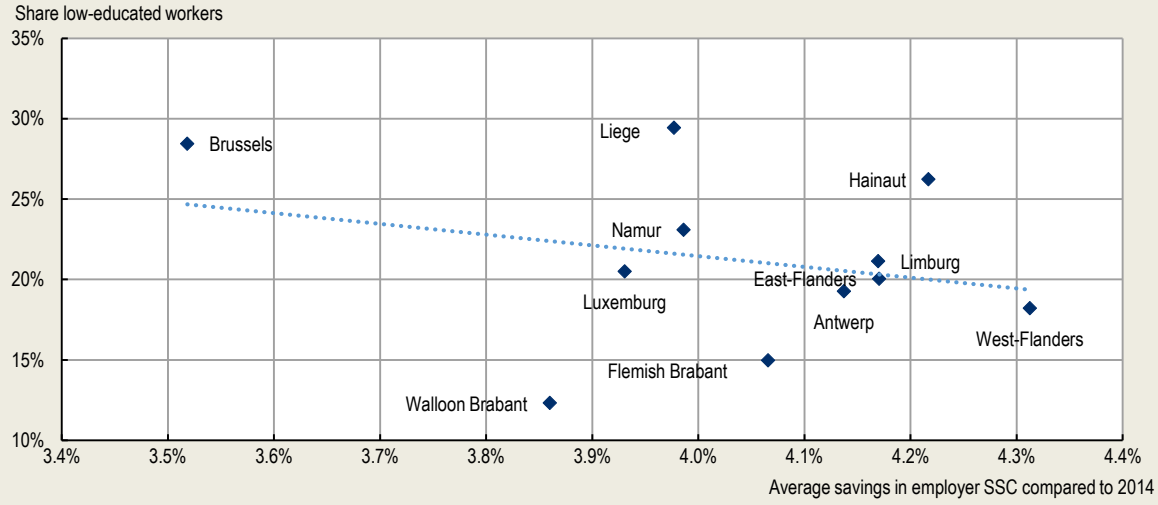
Source: OECD analysis of Belgian Labour Force Survey and OECD Tax-Benefit model, http://www.oecd.org/social/benefits-and-wages/.

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The average employer SSC are calculated using data on net earnings from the Belgian Labour Force Survey combined with the OECD's Tax-Benefit model (some simplifying assumptions had to be made with regards to family type). The OECD Tax-Benefit model also allows the calculation of gross earnings (i.e. net earnings plus income tax and employer and employee social security contributions). This information, in turn, can be used to calculate what employer social security contributions would have been paid under the rules applicable in 2014.

A variable is then calculated which shows the average percentage difference in employer security contributions paid (per worker and as a percentage of labour costs) by province in 2018 compared to what would have been paid under the old 2014 rules. In essence, this shows the savings, per worker, of hiring the 2018 workforce compared to what employers would have paid under the old rules for that same workforce. It is not a direct measure of the reduction in employer social security contributions as a result of the tax shift, because it also measures changes in hiring as a result of the tax shift. Nonetheless, it allows one to see which provinces benefited most (in monetary terms) from the Tax Shift. Figure 4.11 shows that, while the relationship is weak, provinces with lower shares of low-educated individuals have tended to benefit slightly more, on average, from the Tax Shift.

Figure 4.11. Provinces with a lower share of low-educated individuals tended to benefit slightly more from the reduction in employer social security contributions

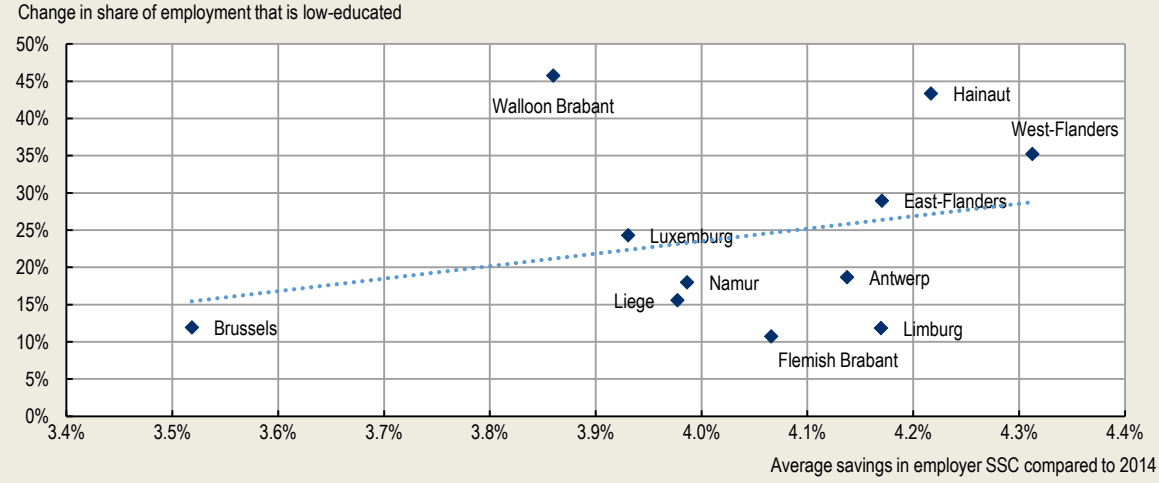


Source: OECD analysis of Belgian Labour Force Survey and OECD Tax-Benefit model, http://www.oecd.org/social/benefits-and-wages/.

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Finally, Figure 4.12 shows that provinces that saw the largest average savings in employer SSC compared to what they would have paid in 2014 also saw a larger increase in the share of employment that is low-educated. In other words: even though it was not necessarily the provinces with the highest shares of low-educated individuals that benefited most from the Tax Shift, there was an increase in the relative employment rate of low-educated workers in the provinces that benefited most from the Tax Shift.

Figure 4.12. Provinces that benefited most from the tax shift saw greater growth in the share of employment that is low educated



Source: OECD analysis of Belgian Labour Force Survey and OECD Tax-Benefit model, http://www.oecd.org/social/benefits-and-wages/.

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Reductions in employer social security contributions could be better targeted

In addition to the standard reductions in employer social security contributions outlined above, Belgium has many targeted reductions in social security contributions aimed at specific sub-groups (which are not reflected in Figure 4.8). All of these reductions used to be federal initiatives but, following the sixth constitutional reform in 2014, some responsibility for labour market policy was devolved to the regions, including several of these targeted reductions in social security contributions. This reform was effective from 1 July 2016 onwards. Some reductions are still federal (e.g. reductions for new hires, reductions for permanent employees in the Hotels, Restaurants and Cafes sector) but many are now regional, including those for older workers and, in Flanders, for disadvantaged youth. Reductions in social security contributions for the long-term unemployed were abandoned in all regions (although the regions did maintain wage subsidies in the form of the continued receipt of a partial unemployment benefit). Annex 4.A contains a detailed description of these targeted reductions and how they have changed over time.

The targeted reductions in employer social security contributions may benefit low-educated workers more than more educated workers. For example, reductions for employees in the Hotels, Restaurants and Cafes sector are likely to benefit primarily low-educated workers since 22% of cooks, waiters and bartenders who are permanent employees are low-educated, compared to 12% on average across all occupations. Similarly, older workers are more likely to be low-educated than younger workers (Chapter 1). All regions have tended to increase the targeting of social security contributions on older age groups as well as means testing them. In addition, Flanders only allows reductions for new hires. For the remaining workers, the amount of support has been increased.

There is scope to further improve the targeting of these subsidies and reduce potential deadweight losses. In general, even though employment subsidies can help promote employment, they have tended to suffer from a high level of deadweight loss (i.e. the subsidisation of jobs which would have been created anyway in the absence of the subsidy). There is also a risk of substitution effects (the hiring of subsidised workers instead of non-subsidised ones, with no net employment effect). Previous evaluations of wage subsidies in Australia, Belgium, Ireland and the Netherlands have suggested combined deadweight and substitution effects amounting to around 90% (Martin, 2001[31]). Similarly, Bartik, (2001[32]) estimates that the share of hiring that would have happened in the absence of the employment subsidy frequently exceeds 90%.

Deadweight and substitution losses cannot be eliminated entirely, however they can be reduced by better targeting. For example, in Belgium, the reductions for new hires could be restricted to low-wage workers only. Similarly, only 35% of older workers are low-educated, yet the subsidies are available for older workers regardless of education. Wallonia and the Brussels-Capital Region may wish to consider restricting reductions to new hires only, as is done in Flanders. Finally, both the Brussels-Capital Region and Wallonia have abandoned reductions for youth (which used to benefit the low-educated in particular). Only Flanders has maintained a measure targeted at youth. At first, this was less generous than the federal measure, but this has now been increased and has become targeted on low-educated youth only (middle-educated are no longer eligible since 2020).

4.3.2. High taxes also harm work incentives

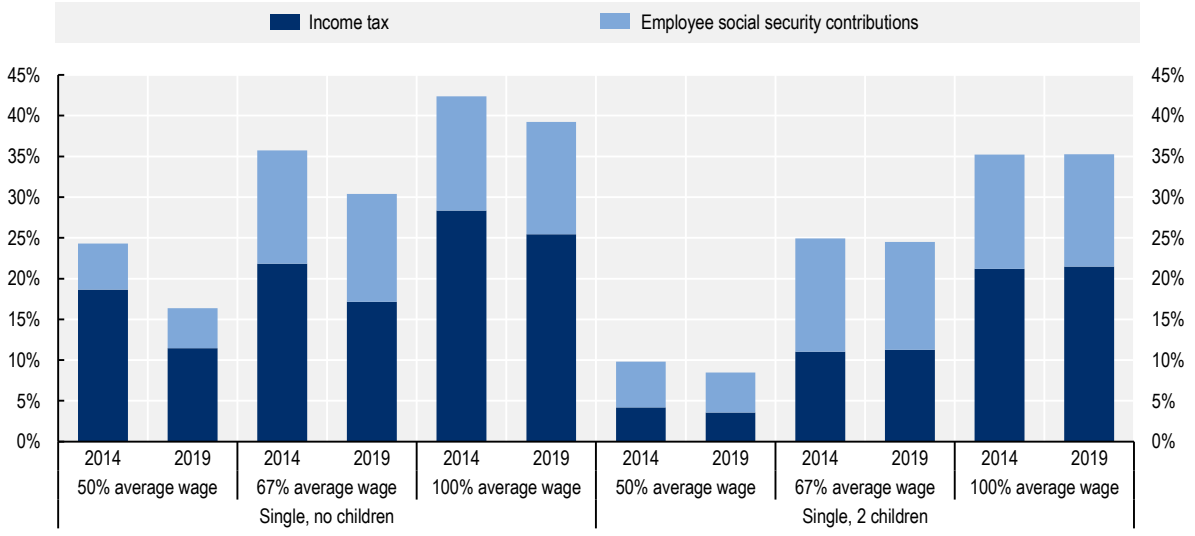
The Tax Shift also reduced income tax and employee social security contributions

In addition to reductions in non-wage costs for employers, the Tax Shift included a number of measures that aimed to increase the net incomes for working families (and improve their work incentives) – particularly at the bottom and the middle of the income distribution. Among the measures taken were: *i)* the abolition of the 30% tax bracket and its replacement by a wider 25% bracket; *ii)* the introduction of higher deductions for work-related expenses, particularly for those on lower incomes; *iii)* the raising of the income threshold for eligibility to the fixed amount of exempt income; *iv)* an increase in the refundable tax credit for low-income workers (employment bonus). A full description of these changes can be found in Annex 4.C.

These reforms led to reductions in income tax and social security contributions (Figure 4.13). For single individuals with no children working full-time at 50% of the average wage, taxes and social security contributions reduced from 24% to 16% of gross wages – i.e. a 33% reduction. For similar individuals, earnings 67% and 100% of the average wage, the equivalent reductions were 15% and 7%, respectively. Single parents already paid lower taxes prior to the reform, and further reductions introduced by the reform were much smaller in comparison. The reductions were 14%, 1.8% and 0.2% at 50%, 67% and 100% of the average wage, respectively (Figure 4.13).

Figure 4.13. The Tax Shift reduced income taxes and employee social security contributions, particularly for those on low incomes

Income tax and employee SSC as a share of gross wages, 2014-19



Note: Simulations are for a single adult aged 40, working full-time.
Source: OECD Tax-Benefit Model, http://www.oecd.org/social/benefits-and-wages/.

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While take-home pay increased, the impact on purchasing power and work incentives were limited

The impact of the tax shift on purchasing power was more limited because of the increase in indirect (consumption) taxes that compensated for the lowering in labour taxes. On balance, it is estimated that those on middle and high incomes actually gained most from the reforms (Capéau et al., 2018[33]). The OECD (2017[34]) has previously pointed out that there may be room to raise taxes on household capital income instead. The OECD has also suggested that federal authorities could raise the official, registered values (*revenu cadastrale* / *kadastraal inkomen*) of dwellings to make them better reflect market values, while regional authorities could reduce the tax deductibility of mortgage debt.

In addition, while the lower income tax liabilities strengthened incentives to move into work, this was partly offset by higher social assistance payments (rates increased by 7% between 2016 and 2018) and/or increased family benefits for those out of work (*gewaarborgde gezinsbijslag* / *prestations familiales garanties* – increased by up to 20% depending on the age of the children and family size) (OECD, 2019[35]). By contrast, the incomes of those eligible for unemployment benefits did not change significantly, as there were no significant policy reforms in this area (see Section 4.4). These changes increased out-of-work incomes of those eligible to guaranteed-minimum income benefits. Individuals moving into work thus lost

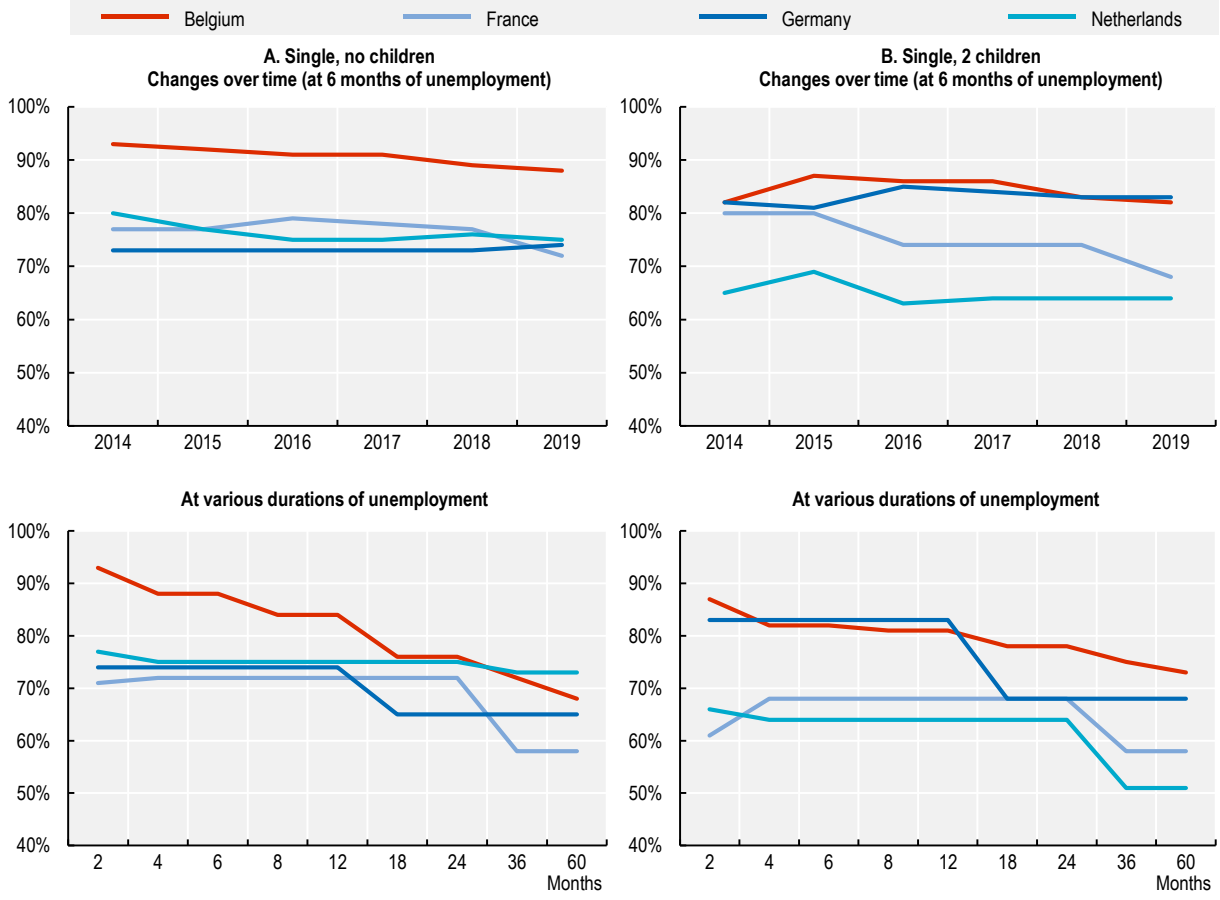
more benefit entitlement, but lost less of their earnings to income tax. These offsetting effects meant that increases in participation tax rates (PTR) were fairly modest.

Some groups still face poor work incentives

Participation tax rates in Belgium are high for individuals earning 67% of the average wage in their new job, regardless of whether they have children or not. Figure 4.14 illustrates this point by comparing single adults with no children to single adults with two children. The figure makes comparisons to neighbouring countries France, Germany and the Netherlands, as well as over time (for an individual unemployed for six months). The metric presented is the Participation Tax Rate (PRT), which measures the proportion of earnings that are lost to either higher taxes or lower benefit entitlements when a jobless person takes up employment – i.e. the financial disincentives to participate in the labour market. The PRT is almost always higher in Belgium than in neighbouring countries, and is particularly high for single individuals with no children in the first year of unemployment.

Figure 4.14. Participation tax rates in Belgium are high

Participation tax rates in Belgium and neighbouring countries, over time (2014-19) and by unemployment duration, evaluated at 67% of the average wage



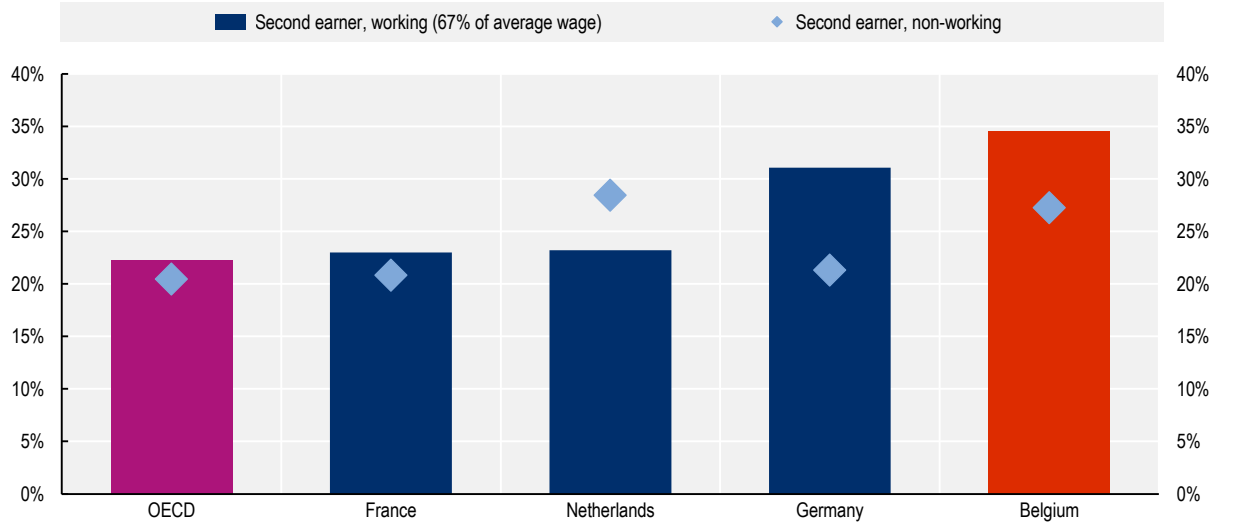
Note: The Participation Tax Rate (PRT) measures the proportion of earnings that are lost to either higher taxes or lower benefit entitlements when a jobless person takes up. Panel A shows the participation tax rate for single individuals with no children: i) over time (2014-19) and ii) at various points in the unemployment spell (from zero to 60 months). Panel B does the same form single parents with two children.
Source: *OECD Benefits, Taxes and Wages Database*, http://www.oecd.org/social/benefits-and-wages/.

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Previous OECD work (2020[36]) has shown that second earners also face strong tax disincentives to work, which can lower female labour force participation in particular (Figure 4.15). In general, family-based tax systems create work disincentives for second earners, when marginal tax rates are progressive (OECD, 2018[37]). While the Belgian system is based on individual taxation, it uses a partial splitting system where a notional amount of income can be transferred between spouses if one earns 30% or less of the total family income. With the employment of the second earner, the part of the primary earner's income that had been attributed to the spouse reverts to the primary earner (Thomas and O'Reilly, 2016[38]). While about half of the beneficiaries of this system are already retired or close to retirement, it could be a barrier to the employment of certain vulnerable groups of female workers. Such tax disincentives could be lowered or abolished.

Figure 4.15. Tax disincentives for second earners in Belgium are high

Income tax and employee social security contributions as a percentage of gross wage earnings, 2018



Note: The chart shows income tax and employee social security contributions as a percentage of gross wage earnings: *i)* for a married family with two children, where the first earner earning 100% of the average wage and the second earner earning 67% of the average wage; and *ii)* for a married family with two children, with only one earner earning 100% of the average wage. Taxes in Belgium are assessed on a household bases, so the chart shows how much more a household would pay in taxes if the second person moved into work.
Source: OECD (2019[35]), *OECD Taxing Wages 2019*, https://dx.doi.org/10.1787/tax_wages-2019-en.

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4.4. The unemployment benefit system could be reformed to strengthen work incentives

Work incentives are also determined by the unemployment benefit system. The challenge is to put in place a system which, on the one hand, provides adequate protection to the unemployed, and on the other, maintains incentives to look for work throughout the unemployment spell. Key factors in determining this balance include ease of access to unemployment benefits, their duration, the net replacement rate of income, as well as how wages are taxed when people enter work (see Section 4.3.2).

It is relatively difficult to access unemployment benefits in Belgium. However, once individuals are in receipt, there are fewer conditions imposed on individuals to continue receiving them. In particular, availability requirements (i.e. requirements around people's availability to start work should a job offer be made) are not particularly stringent and individuals have more leeway than in other countries for refusing

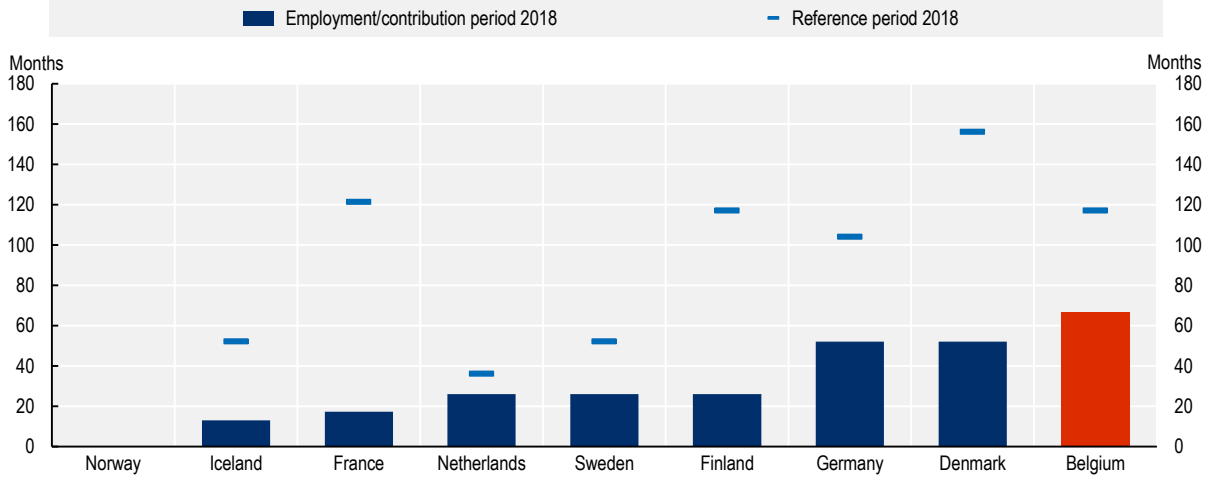
job offers. While benefit duration is unlimited in Belgium, this is de facto also the case in neighbouring countries where unemployment assistance is offered once unemployment insurance runs out – although unemployment assistance in those countries tends to be less generous than unemployment insurance. More generally, in Belgium, the generosity of unemployment benefits is somewhat higher than in neighbouring countries. In neighbouring countries, the starting replacement rate tends to be lower, and there is also a sharp drop when individuals move on to unemployment assistance.

4.4.1. It is relatively difficult to access unemployment benefits in Belgium

The ease of access to unemployment insurance (UI) is determined both by the employment/contribution requirements as well as by the reference period over which these contributions are calculated. In Belgium, the employment/contribution period is relatively long (468 days, or approximately 67 weeks) compared to other countries (e.g. 17 weeks in France, 26 in the Netherlands, and 52 in Germany) (Figure 4.16). This makes UI more difficult to access in Belgium. By contrast, the reference period over which these contributions are calculated is also relatively long (27 months, or approximately 117 weeks), which makes it easier to access unemployment insurance. In some ways, Belgium's system is more similar to that of Germany's, while unemployment insurance is considerably easier to access in France, and more difficult to access in the Netherlands.

Figure 4.16. It is relatively difficult to access unemployment benefits in Belgium

Unemployment insurance employment and contribution conditions (months), 2018



Note: In some countries, eligibility depends on employment only, in others it depends on contributions, while in others still it depends on both. Not all countries express previous employment/contribution conditions in weeks, and therefore the figures presented above are approximate only. Assumptions made for the conversion to weeks include: 1 year = 12 months = 52 weeks. For the Netherlands, the calculation is based on eligibility for the short-term benefit. In Sweden, the individual also needs to have been a member of an insurance fund in the last 12 months. In Finland, one week equals a minimum of 18 hours only. In Denmark, an additional requirement is the payment of a membership fee and the work needs to have been full-time. In Norway, prior work income needs to have been 24% of the average wage in the preceding calendar year, or 49% in the three preceding years.
Source: OECD Comparative Tax-Benefit Policy Tables.

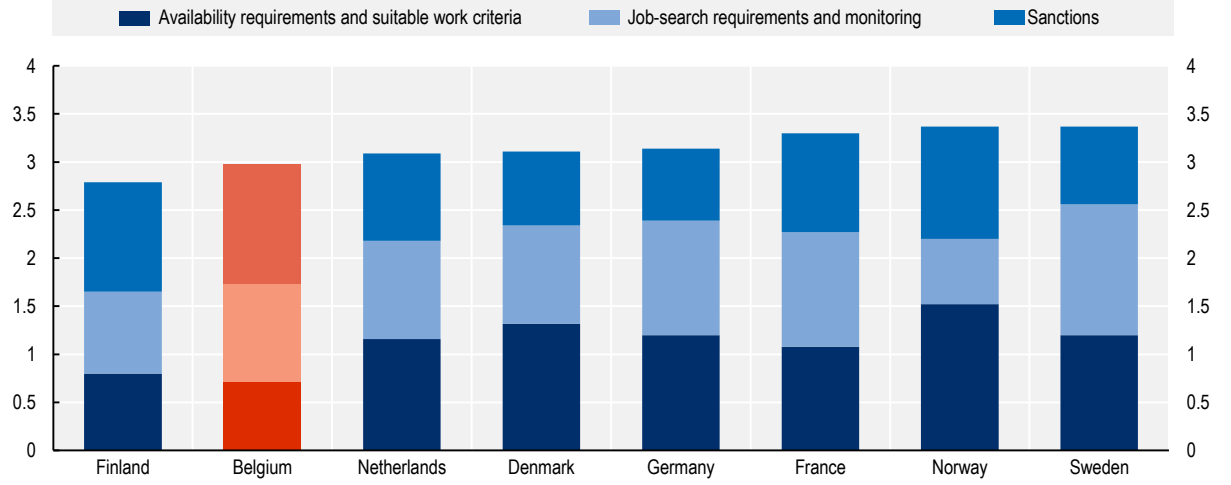
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4.4.2. Once an individual is entitled to unemployment insurance, recipients in Belgium face fewer conditions and responsibilities to keep their benefit than in other countries

Unemployment benefits are not available unconditionally. Instead, a range of provisions tie benefit receipt to past or current behaviour of benefit claimants (availability requirements, job-search conditions and sanctions). These conditions are a central design feature of "rights and responsibilities" approaches and of activation strategies that link support to individuals' own effort to re-establish self-sufficiency. In Belgium, such eligibility criteria are, overall, less strict than in other countries (Figure 4.17).

Figure 4.17. Eligibility criteria for unemployment insurance are relatively less strict in Belgium

Overall strictness of eligibility criteria for unemployment insurance, scored from 1 (most lenient) to 5 (most strict), 2017



Source: Immervoll and Knotz (2018[39]), "How demanding are activation requirements for jobseekers?", https://doi.org/10.1787/2bdfecca-en.

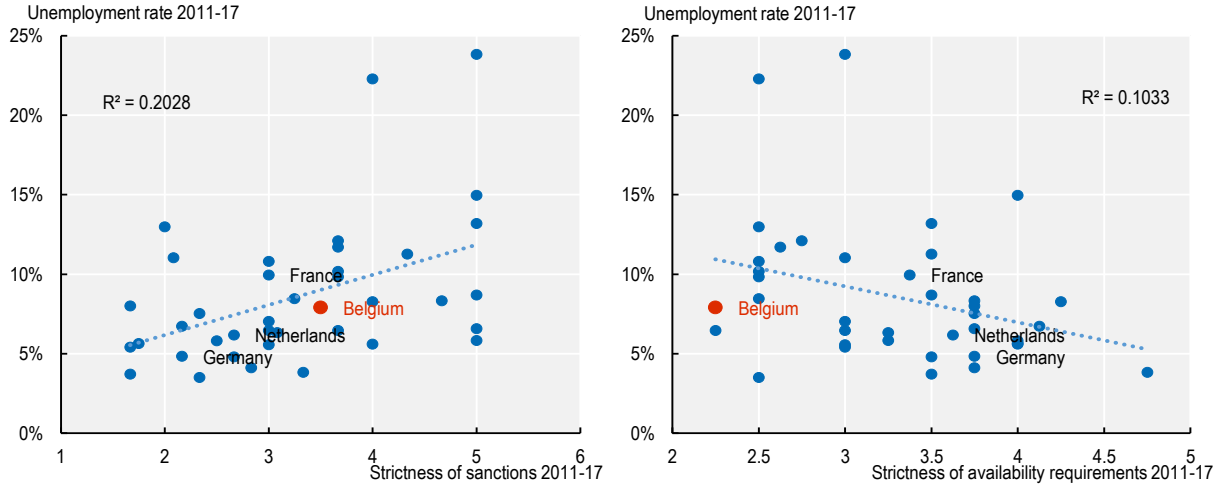
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Relative to other countries, availability requirements in Belgium are not particularly stringent and could be tightened. Availability requirements include: availability for work during participation in ALMPs, demands on occupational mobility, demands on geographical mobility, and other valid reasons for refusing job offers. It is particularly on the latter (other valid reasons for refusing job offers) that the Belgian system is not very strict. Yet there is evidence that countries that have strict availability requirements have lower unemployment rates (Figure 4.18) – although this is a mere correlation and does not strictly prove causation.

By contrast, the strictness of sanctions in Belgium tends to be quite high compared to other countries – in particular sanctions for repeated refusal of job offers and sanctions for first/repeated refusals/failures of ALMP participation/PES interventions. Yet countries that have strict sanctions do not tend to have lower unemployment rates (Figure 4.18). Of course, these indicators only relate to the theoretical strictness of sanctions, and say nothing about whether they are applied in practice.

Figure 4.18. The unemployment rate is positively correlated with the strictness of sanctions, but negatively correlated with the strictness of availability requirements

Unemployment rates and strictness indicator scores, 2011-17



Note: The 2017 data on eligibility criteria are from (Immervoll and Knotz, 2018[39]), the 2011 and 2014 data are from (Venn, 2012[40]) and (Langenbucher, 2015[41]), respectively. Data on unemployment rates for 2017 are for Q1-3 as taken from the EC AMECO database and OECD Short-Term Labour Market Data.

Source: Adapted from Immervoll and Knotz (2018[39]), "How demanding are activation requirements for jobseekers?", https://doi.org/10.1787/2bdfecca-en.

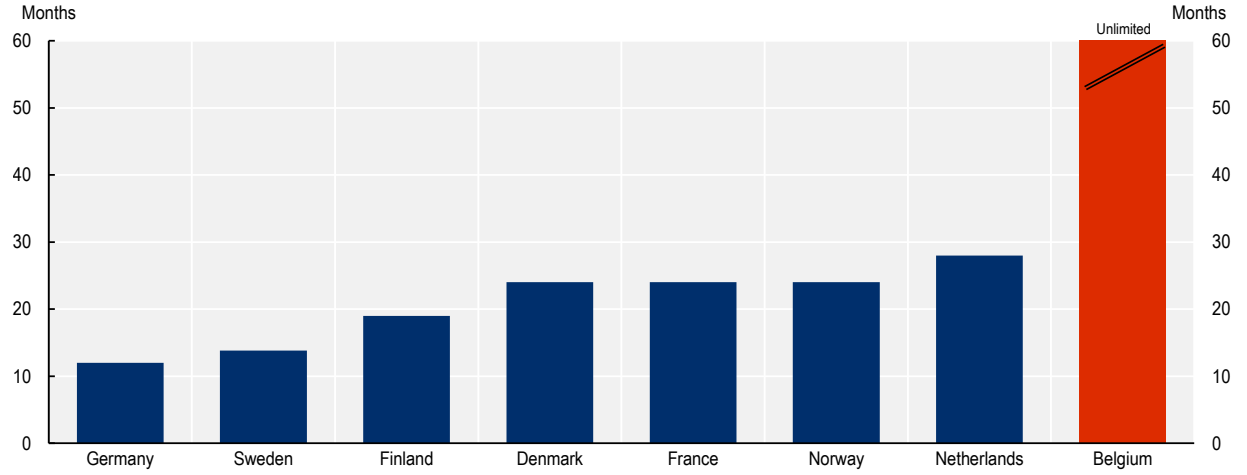
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4.4.3. Belgium is the only OECD country with unlimited duration unemployment benefits, but in other countries individuals continue to receive means-tested unemployment assistance

Across OECD countries, the median maximum duration of unemployment insurance is 12 months (Figure 4.19). While Belgium is the only country where the duration of unemployment insurance is unlimited, it is important to point out that in many countries the duration of unemployment benefits is de facto unlimited because, once individuals run out of unemployment insurance, they are moved onto unemployment assistance which often can be claimed indefinitely (albeit with lower replacement rates and subject to a means test, so that coverage will be much lower).

Figure 4.19. Belgium is the only OECD country with unlimited duration unemployment benefits

Maximum duration (months) of unemployment insurance payments for a single prime-age individual (40 years old) without children and a "long and uninterrupted" employment record, 2018



Source: OECD Comparative Tax-Benefit policy tables, 2018, https://www.oecd.org/social/benefits-and-wages/.

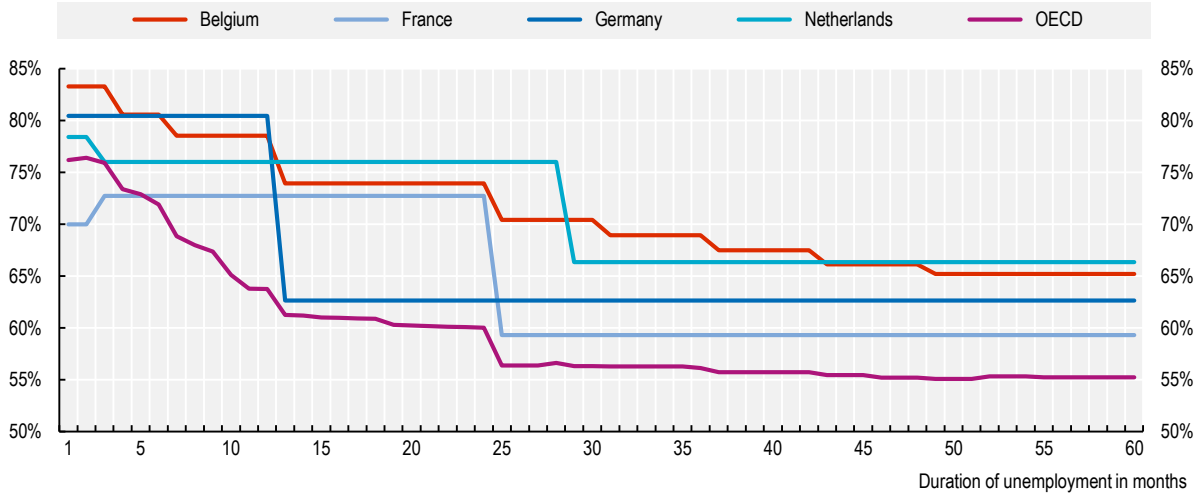
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4.4.4. Compared to neighbouring countries, replacement rates in Belgium are on the high side, particularly for low-paid workers

Net replacement rates (i.e. the proportion of previous in-work income that is maintained in unemployment) for low-paid workers are higher in Belgium than on average in the OECD, with the difference growing over the first year of unemployment (Figure 4.20). This partly reflects the time-unlimited access to unemployment benefits in Belgium, but also a higher starting point. Compared with neighbouring countries, the Belgian system is on the generous side. Both Belgium and Germany have generous replacement rates in the first year of unemployment but, after that, the replacement rate drops significantly in Germany (as unemployment insurance runs out), while Belgium's schedule starts following that of the Netherlands more closely (albeit with more steps). In France, replacement rates also drop significantly when unemployment insurance runs out (i.e. after two years of unemployment).

Figure 4.20. Replacement rates in Belgium are on the high side, particularly for low-paid workers

Net replacement rate in unemployment for low-paid workers after a certain period of unemployment, 2018



Note: Net replacement rates refer to the net household income during unemployment as a fraction of total net household income before unemployment. Household income during unemployment includes unemployment insurance, unemployment assistance, family benefits, social assistance and housing benefits. The net replacement rates are computed for households where one adult aged 41 and with full working history becomes unemployed and their previous earnings equal 67% of the average wage. They are an average across six family types: single, single earner couple and dual earner couple (all with and without children).
Source: OECD (2020[36]), *OECD Economic Surveys: Belgium 2020*, https://dx.doi.org/10.1787/1327040c-en.

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The replacement rate schedule reflects a reform which Belgium undertook in 2012 to strengthen work incentives for the long-term unemployed. It extended the number of workers facing declining unemployment benefit (UB) schedules and made the decline steeper. For many workers, this was achieved by increasing the replacement rate for the first few months (from 60% to 65% of recent earnings), while decreasing the effective replacement rates later in the spell. The reform made the long-term level of UB independent of previous earnings for all unemployed (before the reform, this was only the case for long-term cohabitants), therefore moving towards a system aiming to provide a minimum level of income over the long-term, rather than smoothing income variations per se. As pointed out before, despite these reforms, the participation tax rate in Belgium (i.e. the share of additional earnings from work that is lost due to reduced benefits and increased taxes) for some household types remains on the high side compared to neighbouring countries.

According to a recent OECD (Hijzen and Salvatori, 2020[42]) assessment, there is further scope for Belgium to reduce work disincentives, in particular for the long-term unemployed, while maintaining or even increasing the current level of income support. For example, to ensure that the long-term level of support for the unemployed reflects household needs more closely, most OECD countries limit the duration of unemployment insurance benefits, while allowing the unemployed to move to either means-tested unemployment assistance or social-assistance programmes after their expiration. Similarly, Belgium could switch from flat benefits to means-tested benefits for the long-term unemployed.

4.5. Activation measures should be better targeted and give more weight to training

Work incentives, job-search requirements and benefit sanctions can strengthen people's motivations to look for work. In addition, countries provide a range of activation measures that help workers overcome employment barriers (e.g. training and employment rehabilitation) and expand the set of earnings opportunities that are available and accessible to them (labour market intermediation and programmes that support labour demand through wage subsidies or direct job creation).

Activation strategies, which were generally launched in OECD countries in the 1990s with the aim of combatting high and often persistent unemployment, vary significantly across countries, depending on underlying labour market conditions and the capacity of public employment services. Evidence suggests that, if well-designed, such strategies have contributed to better labour market outcomes, by ensuring that benefit recipients have a better chance of obtaining employment and minimising the risks that high and/or long-lasting benefits significantly damage work incentives.

Belgium spends a relatively large share of its GDP on active labour market policies. In 2017, Belgium dedicated 0.88% of GDP to active measures (i.e. excluding spending on passive measures such as out-of-work income maintenance and support, as well as early retirement). This is higher than in France (0.87%), Germany (0.65%) and the Netherlands (0.64%). To some extent, this will reflect higher unemployment in Belgium, but even per unemployed person Belgium spends more than in neighbouring countries (EUR 10 900, compared to 10 800 in the Netherlands and EUR 7 140 in France). But some countries with strong labour market outcomes spend even more than Belgium: Finland (0.99%), Sweden (1.25%) and Denmark (1.96%).

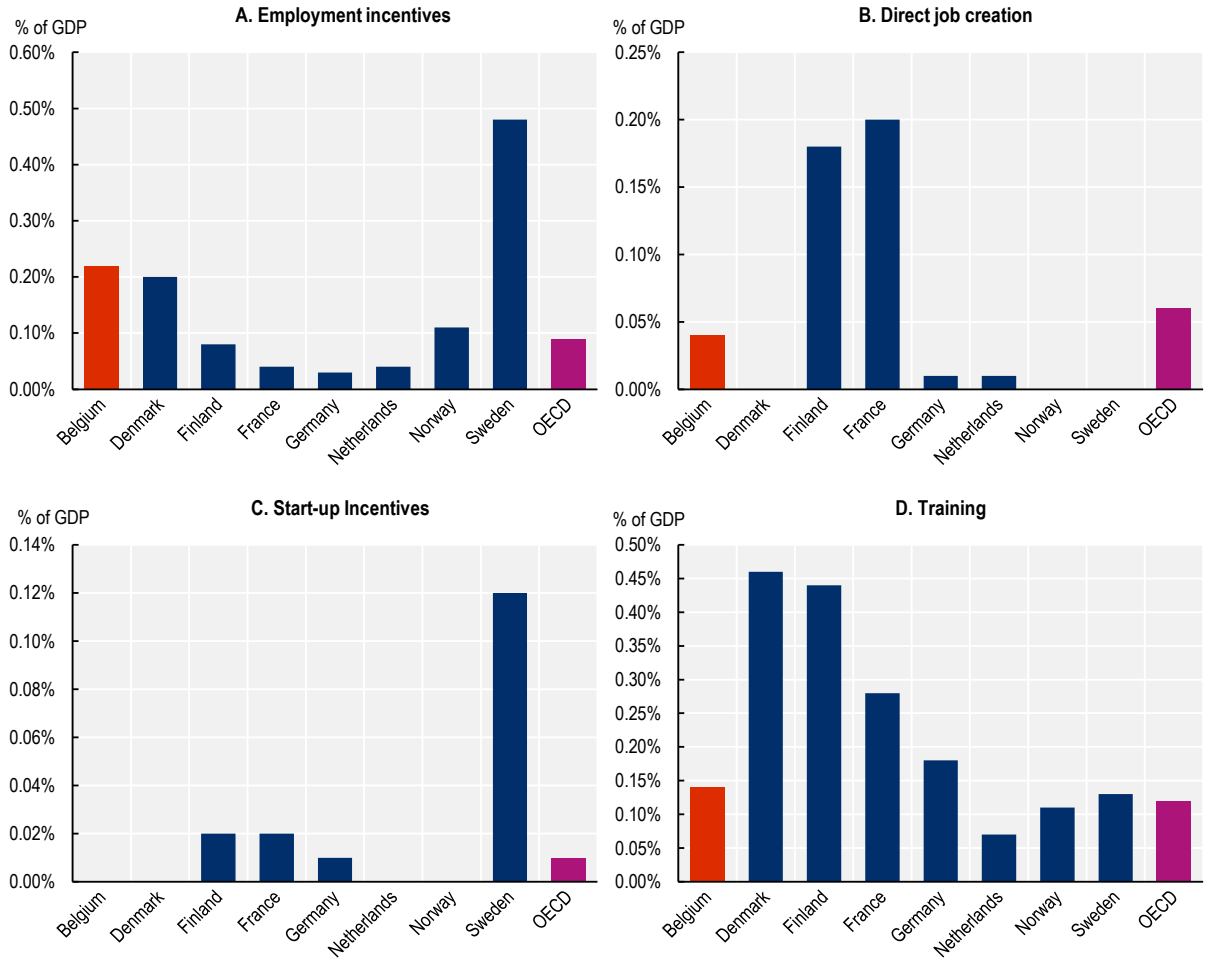
Belgium's spending on active policies is heavily skewed towards measures that are more likely to be suffering from large deadweight losses. A significant share of the budget for active labour market policies is devoted to employment incentives (Sweden is also an outlier in this) (Figure 4.21). As pointed out previously, Belgium should ensure that employment incentives are targeted only on the most vulnerable groups so as to reduce such deadweight loss.

Another difference between Belgium and other countries is that Belgium spends comparatively less on training. Yet training can improve employability and could also help address the skills mismatch that exists today. Evaluations from OECD countries that have tracked employment outcomes for five years or more after entry to training programmes find evidence that they have a long-term positive impact on participants' employment and earnings (OECD, 2015[43]). Ideally programmes are focused on identified employer needs, but there is also some evidence in favour of classroom and preparatory programmes. So some re-balancing of activation measures towards more training would appear to be desirable in the Belgian context.

The effectiveness of active labour market policies could also be improved by extending the use of statistical tools for the profiling of individualised risk (OECD, 2020[36]). This would help target more costly and intensive services at jobseekers who are more at risk of becoming long-term unemployed. Statistical profiling tools rely on a statistical model to predict labour market disadvantage as opposed to rule-based profiling, which uses eligibility criteria, or caseworker-based profiling, which relies more on judgement, to classify jobseekers into client groups. Statistical profiling tools are not widely used in Belgium. However, as part of a new contact strategy that has been rolled out in October 2018, the Flemish Public Employment Service has developed a statistical profiling model, called "Next Steps" (Hijzen and Salvatori, 2020[42]). Greater use of such tools should be made in all regions in Belgium.

Figure 4.21. Belgium's spending on activation policies could be rebalanced towards training

Public expenditure on active measures, as a percentage of GDP, 2017



Note: Employment incentives include: recruitment incentives, employment maintenance incentives and job rotation and job sharing. Training includes institutional as well as workplace training. For further information, consult: http://www.oecd.org/els/emp/Coverage-and-classification-of-OECD-data-2015.pdf.

Source: OECD Labour Market Programmes Database, https://www.oecd.org/employment/emp/employmentdatabase-labourmarketpoliciesandinstitutions.htm.

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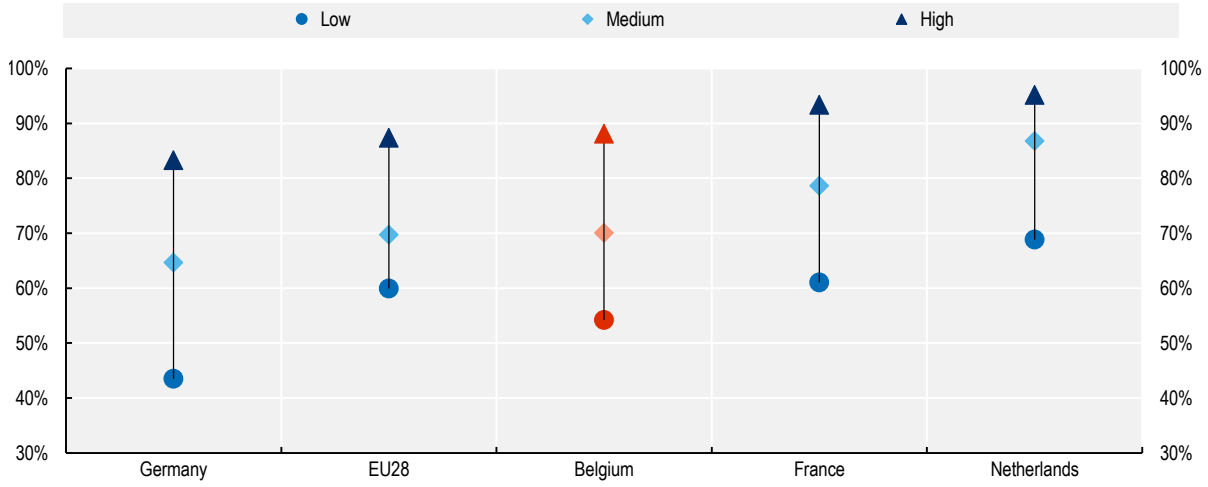
4.6. Educational attainment and participation in lifelong learning need to be boosted

Any increase in public expenditures on training should go hand in hand with measures to boost educational attainment overall and to encourage lifelong learning. As shown in the main findings and policy pointers section of this report, Belgium has a higher share of low-educated workers than its neighbouring countries. While the share of low-educated workers in Flanders is around the European average (and similar to that in both Norway and Denmark), the share in both the Brussels-Capital Region and Wallonia is among the highest in Europe. Participation in adult learning in Belgium (70%) is similar to the EU-28 average, and below participation in France (79%) and the Netherlands (87%). Among low-educated workers, participation in adult learning in Belgium (54%) is below the EU-28 average (60%) (Figure 4.22). While a

discussion of how educational attainment and participation in lifelong learning should be boosted in Belgium is beyond the scope of this report, previous OECD analysis has already shed light on this issue (OECD, 2019[44]; OECD, 2020[45]; OECD, 2020[36]). The main findings and policy pointers section of this report repeat some of the recommendations made in those publications.

Figure 4.22. Participation in adult learning among the low-educated in Belgium is low

Participation rate in formal, non-formal or informal training by level of education, persons aged 25-64, 2016



Note: EU28 is a weighted average.
Source: Eurostat, Adult Education Survey, 2016, https://ec.europa.eu/eurostat/web/microdata/adult-education-survey.

StatLink https://stat.link/wbi7e6

4.7. Belgium's Employment Protection Legislation risks permanently trapping many low-educated workers in less stable contract types

Adjusting the level and composition of the workforce to adapt to changing demand conditions and technology is vital for effective businesses operation, and therefore for productivity and economic growth. But job displacement entails significant costs for the workers concerned in terms of earning losses and the possible obsolescence of their job-specific skills and experience. In addition, social costs can also be important (e.g. benefit payments, and expenditure on job-search assistance and active labour market programmes).

Employment protection legislation (EPL), that is the rules governing the hiring and firing of workers, has typically been designed to protect jobs and increase job stability, with the aim of preserving the individual worker and society from some of the above-mentioned costs. A related objective of EPL is to make employers internalise the social cost of dismissing workers – without which the level of turnover would be inefficiently high. However, in some cases, constraints imposed on firms might be excessive, hindering the effectiveness of labour market flows and the allocation of labour to the most productive jobs, thereby harming productivity and growth.

The regulation of individual dismissals of regular workers in Belgium is among the strictest in the OECD, along with the Netherlands and France (Figure 4.23). Employment protection legislation in Germany is less strict than in Belgium. What is particularly striking in Belgium is the high level of severance pay. At nine months, severance pay in Belgium equates to 0.81 months of pay, compared to 0 in both Germany and the Netherlands, and 0.20 months in France. Germany does not have any severance pay at all, even at long tenure, while in France and the Netherlands severance pay increases steeply with tenure. At

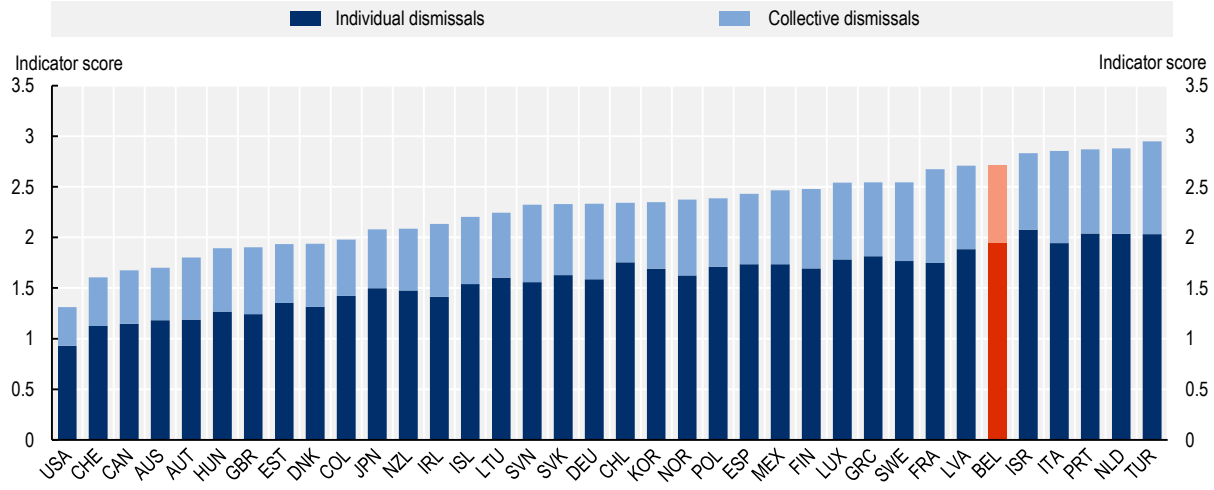
20 years, severance pay equals 7.16 months in Belgium compared to 6.90 in France and 10.83 in the Netherlands. With regards to the enforcement of unfair dismissal, workers in Belgium have a very long time to make a claim: one year, compared to two months on average across OECD countries (in France, it is also one year, but it is only three weeks in Germany and two months in the Netherlands) – which can create uncertainty for employers.[9] Regulations on collective dismissals in Belgium are also relatively strict by OECD standards, although not as stringent as in France or in the Netherlands.

Some have argued that these reforms have led to an increase in temporary employment in Belgium (and Chapter 2, Section 2.2.1 does indeed show a small but steady increase in the share of workers on fixed-term contracts). Nautet and Piton, (2019[46]) say that "up until 2014, the proportion of [fixed-term contracts] within total salaried employment in Belgium hardly changed at all, oscillating around 8%. Since then, however, it has been rising, reaching 10% in 2017 […] The start of this increase coincided with the abolition of the "trial period" clause, which about as part of the legislative move to unify the legal status of blue-collar and white-collar workers in Belgium. At the same time, the financial conditions for terminating a permanent contract were eased as regards terminating white-collar employment but rendered more stringent for the dismissal of blue-collar workers. From that moment, many employers came to prefer to hire new employees on fixed-term contracts, in order to assess whether they match the required profile."

To counter some of this effect and to encourage hiring on permanent contracts, the notice period applicable at the start of an employment contract was reduced in May 2018. The notice period for new employees who have been in the job for three months or less was reduced to just one week. This reform is not taken into account in the OECD EPL indicators since they only assess notice periods at nine months, four years and 20 years of tenure, respectively.

Figure 4.23. The regulation of individual dismissals of regular workers in Belgium is among the strictest in the OECD

Strictness of regulation of dismissing regular workers – Scale from 0 (least restrictions) to 6 (most restrictions), 2019



Note: Aggregate indicators assign a weight of 5/7 to individual dismissals and 2/7 to collective dismissals.
Source: OECD Employment Protection Database, https://www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm.

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High employment protection on permanent contracts is unlikely to affect the employment rate of low-educated workers in Belgium. However, if there are large disparities in protection across contract or types, this could lead to persistent divides between different types of workers and contribute to labour market segmentation or duality. It could permanently trap low-educated workers in less stable contract types.

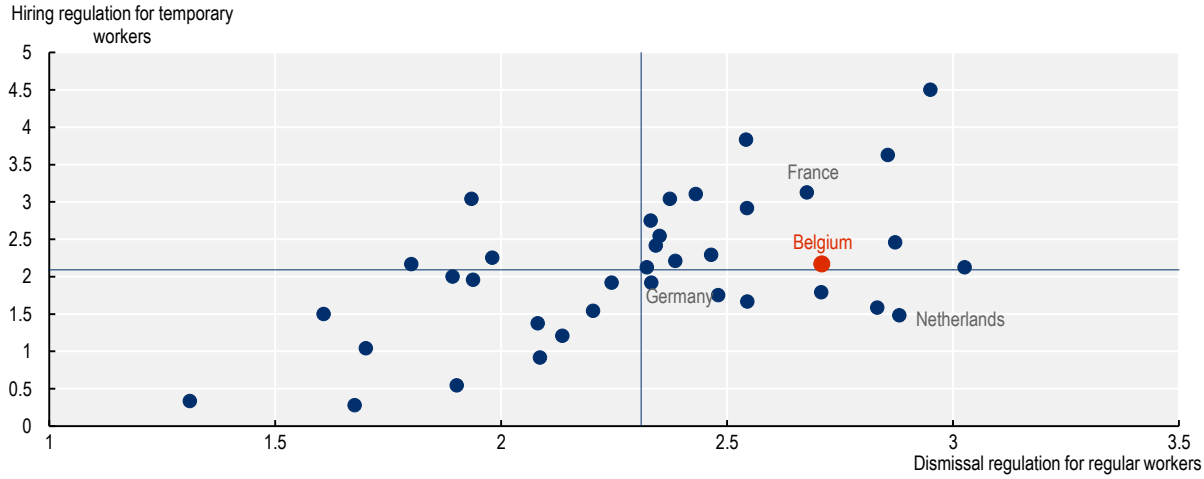
In Belgium, there used to be differences in employment protection legislation between blue-collar (*arbeiders* / *ouvriers*) and white-collar (*bedienden* / *employés*) workers. A reform in January 2014 introduced a single status to abolish regulatory differences between the two types of workers, which is to be welcomed. At the same time, however, these regulatory changes increased the strictness of dismissal rules for permanent contracts and, therefore, the gap with temporary workers – particularly for blue-collar workers (who are disproportionately low-educated). Following the reform, the burden of proof for an unfair dismissal is now always shared between the parties (it was previously with the individual for cases involving white-collar workers) and the compensation awarded is now the same for both types of workers (it increased for blue-collar workers, while it decreased for white-collar ones). The reform also abolished the trial period and expanded the use of outplacement regimes[10] following an individual dismissal, which was previously restricted to older workers only.

Later reforms made employment protection against individual dismissal even more stringent. Since April 2014, the reason for the dismissal needs to be provided upon request of the employee and, in December 2016, employers need to put in place a "reintegration programme" for workers who have been on long-term leave of absence and to find suitable work that they can do. At the same time, Belgium somewhat lowered restrictions on the hiring of temporary workers. In particular, in 2013, Belgium extended the reasons for the use of temporary work agency employment by allowing firms to hire TWA workers with the view to offer them permanent employment at the end of the temporary posting.

In sum, while stringent dismissal rules for permanent employees may not reduce overall employment for low-educated workers in Belgium, it is likely to encourage employers to hire such workers on fixed-term contacts. This is particularly so since there are relatively few restrictions on hiring on fixed-term contracts in Belgium – particularly compared to France. In France, the valid use of fixed-term contracts is limited to specific cases (there are no such restrictions in Belgium) and also their maximum duration is limited to 18 months (unlimited for the first contract in Belgium). As Figure 4.24 shows, Belgium combines stringent regulation on the dismissal of regular works with average restrictions on hiring workers on fixed-term contracts. By comparison, Germany is right on the OECD average for both, while France has stringent regulations for both. The Netherlands, on the other hand, combines stringent regulation on the dismissal of permanent employees with relatively light regulation for hiring on fixed-term contracts, which partly helps to explain duality in the Dutch labour market (OECD, 2019[47]). Going forward, Belgium may wish to consider easing regulation on the dismissal of regular workers (e.g. through lowering severance pay or reducing the time individuals have to claim for unfair dismissal). Such reforms would make employers less reluctant to take workers on permanent contracts and could help improve working life stability of low-educated workers.

Figure 4.24. Belgium combines stringent dismissal rules for permanent employees with few restrictions for hiring on fixed-term contracts

Dismissal regulation for regular workers and hiring regulation for temporary workers, 2019



Note: Range of indicator scores: 0-6. The indicator for dismissals of regular workers is for individual dismissals only, as the hiring indicator for temporary workers is also based on hiring one worker.
Source: OECD Employment Protection Database, https://www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm.

StatLink https://stat.link/tagvz7

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Annex 4.A. Targeted reductions in Employer Social Security Contributions

This Annex describes in detail the various targeted reductions in employer social security contributions that exist in Belgium.

Reductions for a first hire (Federal)

This reduction is federal and is given to employers for hiring new workers (i.e. not replacing an existing worker) for up to 6 workers. This measure has been gradually made more generous over time (Annex Table 4.A.1). For example, prior to January 2015, hiring a first worker would result in a SSC reduction of EUR 1 150 per quarter for the first 5 quarters of employment, followed by a reduction of EUR 1 050 per quarter for the subsequent 4 quarters and, eventually, a reduction of EUR 450 per quarter for the last 4 quarters (with all reductions having to be used over a period of 20 quarters maximum). From January 2017 onwards, no social security contributions at all are payable on a first hire. Another example of how the measure has been made more generous is the addition of reductions in social security contributions for a sixth hire from January 2016 onwards.

Annex Table 4.A.1. Reductions in employer social security contributions for new hires

Changes in eligibility and generosity over time

		Reductions in employer SSC (number of quarters x reduction)		
Time period	Worker hired	First	Followed by	Followed by
Prior to Jan 2015	1st	5 x EUR 1 550	4 x EUR 1 050	4 x EUR 450
	2nd	5 x EUR 1 050	4 x EUR 450	4 x EUR 450
	3rd	5 x EUR 1 050	4 x EUR 450	
	4th	5 x EUR 1 000	4 x EUR 400	
	5th	5 x EUR 1 000	4 x EUR 400	
Jan 2015 to Jan 2016	1st	13 x no SSC		
	2nd	5 x EUR 1 550	4 x EUR 1 050	4 x EUR 450
	3rd	5 x EUR 1 050	4 x EUR 450	
	4th	5 x EUR 1 050	4 x EUR 450	
	5th	5 x EUR 1 000	4 x EUR 400	
Jan 2016 to Jan 2017	1st	no SSC at all		
	2nd	5 x EUR1 550	4 x EUR 1 050	4 x EUR 450
	3rd	5 x EUR 1 050	4 x EUR 450	4 x EUR 450
	4th	5 x EUR 1 050	4 x EUR 450	
	5th	5 x EUR 1 000	4 x EUR 400	
	6th	5 x EUR 1 000	4 x EUR 400	
From Jan 2017	1st	no SSC at all		
	2nd	5 x EUR 1 550	4 x EUR 1 050	4 x EUR 450
	3rd	5 x EUR 1 050	4 x EUR 1 050	4 x EUR 450

		Reductions in employer SSC (number of quarters x reduction)		
Time period	Worker hired	First	Followed by	Followed by
	4th	5 x EUR 1 050	4 x EUR 1 050	4 x EUR 450
	5th	5 x EUR 1 050	4 x EUR 1 050	4 x EUR 450
	6th	5 x EUR 1 050	4 x EUR 1 050	4 x EUR 450

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Reductions for permanent employees in the Hotels, Restaurants and Cafes sector (Federal)

Firms in the Hotels, Restaurants and Cafes sector with fewer than 50 employees are entitled to reductions in social security contributions for up to 5 full-time, permanent employees. The reduction is equivalent to EUR 800 per quarter for employees younger than 26, and EUR 500 per quarter for all other employees. This measure is also federal.

Reductions for older workers (Regional)

This measure used to be federal but was devolved after the constitutional reform in 2014 and each of the regions has since introduced its own measures: Flanders in July 2016; the Brussels-Capital Region in October 2016; and Wallonia in July 2017 (Annex Table 4.A.2). A number of trends can be observed. First, there has been increased targeting. Younger age groups have gradually lost support (e.g. 54-year olds, and even 55-56-year olds in the Brussels-Capital Region and 55-57-year olds in Flanders) and each region has introduced an income threshold above which no social security reductions are available. Flanders has also differentiated the amount of support by offering less for existing workers and considerably more for new hires (while the other regions make no distinction). The second trend which can be observed (though only in Flanders) is that the amount of support provided to workers who remain eligible has increased.

Annex Table 4.A.2. Reductions in employer social security contributions for older workers

Changes in eligibility and generosity over time; all values refer to quarters

	Federal	Wallonia	Brussels			Flanders			
Age		From July 2017	From October 2016	From October 2017	From July 2018		From July 2016	From January 2019	From January 2020
54	EUR 400								
55-56	EUR 400	EUR 400	EUR 400	EUR 400		Existing worker	EUR 600	EUR 600	
						New hire	EUR 1 150 (for 8 quarters)	No SSC (for 8 quarters)	
57	EUR 400	EUR 400	EUR 400	EUR 400	EUR 1 000	Existing worker	EUR 600	EUR 600	
						New hire	EUR 1 150 (for 8 quarters)	No SSC (for 8 quarters)	
58-59	EUR 1 000	EUR 1 000	EUR 1 000	EUR 1 000	EUR 1 000	Existing worker	EUR 600	EUR 600	EUR 600

	Federal	Wallonia	Brussels			Flanders			
Age		From July 2017	From October 2016	From October 2017	From July 2018		From July 2016	From January 2019	From January 2020
						New hire	EUR 1 150 (for 8 quarters)	No SSC (for 8 quarters)	No SSC (for 8 quarters)
60-61	EUR 1 000	EUR 1 000	EUR 1 000	EUR 1 000	EUR 1 000	Existing worker	EUR 1 150	EUR 1 500	EUR 1 500
						New hire	EUR 1 500 (for 8 quarters)	No SSC (for 8 quarters)	No SSC (for 8 quarters)
62-64	EUR 1 500	EUR 1 500	EUR 1 500	EUR 1 500	EUR 1 000	Existing worker	EUR 1 150	EUR 1 500	EUR 1 500
						New hire	EUR 1 500 (for 8 quarters)	No SSC (for 8 quarters)	No SSC (for 8 quarters)
65+	EUR 800					Existing worker	EUR 1 150	EUR 1 500	EUR 1 500
Income threshold	None	< EUR 14 22 1.32 per quarter	< EUR 12 00 0 per quarter	< EUR 10 50 0 per quarter	< EUR 10 71 0 per quarter		< EUR 13 40 0 per quarter	< EUR 13 945 per quarter	< EUR 13 945 per quarter

StatLink https://stat.link/2b95cl

Reductions for younger workers (Regional)

Belgium used to have a federal measure which reduced social security contributions for workers younger than 26. The size of the reductions depended on the age of the young person, their level of education, and also whether they were disabled and/or non-native:[11]

- Aged under 18: a reduction of EUR 1 000 per quarter until the person reached age 18.
- If middle-educated (i.e. has attained equivalent of upper secondary education): a reduction of EUR 1 000 per quarter for the first 4 quarters, and then EUR 400 per quarter for the subsequent 8 quarters.
- If low-educated (i.e. has attained equivalent of lower secondary education): a reduction of EUR 1 500 per quarter for the first 8 quarters, and then EUR 400 per quarter for the subsequent 4 quarters.
- If low-educated and disabled/non-native: a reduction of EUR 1 500 per quarter for the first 12 quarters, and then EUR 400 per quarter for the subsequent 4 quarters.
- If very low-educated (i.e. has not attained equivalent of lower secondary education): a reduction of EUR 1 500 per quarter for the first 12 quarters, and then EUR 400 per quarter for the subsequent 4 quarters.

Wallonia has accepted no new applications to the scheme since July 2017 and it is to be completely abandoned in July 2020. The Brussels-Capital Region has accepted no new applications to the scheme since October 2017 and the scheme was completely abandoned in January 2019.

The only region to have introduced a new measure for young workers is Flanders. Since July 2016, employers in Flanders can receive the following reductions in social security contributions for hiring young (<25) and low-paid workers (earning of less than EUR 7 500 per quarter in the first 4 quarters and less than EUR 8 100 in the subsequent 4 quarters):

- If middle-educated: a reduction of EUR 1 000 per quarter for 8 quarters.

- If low-educated: a reduction of EUR 1 150 per quarter for 8 quarters.

Since January 2019, employers pay no social security contributions at all during 8 quarters when they hire a low-educated young worker. Since January 2020, no more reductions are available for hiring a middle-educated worker.

Reductions for the long-term unemployed (Regional)

A national measure used to be in place to encourage employers to hire the long-term unemployed (Annex Table 4.A.3). These incentives were often a combination of reductions in employer social security contributions and a subsidy towards the wage paid by allowing the individual to keep part of his/her unemployment benefit. The incentives were higher: the older and the less-educated the person, the longer he/she had been unemployed, as well as for disabled workers.

New applications to the federal scheme were halted in all three regions (January 2017 in Flanders, July 2017 in Wallonia, October 2017 in the Brussels-Capital Region) and the scheme was subsequently stopped altogether (January 2018 in Flanders, December 2018 in the Brussels-Capital Region and June 2020 in Wallonia). No further reductions in employer social security contributions are available. However, in each of the regions, there are still subsidies in place or the unemployed can still keep part of their unemployment benefit which, in turn, reduces the wage the employer needs to pay (Annex Table 4.A.4).

Annex Table 4.A.3. Reductions in employer social security contributions for long-term unemployed (old rules)

Age	Additional conditions	Unemployment duration (x out of past y months)	Reduction in employer SSC (amount x number of quarters)	UB kept (amount x number of months)
<25		12 / 18	EUR 1 000 (5 quarters)	EUR 500 (16 months)
<30	Low-educated	6 / 9	EUR 1 500 (12 quarters)	EUR 500 (36 months)
≥ 25 and <45		12 / 18	EUR 1 000 (5 quarters)	
<45	Disabled	1 day		EUR 500 (36 months)
		24 / 36	EUR 1 000 (9 quarters)	EUR 500 (16 months)
		36 / 54	EUR 1 000 (9 quarters) followed by EUR 400 (4 quarters)	EUR 500 (24 months)
		60 / 90	EUR 1 000 (9 quarters) followed by EUR 400 (12 quarters)	EUR 500 (30 months)
≥45	Disabled	1 day		EUR 500 (36 months)
		6 / 9	EUR 1 000 (5 quarters) followed by EUR 400 (16 quarters)	
		12 / 18	EUR 1 000 (21 quarters)	
		18 / 27	EUR 1 000 (21 quarters)	EUR 500 (30 months)

StatLink https://stat.link/spwct2

Annex Table 4.A.4. Subsidies for hiring the long-term unemployed (new)

Region	Start Date	Age condition	Length of Unemployment	Value
Flanders	January 2017	25-54	24+ months	- EUR 1 250 after 3 months FT work - EUR 3 000 after 12 months FT work And proportionate if working PT: - working <30%: no subsidy - working 30%-80%: EUR 750 followed by EUR1 800 - >80%: full subsidy as above
Wallonia	January 2017		12+ months	- EUR 500 per month for first 12 months - EUR 250 per month for next 6 months - EUR 125 per month for last 6 months
Brussels	October 2017	18-57	12 out of the last 18 months(unless aged <30 or 57+)	- EUR 350 for first 6 months- EUR 800 for next 12 months- EUR 350 for last 12 monthsIf disabled:- EUR 750 for first 12 months- EUR 600 for next 24 months

StatLink https://stat.link/q6vohk

Annex 4.B. Tax Shift Changes for Employers

Annex Table 4.B.1 summarises the changes in employer social security contributions that happened as a result of the Tax Shift.

Annex Table 4.B.1. The tax shift reduced labour costs for low-wage workers

Changes in the calculations of employer social security contributions

Date	Employer SSC Rates		Reductions	
		Gross annual earnings	Fixed amount	Variable amount
1 April 2014	34.79%	0 – 22 241.96	1 850.4	0.162 * (22 241.96 – Gross earnings)
		22 241.96 – 53 604.28	1 850.4	0
		> 53 604.28	1 850.4	0.06 * (Gross earnings – 53 604.28)
1 April 2016	32.15%	0 – 27 600	1 752.0	0.1369 * (27 600 – Gross earnings)
		27 600 – 53 604.28	1 752.0	0
		> 53 604.28	1 752.0	0.06 * (Gross earnings – 53 604.28)
1 Jan 2018	26.69%	0 – 36 108.00		0.128 * (36 108.00 – Gross earnings)
		> 36 108.00		0
1 Jan 2019	26.69%	0 – 36 862.8		0.14 * (36 862.8 – Gross earnings)
		> 36 862.8		0

StatLink https://stat.link/l2a71h

Annex 4.C. Tax Shift Changes for Workers

This Annex describes in detail the changes that happened to income tax and employee social security contributions as a result of the tax shift.

Changes to the tax schedule

The main change to the schedule for calculating exempt income concerned the bottom of the income distribution, where the 30% bracket was gradually abolished and replaced by a wider 25% bracket. There was also some widening of the 40% bracket, with the lower threshold for the 45% bracket being raised (Annex Table 4.C.1).

Annex Table 4.C.1. Changes to the tax schedule

Marginal tax rate by income bracket, 2014-20

Marginal Tax Rate	2014	2015	2016	2017	2018	2019	2020
25%	< 8 590	< 8 680	< 8 710	< 10 860	< 11 070	< 12 990	< 12 990
30%	8 590 – 12 220	8 680 – 12 360	8 710 – 12 400	10 860 – 12 470	11 070 – 12 720		
40%	12 220 – 20 370	12 360 – 20 600	12 400 – 20 660	12 470 – 20 780	12 720 – 21 190	12 990 – 22 290	12 990 – 22 920
45%	20 370 – 37 330	20 600 – 37 750	20 660 – 37 780	20 780 -38 08 0	21 190 – 38 830	22 290 – 39 660	22 920 – 39 660
50%	> 37 330	> 37 750	> 37 780	>38 080	> 38 830	> 39 660	> 39 660

StatLink https://stat.link/q8ibf1

Deduction for work-related expenses

If work-related expenses are not declared, a standard deduction from taxable income is made by the tax authorities. In 2016, the bottom income bracket was widened and more individuals became eligible for the 30% deduction. In 2018, everyone became eligible for the 30% deduction, up to a maximum amount of EUR 4 810. Low-income workers benefited most from this reform (Annex Table 4.C.2).

Annex Table 4.C.2. Changes to the deduction for work-related expenses

Deduction from taxable income of work-related expenses

2014		2015		2016	
Thresholds	%	Thresholds	%	Thresholds	%
< 5 710	29.35%	< 5 760	29.35%	< 8 450	30%
5 710 – 11 340	10.50%	5 760 – 11 380	10.50%	8 450 – 19 960	11%
11 340 – 18 880	8%	11 380 – 19 390	8%		
> 18 880	3%	> 19 390	3%	> 19 960	3%
Max. amount 3 950		Max. amount 4 090		Max. amount 4 240	
2017		2018		2019	
Thresholds	%	30%		30%	
< 8 620	30%				
8 620 – 20 360	11%				
>20 360	3%				
Max. amount 4 320		Max. amount 4 720		Max. amount 4 810	

StatLink https://stat.link/g0uyq2

Exempt income

In 2019, there was a significant increase in the share of workers at the bottom of the income distribution eligible for the full exempt income amount. The threshold was increased from EUR 27 030 to EUR 45 750 (Annex Table 4.C.3).

Annex Table 4.C.3. Full exempt income amount

2018			2019		
Taxable income (S)	Fixed amount	Variable amount	Taxable income (S)	Fixed amount	Variable amount
0 – 27 030	7 570	0	0 – 45 750	7 730	0
27 030 – 27 330	7 270	27 330-S	45 750 – 46 050	7 430	45 750 – S
27 330 and up	7 270	0	46 050 and up	7 430	0

StatLink https://stat.link/h1ndl8

Refundable tax credit for low-income workers (employment bonus)

Low-income workers in Belgium are eligible for a refundable tax credit (called the “fiscale werk bonus” or fiscal work bonus), which was introduced in 2011. This fiscal work bonus is calculated as a percentage of the social work bonus (the term used to refer to the reductions in social security contributions that low-wage workers are entitled to). The value of the fiscal work bonus has increased over time. In 2017, it increased from 17.81% of the social work bonus (i.e. 17.81% of the reduction in social security contributions) to 28.03% and, in 2019, it was further increased to 33.14%. For example, a worker earning EUR 19 699.44 in 2019 would have been entitled to the full lump sum reduction in social security contributions of EUR 2 419.44 (the social work bonus). On top of that, the worker would receive a tax credit (fiscal work bonus) of 33.14% x EUR 2 419.44 = EUR 801.80 (or just over 4% of gross earnings). If the 2015 rate had still been in place, the equivalent value would have been EUR 430.90 (or 2.19% of gross earnings).

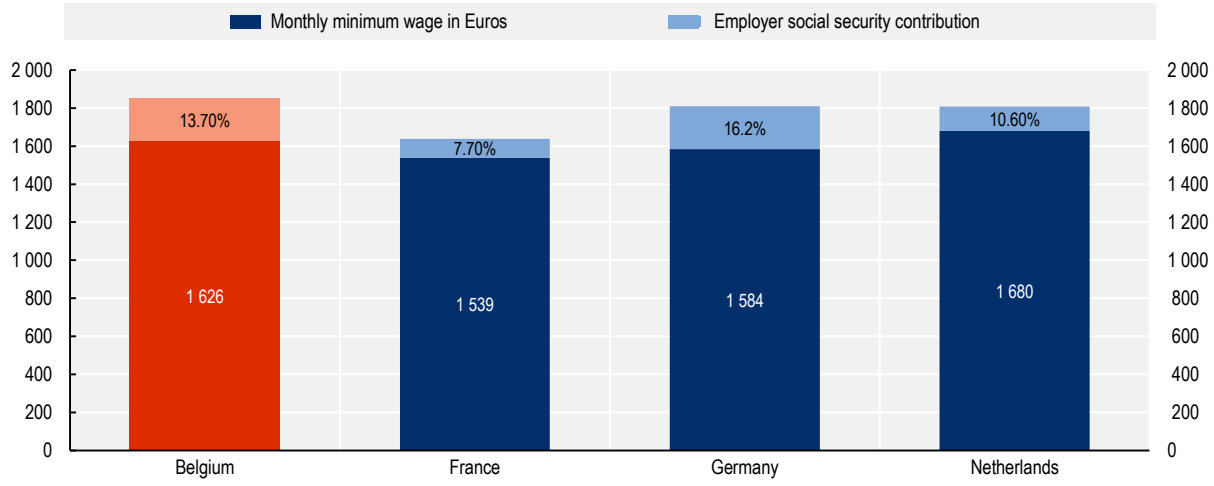
Annex 4.D. Labour costs at the minimum wage

This Annex estimates labour costs at the minimum wage in Belgium and its neighbouring countries.

There are few differences between Belgium and neighbouring countries in terms the costs of hiring a worker at the national minimum wage. The monthly cost to an employer of hiring a worker at the minimum wage is around EUR 1 850 in Belgium, and slightly over 1 800 in Germany and the Netherlands. Only in France is the cost lower, at just over EUR 1 600. So the national minimum wage or the employer social security contributions charged to employers at that wage level, cannot explain differences in employment rates of the low-educated between Belgium and its neighbours. However, very few workers in Belgium (only around 1%) earn the national minimum wage. Most are on higher wages set in sector collective agreements.

Annex Figure 4.D.1. Labour costs at the minimum wage in Belgium and neighbouring countries

Minimum wage and employer social security contributions, 2020



Note: Minimum wages are gross monthly earnings as of 17 July 2020.
Source: Employer social security contributions from OECD (2019[35]), *Taxing Wages* 2019, https://dx.doi.org/10.1787/tax_wages-2019-en and minimum wages from Eurostat minimum wage database https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

StatLink https://stat.link/nvdmj1

Notes

[1] The focus is on 67% of the average wage rather than the minimum wage because, in Belgium, the average earnings of low-educated workers are considerably higher than the minimum wage and much closer to 67% of the average wage (in fact, they are slightly above 67% of the average wage)..

[2] More detailed studies, which adjust for hours of work, and firm and worker characteristics find more modest productivity differences (Konings and Marcolin, 2014[17]; Kampelmann et al., 2018[48]).

[3] The high productivity in the Brussels-Capital Region relative to Wallonia and Flanders arises due to several factors. First, as a region that is also completely urban, it benefits from the agglomeration effects of cities, which are not diluted by less dense areas as happens in the other regions. Second, the Brussels-Capital Region is home to the Belgian government, European Institutions, and the headquarters of many large corporations. The high value-added services employed by these institutions may inflate productivity (OECD, 2019[2]).

[4] Wage distributions adjusted for different demographic and sectoral differences across regions yield qualitatively similar results.

[5] Belgium is different from most other OECD countries in that the minimum wage (*interprofessioneel minimumloon* / *salaire minimum interprofessionnel*) is not set by law, but rather by negotiation by the social partners at the National Labour Council (*Nationale Arbeidsraad* / *Conseil national du travail*). Any agreement reached by the National Labour Council legally applies to all workers and employers.

[6] Data on employment rates at the level of arrondissement is not available by education. The same analysis undertaken at the provincial level (not shown) shows that the correlation between productivity and employment rates is stronger for the low-educated than for the entire working-age population.

[7] The tax wedge measures the difference between the labour costs to the employer and the corresponding net take-home pay of the employee. It is calculated as the sum of the total personal income tax (PIT) and social security contributions (SSCs) paid by employees and employers, minus cash benefits received, as a proportion of the total labour costs for employers.

[8] It is important to note that these employer social security contributions do not include non-tax compulsory payments. In the case of the Netherlands, this means that compulsory private pension contributions are not included. If these compulsory payments were included, the gap in labour costs between Belgium and the Netherlands would be reduced, although labour costs would remain higher in Belgium, particularly for some family types (OECD, 2020[49]).

[9] Anecdotally, however, the long time period that workers have to make a claim against an unfair dismissal does not appear to put employers off from hiring on permanent contracts.

[10] Outplacement refers to services that the employer needs to provide to dismissed workers to help them find work elsewhere.

[11] These rules applied to young people hired on or after 1 January 2013. Prior to that, the following rules applied:

prior to that, the following rules applied:

- If low-educated: a reduction of EUR 1 000 per quarter for the first 8 quarters, and then EUR 400 per quarter after that.
- If low-educated and disabled/non-native: a reduction of EUR 1 000 per quarter for the first 16 quarters, and then EUR 400 per quarter after that.
- If very low-educated: a reduction of EUR 1 000 per quarter for the first 16 quarters, and then EUR 400 per quarter after that.

The Future for Low-Educated Workers in Belgium

The world of work is changing as a result of technological progress, globalisation and population ageing. The future of work holds many opportunities, but also presents distinct risks which tend to be greater for some population sub-groups, including low-educated workers. This report documents how the labour market for low-educated workers in Belgium has evolved in recent years and what the future might hold for them in terms of both job quality and quantity. Based on comparisons with neighbouring countries, the report seeks to provide policy advice to ensure that low-educated workers are not left behind by the changes that lie ahead.



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