

**MUTUAL LEARNING PROGRAMME:
PEER COUNTRY COMMENTS PAPER - BELGIUM**

The quest for the holy grail of full employment and a high
standard of social protection

Peer Review on “Extending working Life: The tripartite cooperation and
the role of the Centre for Senio Policy programme”

Norway, 24-25 May, 2012

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Date: 17/05/2012



This publication is supported for under the European Community Programme for Employment and Social Solidarity (2007-2013). This programme is managed by the Directorate-General for Employment, Social Affairs and Inclusion of the European Commission. It was established to financially support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields.

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1 LABOUR MARKET SITUATION IN BELGIUM

Belgium is becoming an outlier in the European context. While in many countries stabilisation of the population is occurring, Belgium has been confronted with a growing population, due especially to net immigration. It resulted in the last two decades of a population increase, between 1995 and projected to 2015, of some 1.2 million, exceeding the 1.1 million population growth of the baby boom years 1945-1965. This recent demographic boom is further projected for the future so that in a context of growing awareness of a declining or stable population and declining labour force in the rest of the EU, the opposite will be the case for Belgium. Why then embark on steps to extend working life?

This may explain why the sense of urgency to change employment policy has long been absent. The employment growth of the recent decade, to a large extent in subsidised jobs, and with a growing share of part time work, could not absorb the increased labour force. A relatively high degree of open unemployment persisted, combined with a massive use of measures to stimulate partial or complete withdrawal from the labour market, and a substantial use of early exit from the labour market. It resulted in a large number of benefit earners and one of the lowest levels of employment of persons aged between 50 and 65. Average exit age from the labour market is 61 and the employment rate of the population aged between 20-64 was 67.6. For the age group 55-64 it was 37.3%. For the age group 60-64 it is 20%.

There is also a relatively huge difference in the total employment rate between the regions (59.2 in Brussels, 72.1 in Flanders and 62.2 in Wallonia), according to schooling level and country of origin. People coming from non-EU countries have an employment rate of 40.4% compared to those of Belgian origin, who have a 68.8 % employment rate. Even when the latter is far from European objectives or full employment, the former figures illustrate even more the waste of human capital that is not integrated in the labour market, and the missed employment capacity. Nevertheless the Belgian economy is demonstrating relatively good economic results, with a high level of social protection. It is a typical example of a European model of social economic development with low job creation, high growth of real wages and productivity and high levels of social protection (Pacolet 1997; Pestieau, 2005). The main point is the relatively high level of public debt, but even that evolved rather better than the massive deterioration at European level.

The high level of under-employment of the labour force potential undermines, however, the sustainability of this situation. In the extreme case of maintaining such under-use, the estimated cost of pensions would increase in the coming decades by some 6 %.

The Belgian labour market could be characterised in the past by relatively high productivity growth, income growth, but limited job creation and high levels of unemployment. Later on this picture was modified with more job creation, but alongside with more part time work, and more public financed job creation. The lack of job creation is compensated by relatively widespread, but relatively low, benefits, high fiscal and para-fiscal pressure and a high level of debt financing. In reality unemployment and under-use of the workforce have never disappeared in the last decades, and on many occasions even projected in the future, as a 'natural rate of unemployment'. Excluding huge amounts of persons from the labour market could on some occasions even create the (misleading) feature of shortages in the labour market, and the need for 'labour hoarding'. These shortages could reflect a mismatch between supply and demand, considered as a problem of employability and qualifications, but perhaps they only reveal crowding out of the oldest, lowest qualified or newcomers. How to reverse this picture? The quest for the holy grail.

2 ASSESSMENT OF THE POLICY MEASURE

When there are shortages, policies of withdrawal from the labour market or early retirement are relics of the past, when there was massive unemployment. The persistent and massive growth, alongside a new need for public spending, created a huge budgetary cost and an opportunity cost of missed economic growth. If it can be reversed, it implies also a huge labour reserve for future potential for future growth.

The labour market policies seem to be one-sided in Belgium. Too much attention seems to be oriented to the supply of the labour market, willingness to participate, the reservation wage, the qualifications, and measures to cover the open unemployment by stimulating withdrawal from the labour market.

There seems to be a limited number of active labour market policies, aiming at increasing labour market participation and job creation. They seemed to be also too little and too late. This is continued now, with a growing pressure to stimulate training, eligibility, up until even limitation in the duration of the unemployment benefit. From the demand side employment policies seem to be dominated by public job creation, among others with a long list of employment programmes of which the latest and most successful is the voucher system for domestic help.

The same goes even more for older workers. Starting from the employment crisis in the seventies, and the restructuring in the coal and steel sector, pre-retirement pension (an unemployment benefit for older workers, topped up with a supplementary allowance paid by the employer) was used as a socially acceptable way of restructuring industries and firms. Those arguments have been acceptable and present up until now. It made sense in the early period also as an instrument of promoting job creation for youngsters, especially when there was a link with the engagement to replace the older worker by hiring a younger person. This criterion was not applicable in many industries or firms in difficulty. In others, it is applicable in a substantial way, as for instance in the health and social care sector.

A first step to reverse this situation was in 2001 when a bonus was implemented for civil servants to postpone retirement up until even the legal pension age of 65. A similar reform was introduced for the private sector in 2006 with the Generation pact. This was only one of the many measures to be taken at that time to increase the activity rate of the population between 50 and 65. Other measures included the improved possibility to work beyond the normal pension age, the tightening of the age and career conditions for the eligibility or pre-pension (a more favourable unemployment regime); a tax credit for occupational pensions only taken up at the age of 65. Also on the demand side, measures were taken to stimulate hiring and retention of older workers, among others additional reductions of social security contributions for older workers. There were also further improvements announcing the indexing of benefits to general income levels, and additional sources for financing social protection. Nevertheless the 'Solidarity pact' was not enthusiastically welcomed by the trade unions.

A much more important measure was, however, decided long before, announced largely in advance and with almost no resistance, that was the increase of the pension age for women from 60 to 65 that took place in the period 1997-2009. As a result, the pension age was increased for half of the population.

The pension system is no longer favours stimulation of extended labour market participation. Belgium has a flexible pension age, where a mature career for men and women is now 45 years, implying that the normal pension age is around 65. The real exit age was found to be 61.4 in 2010. On several occasions it was highlighted that the Belgium pension system is highly subsidised and redistributive and favours early retirement because of marginal tax rates of longer working approaching 100% (Pestieau, 2005). Belgium was

situated as having the highest implicit tax rate, combined with high inactivity rates for the older population.

The 2006 Generation pact should be evaluated in the coming months¹. A first look at the activity rate of the age groups between 50 and 65 reveals indeed an increase, but it remains low on one hand, and it will become difficult to disentangle the impact of measures from the generation pact and other measures. A substantial increase of activity, and reduction of early pensions, occurred because of the increased legal pension age for women. At the same time cohort effects enter in the age profile, since cohorts with a previously higher level of labour participation will further reduce their activity, but starting from a higher level. Some partial evaluations reveal even counter-productive effects. So can a pension bonus that wants to stimulate later exit create an income effect that triggers again earlier exit, at additional detriment to the pension budget? Alternative more cost effective measures are sometimes proposed, to create a malus system sanctioning early exit.

Substantial new proposals were made in the new Belgian federal government agreement (1 December 2011). It included substantial new measures of further tightening of the age and career conditions for pre-pension (it is also renamed as a 'unemployment benefit with an additional benefit from the employer'), a reduction of some of the subsidised systems for withdrawal from the labour market, a further limitation of the early pension by increasing the minimum age and career requirement (the minimum age will increase from 60 to 62, from now until 2016), and increased possibility to work after retirement. Also measures to reduce the level of the pensions were introduced, by increasing for certain categories the required length of career, the calculation for younger people (although 'young' was defined in the government agreement at 55 years) of future pensions in the 10 last years for the civil servants, and not any more the 5 last years.

Since those measures were prepared within the context of difficult governmental negotiations, and then soon after translated in legislation, there was again huge protest from the trade unions, including a general strike. Not only the direction but also the size and the speed of the proposals surprised many. For some of the measures the timing needed to be even modified. Monitoring the last 15 years the evolution of the welfare state in Belgium we noticed that period after period similar protest re-emerges against proposed measures in early retirement, but each time the thresholds on those changes increased. Times they are changing. For the moment the general pension age is not under debate, except perhaps with the European suggestions in this sense. But sooner or later it will appear up on the political agenda, and those reforms need to be negotiated in a balanced way, and announced in a timely manner. When the generation pact included some balance between improved benefits and tighter conditions, the new measures, that by definition imply a less generous pension system, should be counterbalanced with new reforms, and especially those that stimulate demand for work. Although in this new package also counterparts are presented, the harmonisation of the legal situation of blue and white collar workers can be substantial, the maintaining of the index mechanism also, further efforts for job creation are missing. In the next item we highlight a remarkable difference with Norway.

This greater attention for consensus building, and balancing the efforts, could have created greater acceptability, and from there on better application. The other weak effort is the attention to the demand side, stimulation of firms and the economy to engage more fully in hiring and retention of older workers.

¹ See Capéau, Pacolet, 2012, to be published.

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

How to start a virtuous circle of balanced solutions and growing awareness?

The demographic evolution of Norway is similar to Belgium, with substantial present net immigration, also projected into the future and a substantial population growth. It is even a somewhat younger population (In Norway only 15% of the population is above 65 in 2010; in Belgium it is 17.2 – The 2012 Ageing Report). It is remarkable that nevertheless the awareness for the need to increase and maintain the labour market participation of older persons is different. Can there be the same diagnosis and nevertheless different therapies? There seems to be a convincing cocktail in Norway of growing and cultivated awareness, stimulating recruitment and work for older workers and social consensus by a tripartite agreement of unions, employers and government.

First balanced consensus

Unilateral or unbalanced solutions will not be successful. The European model should try to combine real full employment (high levels of labour market participation) and high levels of social protection. Even with forecasts of declining, stable or growing population and labour force, a reasonable average and legal exit age can keep in balance social contributions and fiscal burden and adequate pension on the other hand. And to fill that employment gap measures on both the supply side and the demand side need to be kept in balance. The new measures taken, or suggested for Belgium (for instance tightening further unemployment benefits), continue to focus on the supply side. The Norwegian example underlines the demand side.

It is only when such a balanced and negotiated view exists, that the dissemination can start raising further awareness and cultivate a virtuous spirit of maintaining and increasing labour market participation of older workers.

Then greater awareness

Early exit is determined by push and pull factors. It is unclear how to disentangle them, but they remain widespread. The continued pressure of unemployment does not stimulate firms to engage older workers, on the contrary. The demonstrable effect of high levels of inactivity of older workers are not stimulating later exit. It is up until now only that there is a greater awareness of not only the societal cost of early exit (or unemployment in general) but also the individual cost.

'Tit for tat'²

Recent research on undeclared work and tax evasion illustrates the impact of demonstration effects, unfair competition and the need to reverse this vicious circle into a virtuous one. The same goes for early exit from the labour market. It has a demonstration effect on the supply of work, it can create competitive disadvantage when firms continue to engage older workers, while competitors are using a younger and cheaper work force, and the worst case scenario could be that there is a tripartite agreement to maintain that situation instead of looking for tripartite agreements to reverse it. But that is only possible when there is a fair and proper deal for change. In Belgium, for instance in the care industry, a system of reducing working hours has been created for older workers. It could be traded off with a strategy to increase the average real exit age. In the eighties (1982) the needed reform combined with the devaluation included a balance between 3% wage

² 'an equivalent given in return', http://www.audioenglish.net/dictionary/tit_for_tat.htm

moderation, 3% new recruitment and 5% working hours reduction (5-3-3). The new measures for later exit could have been traded off with a reduction in average working time. To see how relevant this can be, the average number of yearly hours of working has always been lower in Norway and is in 2007 some 1,400, compared to 1,600 in Belgium (Norway 13% lower than Belgium), but the annual hours worked per capita in Norway is, in 2007, some 756 hours, and in Belgium 672³ (Norway now 12.5% higher than Belgium). We are concentrating in Belgium the work effort on a more limited number of persons, during a shorter period of the life course, and in the end even use per capita a lower number of hours. Part of the inactive time is compensated by benefits or allowances, and it has a price in lower potential GDP. But it has also the benefit of overall lower working hours. But could the Norwegian example not tell us to spread it more equally over the population and careers?

From consensus to action

There is a contradiction in Belgium between a low employment rate, implying a huge work force reserve, and a growing concern about labour shortages ('a war for talent'). It is for reasons of the sustainability of the welfare state that increased activation will be needed. Several recent studies confirm the desirability and or the feasibility of policies targeted to older workers. Among others are to be mentioned some studies of the Policy Research Centre Work and Social Economy illustrating the benefit in terms of increased employment of mandatory activation of older unemployed by way of job search training and assistance, counselling and job training (J. Bollens, 2011); the need for instance of information campaigns to tackle age norms, the need to educate older individuals about their alternatives, invest in counselling, assist people in assessing their employability and wage expectations (De Coen, A. , Forrier A., Sels, L., 2010); the need for strengthening HRM policies oriented at older workers of organisations to increase social support, skill match and reduce emotional and mental stress (Masquillier, C., Kovalenko, M., Mortelmans D. (2012)).

The new Belgian Government announced also a model of an Employment plan for older workers, to be at the disposal of the individual firms, and to be made concrete within the social dialogue at firm level (Regeerakkoord 2011, p. 92). This is a start for a bottom-up change of employment strategy that could further be reinforced with measures to improve the 'workability of work' (for older workers) and the 'affordability of work' (age targeted reductions of payroll taxes).

4 QUESTIONS

A successfully designed therapy can only be applicable when there is a willingness to do so. The search for an early and tripartite consensus is the most important observation to be made about the Norwegian initiative. In Norway, there is clearly consensus on the diagnosis of the challenges and identification of the way forward. How did Norway reach that early and balanced consensus?

But what was also the context of this consensus? There one element strikes, as expected and confirmed by reality, namely the trade off between a higher employment rate, longer careers (they go together) and lower yearly working hours for this active population. Did the choice and culture of reduced working hours contribute to this consensus building of maintaining or extending a longer career and searching for methods to make this happen?

³ Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008, <http://www.conference-board.org/economics/>, used in B. Capeau, J. Pacolet (2012)

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ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country

- Belgium is a country with a multi-layered federal system.
- It is an outlier in the EU since in the last decade it has been characterised by continued population growth, especially because of net immigration, and this is expected to continue.
- Belgium is a typical European welfare state, combining low job creation with high levels of income and social protection.
- It has one of the lowest employment rates for the group aged between 55-64.
- There is an unemployment divide between regions, educational level and age.

Assessment of the policy measure

- The pension system is benefiting early retirement and on top of that a large system of benefits is oriented to stimulate partial, total and early withdrawal from the labour market.
- The measures to increase labour market participation are not based on a tripartite consensus.
- The measures are also unbalanced, with too little attention paid to stimulating demand for work and extending working careers.

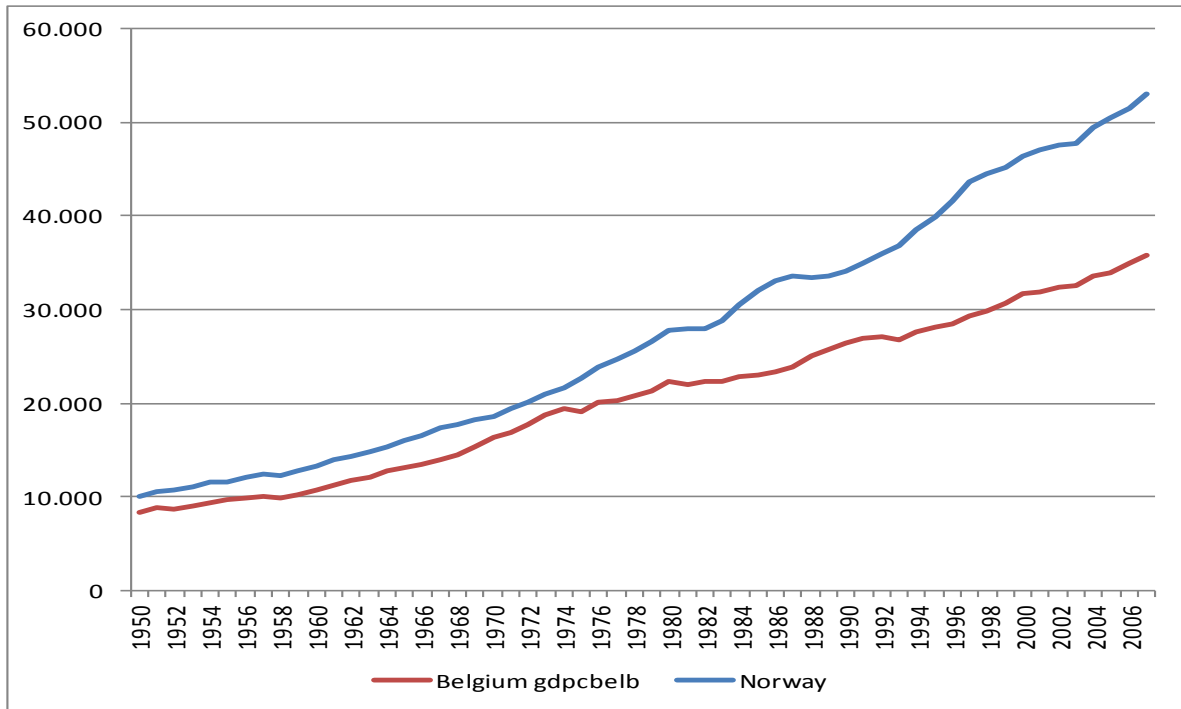
Assessment of success factors and transferability

- The tripartite consensus is needed at the start and needs to be maintained.
- The early consensus is needed to allow expectations and behaviour to be adapted.
- The demand orientation is needed to balance further the Belgian package of policy measures.
- The project of raising awareness, but that is only possible when there is consensus.

Questions

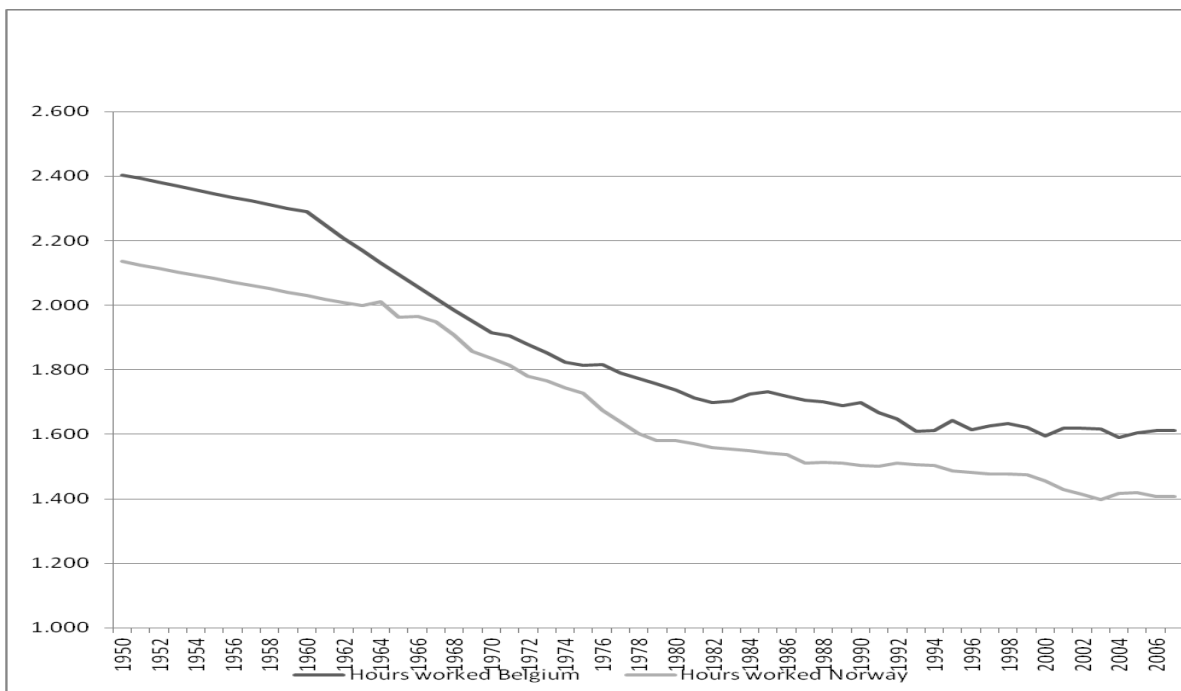
- What created the early and tripartite consensus and the balanced solution?
- Did the relative low yearly hours of work per active person, facilitated the acceptability of extended careers

ANNEX 2: DATA



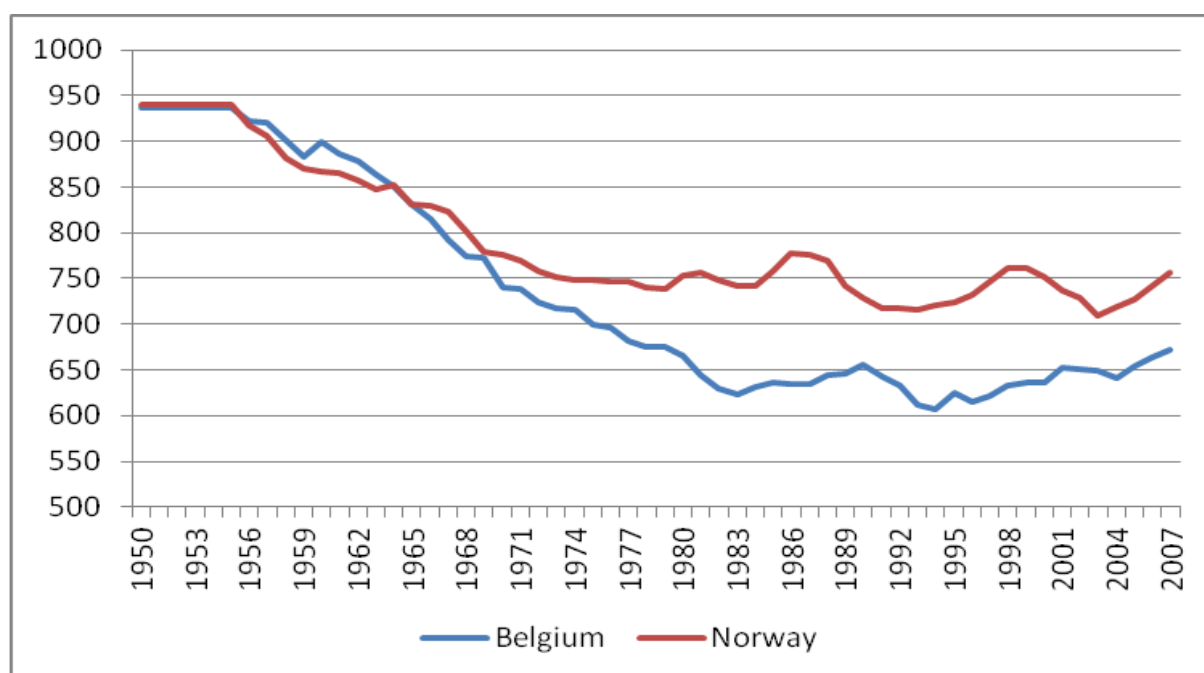
Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008

Figure 1 Evolution of GDP per capita, in 2007 EKS\$ (real purchasing power)



Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008

Figure 2 **Evolution of average yearly number of working hours**



Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008.

Figure 3 **Evolution of GDP per capita, in 2007 EKS\$ (real purchasing power)**

Table 1 *Same demographic and economic perspective, other activation strategies?*

	Nominal			Index 2010=100		
	2010	2015	2060	2010	2015	2060
GDP (in billion 2010 euro)						
Belgium	352,3	389,5	812,3	100	111	231
Norway	243	275,3	628,7	100	113	259
Population (in million)						
Belgium	10,9	11,3	13,5	100	104	124
Norway	4,9	5,2	6,6	100	106	135
Net immigration (in thousands)						
Belgium	61,3	53,7	32	100	88	52
Norway	36,9	27,2	12	100	74	33
GDP per capita (in 2010 euro)						
Belgium	32.321	34.469	60.170	100	107	186
Norway	49.592	52.942	95.258	100	107	192
Net immigration as % of population						
Belgium	0,6	0,5	0,2	100	85	42
Norway	0,8	0,5	0,2	100	69	24

Source: Own calculation on European Commission, The 2012 Ageing Report, European Economy 2/2012