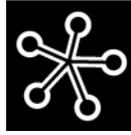


*University of Amsterdam*



**AMSTERDAM INSTITUTE FOR  
ADVANCED LABOUR STUDIES**

**DISTRIBUTION OF RESPONSIBILITY FOR SOCIAL SECURITY  
AND LABOUR MARKET POLICY**

**COUNTRY REPORT: BELGIUM**

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## **ABSTRACT**

High levels of unemployment, or high levels of social expenditures as well as the growing demand for a flexible labour force have given new impetus to the world-wide discussion on what model to use for an efficiently operating labour market and in particular on the role of institutions. Although there seems to be a growing consensus on the restricted governmental role in recent decades, this has not been translated into a unanimous appraisal of the role of intermediary organisations, such as trade unions. There is no clear view on an appropriate distribution of responsibility between government, social partners and the market. The research project 'distribution of responsibility for social security' aims to create a scientific basis for a clear and consistent view on the role and distribution of responsibilities between the different labour market institutions. As part of this research project, this paper provides an elaborate country study of the Netherlands, on the organisation of unemployment insurance, employment protection and active labour market and the performance of the labour market with respect to these fields. Both first-order effects (e.g. coverage rates, expenditures, replacement rates) and second-order effects (e.g. flows in and out of unemployment insurance) are analysed in this paper.

It is shown that the role of trade unions in the Belgian unemployment insurance system is quite different from what one would expect in a 'Ghent system'. It is not the union but the state who determines the conditions of the insurance policy and both actors together are responsible for the administration. When considering the demand side, there clearly is an element of choice in the Belgian model of unemployment insurance since the employee can choose his payment body (union or state fund). Employment protection has been rather stable in Belgium and an important role is played by a redundancy payment fund that guarantees temporary unemployment benefits on top of the normal unemployment insurance benefits. As for active labour market policies, a complex web of distributions is found in Belgium: the regional authorities are responsible for the job finding or retraining of the unemployed, the federal government monitor and sanction the unemployed, the unions operate as a kind of 'brokers' helping their members to find their way in this myriad of institutions and making sure that their rights are not infringed upon. Because these functionally differentiated institutions are controlled by a governance structure composed of representatives of the very same collective actors, there may be operating a kind of network structure which, in addition to the formal coordination structures that have been set up, allows for an additional exchange of information.



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## LIST OF ABBREVIATIONS

ABVV	Algemeen Belgisch Vakverbond	Socialist trade union federation
ACLVB	Algemene Centrale der Liberale Vakbonden van België	Liberal trade union federation
ACS	Agents Contractuels Subventionnés	Job creation programme (idem Gesco)
ACV	Algemeen Christelijk Vakverbond	Christian trade union federation
ADG	Arbeitsamt der Deutschsprachigen Gemeinschaft	Employment Office of the German Community
BGDA	Brusselse Gewestelijke Dienst voor Arbeidsbemiddeling	Employment office of the Brussels Region
BTK	Bijzonder Tijdelijk Kader	Job creation programme
CAO	Collectieve Arbeidsovereenkomst	Collective wage agreement
CB	Conventioneel Bruggpensioen	Standard early retirement scheme
CESRB	Conseil Economique et Social de la Région Bruxelloise	Economic and Social Council of the Brussels Region
CESRW	Conseil Economique et Social de la Région Wallonne	Economic and Social Council of the Walloon Region
CMB	Centrale der Metaalindustrie van België	Socialist Metal Workers Union
CMT	Chomeur Mis au Travail	Job creation programme (idem TWW)
CPAS	Centres Publics d'Aide Sociale	Public Social Assistanec Centre (idem OCMW)
CST	Cadre Special Temporaire	Job creation programme (idem BTK)
DAC	Derde Arbeidscircuit	Job creation programme (idem TCT)
EES	European Employment Strategy	
EMU	European Monetary Union	
ESRB	Economische en Sociale Raad voor het Brussels Hoofdstedelijk Gewest	Economic and Social Council of the Brussels Region
FAO	Fonds voor Arbeidsongevallen	National Fund for Work-Related Accidents
FBZ	Fonds voor Bestaanszekerheid van de Werklieden uit het Bouwbedrijf	National Fund for Work Accidents in the Building Industry
FvB	Fonds voor Bestaanszekerheid	Fund for Existential Security
FFESZ	Fonds voor Financieel Evenwicht van de Sociale Zekerheid	Fund for Financial Balance in Social Security
FOD	Federale Overheidsdienst	Federal Public Service (quasi ministry)
FOREM	Office Communautaire et Régional de la Formation et de l'Emploi Office	Walloon Vocational Training and Employment
FSO	Fonds Sluiting Ondernemingen	Redundancy Payment Fund
Gesco	Gesubsidieerde Contractuelen	Job creation programme (idem ACS)
HRW	Hoge Raad voor de Werkgelegenheid	High Council for Employment
HVW	Hulpkas voor Werkloosheidsuitkeringen	Public payment body for unemployment benefits
IBO	Individuele Beroepsopleiding	On-the job training programme of the VDAB
ILO	International Labour Organisation	
IPA	Inter Professioneel Akkoord	Multi-Industry Collective Agreement
KISS	Kandidaten Informatie en Selectie Systeem	Database of the VDAB for job seekers
KSZ	Kruispuntbank van de Sociale Zekerheid	Information database for social security
NAR	Nationale Arbeidsraad	National Labour Council
NCF	Nationaal Crisisfonds	National Crisis Fund
NDAW	Nationale Dienst voor Arbeidsbemiddeling en Werkloosheid	National Office for Employment and Unemployment
NHVC	Nationaal Hulp- en Voedingscomité	National Committee for Relief and Food Aid
OCMV	Openbaar Centrum voor Maatschappelijk Welzijn	Public Social Assistance Centre (idem CPAS)
OU	ouder unemployed	Special status comparable to early retirement
ORBEM	Office Régional Bruxellois de l'Emploi	Employment Office of the Brussels Region
PC	Paritair Comité	Joint Committee
PSC	Paritaire Subcomité's	Joint Sub Committee
PWA	Plaatselijke Werkgelegenheidsagentschappen	Local Employment Agencies
PWB	Programma ter Bevordering van de Werkgelegenheid sector	job creation programme in the non-profit in the Flanders Region

RDBB	Regionale Dienst Beroepsopleiding Brussel	District office of the VDAB for the Dutch-speaking inhabitants of Brussels
RIZIV	Rijksinstituut voor Ziekte en Invaliditeit	National Sickness and Disability Agency
RKW	Rijksdienst voor Kinderbijslag voor Werknemers	National Child Allowances Office
RJV	Rijksdienst voor Jaarlijkse Vakantie	National Annual Paid Holidays Office
RRU	tewerkstellingscel - cellule sectorielle pour l'emploi	Regional Reemployment Units
RSZ	Rijksdienst voor Sociale Zekerheid	National Social Security Office
RVA	Rijksdienst voor Arbeidsvoorziening	National Employment Office
RVAW	Rijksdienst voor Arbeidsbemiddeling en Werkloosheid	Predecessor of National Employment Office RVA
RVP	Rijksdienst voor Pensioenen	National Pensions Office
RWB	Regionale Werkloosheidsbureaus	District Unemployment Offices
SERR	Sociaal Economische Raad van de Regio	Advisory council at the regional level
SERV	Sociaal-Economische Raad voor Vlaanderen	Social and Economic Council of Flanders
TCT	Troisième Circuit de Travail	Job creation programme (idem DAC)
TW	Tewerkgestelde Werkloze	Job creation programme (idem CMT)
UCM	Union des Classes Moyennes	Employers association (small and med. size employers)
UNIZO	Unie van Zelfstandige Ondernemers	Employers association (small and med. size employers)
UO	Uitbetalingsorganismen	Payment bodies of unemployment insurance
VBO	Verbond van Belgische Ondernemers	National employers's association (large employers)
VDAB	Vlaamse Dienst voor Arbeidsbemiddeling en Beroepsopleiding	Flemish Employment Services and Vocational Training Agency
VOSEC	Vlaams Overleg Sociale Economie	Advocay group of the non-profit sector
WF	Werkloosheidsfonds	Municipal unemployment fund
WK	Werkloosheidskas	Auxiliary unemployment fund (predecessor of the UO)
WEP-plus	Werkervaringsprojecten	Job creation programme in the Flanders Region
WIS	Werk Informatie Systeem	Data base of the VDAB for job offerings

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## **I INTRODUCTION**

This report has been written with three main aims in mind: (1) to offer a short account of the history of responsibility for shaping, implementing and supervising unemployment insurance and labour market policies in Belgium; (2) to offer a detailed description of the present distribution of responsibility between various levels of government, trade unions, employers associations and private enterprises; (3) to assess a number of possible second order effects of the system on the performance of the labour market.

It is our understanding that one of the reasons the project initiators decided to commission a case study on Belgium, is related to the fact that the country is often considered to be the cradle of the so-called Ghent system of unemployment insurance. As we will argue though, Belgium never knew an unemployment insurance system that epitomised what the industrial relations literature refers to as the 'Ghent system'. Trade unions have always played, and still do play, an important role in administering unemployment insurance benefits, but union membership never was a necessary requirement for entitlement. In order to correct this misreading of history, we decided to elaborate a bit more in detail, than might have been required by the project assignment, on the origins of the system in Belgium.

Next, we will move to the current arrangements in terms of the governance structure of unemployment insurance and labour market policies. During the past decades, Belgium has been transformed from a unitary state into a federal state, in which labour market policies have been devolved to the regional authorities. This made writing the report a challenging enterprise. Not only became the responsibility over social security and labour market policies to be distributed over various levels of government, those different authorities also have started to follow different policy pathways. In part these differences can be related to a growing diversity in terms of the economic structure in the different parts of the country, but other reasons include variations in the political culture and in the underlying power constellations. As a consequence of these developments, this Belgian case study runs the risk of evolving into four case studies: a case study on the labour market policies and the distribution of responsibility at the federal level, and three case studies on how these arrangements and policies are developing in the three regions that came into being after devolution of the nation.

We therefore will not be able to avoid introducing the reader into some of the peculiarities of Belgian federalism. There are two main complications in the new devolved political structure, and in the resulting distribution of responsibilities. On the one hand, there has been devolution towards territorially defined jurisdictions. In this respect Belgium is not that different from other countries

with a federal structure: there is a federal jurisdiction and there are three regional jurisdictions. On the other hand, though, there has also been devolution towards three language communities. The main problem here is that language communities and territorial entities do not correspond, and that in some regions, in particular in the Brussels Region (but also less importantly in the German speaking part of Wallonia), there might exist shared or parallel jurisdictions.

What further complicates the matter is that over time an asymmetric governance structure emerged, in which the government of the Flanders Region and government the Flemish Community have developed into one single body with its adjunct parastatal administration, whereas the Walloon regional government and the French Community government have remained separate entities. All this has resulted in a very complicated system of government, and in a myriad of quasi governmental institutions with responsibilities in the area of unemployment insurance and labour market policies. Moreover, as this maze of institutions was not the outcome of some grand design (like, for instance, one could to some extent claim to be the case with respect to the kind of federalism set up in post-war Germany), but rather was the outcome of decades of negotiations, there are elements of the former unitary national system of governance that still remain. This, as we will demonstrate, can in particular be observed in such areas as unemployment insurance and labour market policies. One can even argue that the social security system (and the state debt that can be considered to form an intimate part of it), are some of the few institutional layers that prevent the country from splitting completely in two parts.

In the second and fifth section, we will demonstrate how social security (and in the context of this study, controlling the willingness to work of the beneficiaries of unemployment benefits in particular), has largely remained a federal competency. The same can be said about the system of industrial relations: the wage bargaining practices and the system of Joint Committees (and the extra-statutory protection they provide) have not been devolved. On the other hand, though, labour market policies have become primarily a responsibility of the regional authorities that have effectively claimed sovereignty to develop their own programmes and governance structures. These various institutions need to be coordinated, but as we will argue, this is not done by means of the sort of market mechanisms theorised in the contribution that forms the framework of the project for which this study was commissioned.<sup>1</sup> Coordination rather seems to be accomplished by a mix of hierarchies and network structures.

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<sup>1</sup> This is based on an unpublished theoretical framework of Lucy Kok.

Another problem that will become evident in our institutional account is that the Belgium system of unemployment support hardly qualifies as an insurance system: it lacks the strict actuarial logic of a system of earnings-related benefits. It seems to have more in common with a status-based social assistance scheme, or with a social provision system. As we will demonstrate, the only genuine 'insurance' aspect consists of the fact that the discretionary power of the authorities is considerably less, than it would be in typical social assistance schemes. As a consequence of this, the unemployed have stronger rights of entitlement (and we will show how the trade unions reinforce these rights by effectively operating as kind of insurance brokers that offer administrative and legal support to their members). The difference with a citizenship type of entitlement, on the other hand, is that it remains a system limited to wage earners.

We will give evidence that the scheme offers comparatively low replacement rates for middle and high wage earners. This, one could have expected, should have created a fertile ground for extra statutory arrangements. But as we will demonstrate, most of the extra-statutory arrangements, to the extent they do exist, tend to merely reinforce the non-actuarial, non-earnings-related aspects of the statutory scheme. In addition, we will argue that most of these extra-statutory arrangements do not offer a form of income security to overcome temporary periods of unemployment, but rather seem to have been primarily designed as routes for an early exit from the labour market. These exit routes may have facilitated the restructuring of enterprises; they may well have mitigated the pain of such processes. They are probably also allowed to boost the productivity of those who continued to be employed; but as we will demonstrate, they also may have contributed to the very low labour force participation rates amongst the older workforce, and to the fact that older women are more likely to form part of the active labour force than older men.

We will also pay attention to statutory employment protection, which in Belgium makes a distinction between manual workers and salaried employees. Apart from the extension of a mandatory system of outplacement for all workers that are made redundant after they have reached the age of 45, little has changed during the past decades in this area. We will show that an important role continues to be played by a redundancy payment fund that guarantees temporary unemployment benefits on top of the normal unemployment insurance benefits.

Next we will give an overview of reintegration and activation policies. As many of the institutions that are responsible for conceiving and implementing these policies are of relatively recent origin, it turned out to be difficult to obtain comprehensive information on these matters. As a result, we could not always give a comprehensive account for each of our three 'sub-case studies'.

In this report we have decided to focus on information that is not available from international databanks such as the OECD Corporate Database, the Luxembourg Income Study or Eurostat. Thus, in the section in which we analyse some second order effects we have decided to report only administrative data and data from surveys that are not available at the above mentioned organisations.

Finally, the section on public attitudes about social security in general, and unemployment insurance in particular, is based on a large-scale study for the Flanders Region only, as no comparable study has been done for the other parts of the country.

## 2 STATUTORY UNEMPLOYMENT INSURANCE

The first forms of unemployment insurance in Belgium date back to the 19th century, when the trade unions set up their own funds that provided their members with a meagre benefit in case of involuntary unemployment (Vanthemsche, 1989). By making a small contribution to an unemployment fund, trade union members were in case of involuntary unemployment entitled to a modest support for some 60 days. The contributions soon proved to be insufficient for guaranteeing efficient functioning insurance.

### 2.1 THE GHENT SYSTEM AND THE LIÈGE SYSTEM.

In 1897 the regional authorities of the province of Liège started to grant a subsidy to trade unions' unemployment insurance funds (Kiehel, 1932). But the subsidy was considered to be more of symbolic value and a form of 'moral support' (Loriaux, 2006). They never amounted to more than 25 percent of total contributions. Under this system the state only supported unemployed workers who also were trade union members. Even though advocated by the Socialist trade unions, the Liège system did not extend much beyond the experiments in that province. The method of public support for unemployment insurance that took the overhand was the so-called Ghent system. In 1900 the municipal government of the city of Ghent had started to subsidise the trade union schemes. The state did not directly deposit the subsidies into the trade union funds, but paid out its unemployment assistance benefits *via* the trade union organisation. Workers who individually wanted to save for unemployment also were entitled to these subsidies. The scheme was developed by a Liberal lawyer, Louis Varlez (Van Daele, 2002).

The municipal government topped up the benefit of the trade union scheme by 50 to 100 percent (of the amount that the unions paid) for a period of maximum 60 days. The trade unions thus in effect became part of the municipal administration. They also were sitting jointly with representatives of the municipal government on the boards of the unemployment insurance funds. As such, the Ghent system can be considered to be the first example of joint administration in Belgian history – even if 'joint' only refers to the unions and the state. The employers were conspicuously absent in this branch of social insurance. Where in other areas, such as sickness and pensions the employers had sought to participate in providing social protection of their employees, in the field of unemployment they had remained suspicious of initiatives which they thought would strengthen too much the unions, and would change the functioning of the labour market by limiting competition between workers. But by refraining from participating in unemployment insurance, the

employers also had made it possible to turn this institution into a tool for trade union recruitment. Even if the predominance of the Ghent model over the Liège model in the end had limited the power resource aspect of the new schemes. Attempts have been made, once again in Ghent in 1907, to involve the employers by establishing a so-called ‘*crisisfund*’ (that was to be financed and codetermined by the employers), but this initiative remained without success.

In contrast to what happened in Liège, the Ghent system not only supported trade union members, but *all* individuals who were insured against the risk of unemployment. The Ghent system also did not pay into the trade union funds, but simply paid out its subsidies to unemployed individuals via the trade union fund. For that purpose, a new institution was created: the ‘unemployment fund’ (*Werkloosheidsfonds*, WF).

In 1907 the central government started to enter the game. The Ministry of Industry and Employment was granted a modest budget to subsidise unemployment insurance funds. But only after the First World War, when the Socialist Party entered government, did the central state establish a National Crisis Fund (*Nationaal Crisisfonds*, NCF). This new institution developed out of an unemployment-relief system, which had been initiated during the war, as a department resulting under the National Committee for Relief and Food Aid (*Nationaal Hulp- en Voedingscomité*, NHVC).

At the advent of the First World War, 101 municipalities, or 4 percent of the total in the country, were affiliated with 39 communal funds. Approximately 130,000 workers were insured by trade union and similar plans, representing an insurance coverage of about 10 percent of the working population. During this pre-war period industrial conditions were favourable and unemployment rarely exceeded 4 percent. Almost 60 percent of the total amount of benefits paid was financed by member contributions, communal subsidies represented a little more than 25 percent, and national and provincial subsidies were responsible for about 15 percent.

After the First World War, the Ministry of Labour took over from the NHVC and established a national unemployment relief system (*Werklozenhulp*) under the auspices of the NCF established in 1920. The new scheme, however, was also only considered to be a temporary solution, even if in the end it adopted a more permanent character. The subsidies granted by the central government through the NCF were paid out via the municipal unemployment funds (WF), which in their turn largely operated via the trade unions. The number of municipal fund increased from 101 before the war to 1921 in 1,218 in year 1929 (i.e. encompassing about half of all municipalities in which more than 80 percent of the population lived) (Vanthemsche, 1989:28). The membership of the trade union funds experienced a comparable spectacular growth – as did trade union membership in general, as shown in Table 2.1.

Table 2.1: The development of unemployment insurance and trade union membership after the introduction of the Ghent system

	Insured against unemployment	Members of the trade unions	
		Socialist	Christian
1913	125,278	126,745	102,177
1923	762,505	594,998	186,688

Source: Vanthemsche, 1989

After 1924, the numbers did somehow decline, but then remained stable at about 600,000. Initially the unemployed could benefit indefinitely from the NCF, but after the Socialists were removed from government the period was limited to 30 days.

## 2.2 ENTER THE CENTRAL STATE

### 2.2.1 INSTITUTIONS

Towards the end of the 1920s, the unemployment insurance system had evolved into a complicated system around the autonomous (primarily union-controlled) unemployment insurance funds. The Auxilliary Unemployment Fund (*Werkloosheidskas*, WK) formed the core of the system. In order to be eligible for benefits, an unemployed worker would have to have paid into one of the 169 autonomous funds. The overall majority of the population of insured was affiliated to a fund that was linked to one of the trade union federations (even if there also were independent VKs): in 1930 this was the case for 96 percent of all insured (about two thirds were affiliated to Socialist unions, about a quarter to Christian unions, and the remaining divided over unions of Liberal origin and other small organisations).<sup>2</sup>

The next important link was formed by the Municipal Unemployment Fund (WF). In 1929, there were about 70 such funds in 1,318 of the 2,674 Belgian municipalities (some funds were inter-municipal), covering some 81 percent of the population. Representatives of the municipal government and of the trade unions administered these funds. The municipal funds paid out their benefits via the VKs to the unemployed. At the apex of the system stood the NCF and the ministerial administration. The NCF distributed the subsidies of the central government, but it was not in direct contact with the auxiliary funds, nor did it exercise a detailed control.<sup>3</sup>

<sup>2</sup> State employees with the status of civil servant never were, and are today still not, part of these wage-earner schemes, as formally they cannot become unemployed. Of course, those who work for the state with the status of manual worker or salaried employee were and still are covered by the wage earners scheme.

<sup>3</sup> In 1932 in the middle of the economic crisis, there were only 14 civil servants working in the NCF!

## 2.2.2 ENTITLEMENT CONDITIONS, LEVEL AND DURATION OF BENEFITS

In essence the system remained voluntary. Workers, who did not join any of the autonomous insurance funds, also fell by the wayside: they were not eligible for the benefits granted by the central government. Only wage earners in an employment relationship could join the funds. Craftsmen and self-employed were not eligible. Members of the funds had to pay regularly contributions (which could vary significantly from fund to fund), and only became eligible for a benefit after one year of membership.

There were significant variations between the different WFs in terms of the level of benefits. But most funds would grant between 10 and 12 francs per day, which would be supplemented by 9 francs from the NCF. In addition, the NCF granted family supplements of 3,5 francs for housewives and 3 francs per child under 16. This was further topped up by municipal and provincial supplements. All these different forms of compensation could never exceed two thirds of the lost wage (three fourths in case the unemployed father had at least three children). Normally benefits would only be paid out for a period of at most 60 days. After this period, there was a means-tested so-called post-statutory compensation (*post statutaire vergoeding* or *prorogaties*) that was paid for up to 30 days, but the Minister could decide to prolong this support by 25 days in industries that were considered in crisis (Vanthemsche, 1988: 312). Such extensions could be granted up to 5 times, i.e. for a total of 125 days. In other words, the total maximum possible benefit duration was 300 working days (Vanthemsche, 1989: 35).

Towards the end of the 1930s, various attempts had been made to unify the unemployment insurance system into one unitary public service. The existing multitude of autonomous unemployment insurance funds were to be replaced by one national unemployment fund (*Nationaal Werkloosheidsfonds*), that would be governed by a board with equal representation of representatives of the employers' associations and the trade unions. The system would also get the employers involved into sponsoring the scheme by introducing a form of parity financing. Local branch offices of the national fund would pay benefits, and only if the unemployed wished, could his benefit be processed by what would be left of the autonomous trade union funds. The idea behind this form of subsidiarity was that the unemployed needed more than 'cold' bureaucratic contacts with the desk clerks of the public offices.

After the war many of these pre-war reform plans were implemented. In 1944 unemployment insurance became part of the new system of national social security. The insurance became compulsory for all wage earners, and contributions came to be collected as part of a pay-role tax (*vooraftouding*). Administration became concentrated into the hands of one public institution, the

tripartite National Office for Employment and Unemployment (*Nationale Dienst voor Arbeidsbemiddeling en Werkloosheid* or NDAW)<sup>4</sup>, that in 1935 had succeeded the NCF (Martin, 1938). In 1951 this institution became the National Office for Labour Exchange and Unemployment (*Rijksdienst voor Arbeidsbemiddeling en Werkloosheid* or RVAW), and in 1961 it was optimistically<sup>5</sup> renamed National Employment Office (*Rijksdienst voor Arbeidsvoorziening* or RVA). Even though the RVA is a public institution, it is governed by a board (*Beheerscomitee*) with equal representation of representatives of the employers' associations and the trade unions. Benefits were in principle paid out via the municipal administration, except if the unemployed wished to make use of one of the autonomous organisations (the WKs) linked to the trade unions (which most unemployed would continue to do). This choice was made at the time when insurance contributions were paid. To be recognised by the Ministry of Labour, these organisations needed to have at least 50,000 members. In practice there remained four networks of auxiliary funds as payment bodies (*uitbetalingsorganismen*, UO): the municipal office, and the Socialist, Christian and Liberal trade unions.

## 2.3 THE CURRENT STATUTORY UNEMPLOYMENT INSURANCE SYSTEM

### 2.3.1 INSTITUTIONS AND DISTRIBUTION OF RESPONSIBILITIES

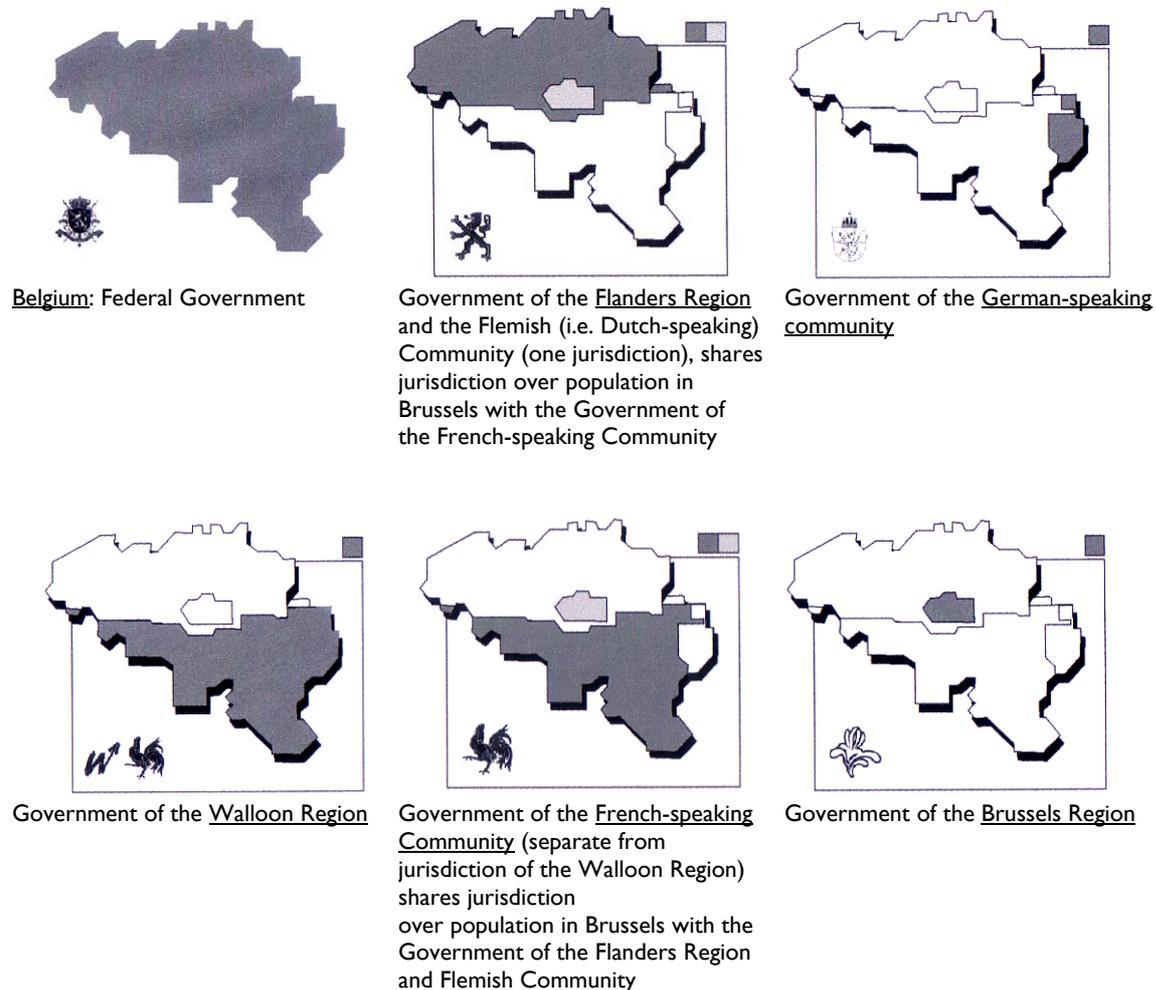
Because of the complicated federal structure of the country's political institutions<sup>6</sup>, there are four Ministries in Belgium directly responsible for labour and employment policies: one federal ministry (*FOD Werkgelegenheid, Arbeid en Sociaal Overleg*) and three regional ministries (the Flanders Region, Wallonia and the Brussels Region). The federal government, the regions and the communities (which in Wallonia and Brussels are distinct administrative entities separate from the regions, whereas the government of the Flemish community and that of the Flanders Region are one single merged entity) have both shared and mixed responsibilities with regard to employment issues.

<sup>4</sup> The NDAW was governed by a board with 7 representatives of the employers' associations, 7 from the trade unions, and 6 experts (academics or senior civil servants). The chairman was appointed by the government, and chosen from the last category. Daily management was in the hands of a committee consisting of 2 representatives of the employers, 2 from the unions and 3 from the group of experts (article 4 of the Royal Decree of 27 July 1935 and Royal Decree of August 28 1935).

<sup>5</sup> Presumably assuming that in the golden sixties unemployment would no longer be such a problem?

<sup>6</sup> Belgium is a federal state with 3 regions (Flanders, Wallonia and Brussels) and 3 language communities (Dutch, French and German) resulting in 6 governments: 1) the federal government, 2) the Flemish government (for the Flanders Region and the Flemish (Dutch-speaking) community), 3) the government of the French-speaking community, 4) the government of the Walloon region, 5) the government of the Brussels-capital region, 6) the government of the German speaking community. Competences are relatively well divided between these executives. Possible conflicts are arbitrated by a special court (the *Arbitragehof*). The communities have competence over affairs relating to individuals and the regions for territorial matters. The Flemish and French Communities have competence in Brussels for Dutch-speaking and French-speaking residents respectively. Another feature of Belgian federalism is that it works asymmetrically: in the Flemish area the community and regional areas of competence have been placed under one and the same authority, both as regards the legislative and the executive powers (in fact they have been merged), whilst on the French-speaking side, region and community remain clearly separate with 2 councils (parliaments) and 2 governments (executives). Issues related to social security, employment and the labour market tend to be divided between the Federal government and the regional governments. As we will argue this fragmentation is also reflected in the public bodies that administer labour market policies.

Figure 2.1: The Territory and Jurisprudence of the Federal State, the Language Communities and the Regions



Without going into too much detail, employment regulation, social security and taxation are solely the responsibility of the federal government, employment policy is both a federal and regional matter, job placement and re-employment are the responsibility of the regions (Flanders, Wallonia and Brussels). Finally, most aspects of training and education are organised by the communities, which in Flanders is the same governing authority, but which in Wallonia and Brussels are distinct governments, i.e. the Walloon regional government, the Brussels regional government and the French-speaking community government (the latter has a special commission for the French speaking part of the population of Brussels, the *Commission Communautaire Française*).

Before Belgium became a federal state, employment policy had been implemented by the National Employment Office (RVA<sup>7</sup>). After devolution, it was decided to delegate the jurisdiction over job placement, vocational training and reintegration of unemployed to three regions. The RVA continued to be responsible for the financial management of employment policies, while the administration of job placement, training and reintegration came to be governed by four newly created regional offices: the Flemish Employment Services and Vocational Training Agency (*Vlaamse*

Dienst voor Arbeidsbemiddeling or VDAB<sup>8</sup>) in Flanders; the Walloon Vocational Training and Employment Office (*Office Communautaire et Régional de la Formation et de l'Emploi* or FOREM<sup>9</sup>) in Wallonia; the Brussels Employment Office (*Brusselse Gewestelijke Dienst voor Arbeidsbemiddeling - Office Régional Bruxellois de l'Emploi* or BGDA-ORBEM<sup>10</sup>) in Brussels; and the Employment Office of the German Community (*Arbeitsamt der Deutschsprachigen Gemeinschaft* or ADG) in the German-speaking municipalities in the Eastern part of the Walloon Region. The VDAB and the FOREM are responsible for both vocational training and the reintegration of the unemployed in respectively the Flemish and the Walloon regions. This covers about 90 percent of the population. For the remaining 10 percent, things are more complicated. For the inhabitants of Brussels, the VDAB is in charge of the vocational training of the Dutch-speaking ('Flemish') inhabitants of that region (via its district office, the *Regionale Dienst Beroepsopleiding Brussel* or RDBB), while the French speaking inhabitants of the capital result under yet another institution called *Bruxelles Formation*.<sup>11</sup> The reintegration of the unemployed and active labour market policies of all inhabitants of Brussels, irrespective of the language community they belong to, is administered by the BGDA-ORBEM.<sup>12</sup>

The National Employment Office RVA is formally governed by a management committee (*Beheerscomité*) under parity control by the social partners. This committee consists of a chairman, 7 representatives of the employers, and 7 representatives of the trade unions. In addition, there also are representatives of the Federal Employment Ministry and the Federal Ministry of Finance, as well as the General Manager (*Administrateur-Generaal*) of the RVA and his adjunct (but the latter only have an advisory role and cannot vote when decision have to be approved). In general, decision making in the committee is unanimous. The past decades, the influence of the supervisory committee has declined because the representatives of the social partners were in disagreement on a number of fundamental issues (such as the termination of early retirement schemes). This has increased the power of the managing board that has to implement the decisions of the management committee.<sup>13</sup> Formally, the members of this board are nominated by the management committee, but once in office they have the status of autonomous civil servants. Since 2002 the RVA has been subject to a public service contract with the government and is supervised by the Federal Minister of Employment.

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<sup>7</sup> [www.onem.fgov.be](http://www.onem.fgov.be)

<sup>8</sup> [www.vdab.be](http://www.vdab.be)

<sup>9</sup> [www.leforem.be](http://www.leforem.be) sometimes this institution is referred to as *L'Office Wallon de la Formation professionnelle et de l'Emploi*.

<sup>10</sup> [www.orbem.be](http://www.orbem.be)

<sup>11</sup> [www.bruxellesformation.be](http://www.bruxellesformation.be)

<sup>12</sup> The inhabitants of the small German community rely for their reintegration to the labour market under the Walloon region. The so-called Office for Unemployment in the German Speaking Community (*Arbeitsamt der Deutschsprachigen Gemeinschaft* or ADG – [www.adg.be](http://www.adg.be)). In 2000 this institution replaced the Sankt Vith regional branch office of the FOREM. Unemployment in the German districts is comparatively low. In 2003, on a total of 70,000 inhabitants less than 2,000 were unemployed.

<sup>13</sup> Interview on 2<sup>nd</sup> of May 2006 with Paul Palsterman of the Studiedienst of the Christian Trade Union Federation.

The main responsibility of the RVA is the implementation of the unemployment insurance legislation, i.e. deciding on the entitlement of claimants, determining their benefits, and issuing payment orders to the payment bodies (the UOs). In addition, the RVA monitors unemployment legislation, and makes sure that violations are prevented and, in case they do occur, are sanctioned. In 2005, the RVA administered a budget of about 8 billion euros, representing some 17 percent of the total social security budget of the country. This also includes the costs of the early retirement system, interim pensions and career break schemes (such as parental leave and care leave), which in Belgium form a part of the unemployment insurance system. The RVA operates via 30 District Unemployment Offices (*Regionale Werkloosheidsbureaus* or RWB) and 600 Local Employment Agencies (*Plaatselijke Werkgelegenheidsagentschappen* or PWA). The regional offices process the files of the unemployed and decide on the entitlement to benefits in the event of complete unemployment, as well as in cases of temporary unemployment, interim pension, part-time work, career break or time credit.

The payment of benefits is done by the payment bodies (*Uitbetalingsorganismen* or OU). These include one public fund (*Hulpkas voor Werkloosheidsuitkeringen* or HVW) and three auxiliary funds that are linked to the three national trade union federations (Christian, Socialist and Liberal). As a default, an unemployed person will receive his benefits from the HVW, but if he can also opt to apply for and receive his benefits via an auxiliary fund. The auxiliary funds can be compared with insurance brokers: they give advice, they help the unemployed with completing their dossiers and they also offer legal assistance in case there might emerge a conflict with the RVA administration. Most unemployed rely upon an auxiliary fund: 44 percent claim their benefits via a fund linked to the Christian trade union federation (*Algemeen Christelijk Vakverbond* or ACV), 38 percent via a fund linked to the Socialist trade union federation (*Algemeen Belgisch Vakverbond* or ABVV), 6 percent via a fund linked to the Liberal trade union federation (*Algemene Centrale der Liberale Vakbonden van België* or ACLVB), and only 12 percent via the public HVW (Belgische Senaat, 2005).

The payment bodies get a compensation for their administration costs based on a formula that takes into account the number of cases they process. In addition, the two smaller funds (the HVW and the ACLVB) get an additional subsidy to compensate for the lack of economies of scale. The unions and their auxiliary funds have no influence whatsoever on the decision of granting unemployment benefits. This decision is solely made by the RVA administration. The RVA depends upon information of the regional offices (VDAB, FOREM, BGDA-ORBEM and ADG). Some politicians and commentators have accused the FOREM to be less willing to report work-unwilling unemployed to the RVA, whereby the unemployed in Wallonia are said to be less likely to see their unemployment benefits suspended. Thus in 2004, only 10 percent of the total number of sanctioned unemployed came from Wallonia, whereas 62 percent were of Flemish origin, and 28 percent came from the

Brussels Region (RVA, 2005). Such statistics have fuelled suspicion of Socialist Party clientelism in Wallonia, though one may also interpret these statistics as merely a consequence of the lack of suitable vacancies in the Walloon Region, making it less likely to be able to be sanctioned for the unwillingness to take up a job.

The Local Employment Agencies (PWAs) were established in 1987. Initially, municipal authorities *could* establish non-profit organisations to employ the long-term unemployed (Manssens, 2000). In 1994 it became obligatory for all municipalities to do so. That year also saw the introduction of a new governance structure for the PWAs. This new structure consisted of a governing council, half of which is composed of representatives of the municipalities (local majority and minority political parties), with the other half of the seats occupied by representatives of the social partners. The long-term unemployed who are given a job via the PWA continue to draw their unemployment benefit, supplemented by an extra compensation. Even though the unions (together with employers' associations) are represented in the governance structure of the PWAs, they always have been critical of this kind of employment, because they considered the new agencies too reminiscent of the workfare programmes of the 1930s, and because they were sceptical about the extent to which these agencies really would facilitate a transition to the normal labour market (Manssens, 2000).

The Redundancy Payment Fund (*Fonds Sluiting Ondernemingen*, FSO) is a fifth unemployment benefit fund. It has a separate legal identity, but is governed in a way similar to the RVA. This fund plays a part in the payment of compensation of workers who have been the victim of a company shutdown. When a company closes and does not meet its obligations towards its workers, the enterprise closure fund takes over the payment of the compensation. The fund is also responsible for paying 33 percent of the benefits that are granted in case of so-called temporary unemployment (*tijdelijke werkloosheidsvergoeding*). These benefits are paid out to workers who still have an employment contract, but a contract that is temporarily being suspended (full time or part time). The fund also pays out supplements to some early retirement pensions. The fund is solely financed by employers' contributions, but has the same parity administrative structure as the RVA.

Since devolution, training and reintegration programmes are administered at the regional level by the VDAB (in Flandres), the FOREM (in Wallonia), the ADG (in the German speaking part of Wallonia), and the ORBEM (in Brussels). They all have a bipartite governance structure that is similar to that of the RVA. The VDAB results under the Flemish government (which has jurisdiction over both the territory of the Flanders Region, as well as over the Dutch-speaking population living in both the Flanders Region and in the Brussels Region). The FOREM results under the Walloon regional government, which has jurisdiction over the population in the Walloon Region, but not (in contrast to the VDAB with regard to the Dutch-speaking population in Brussels) over the French-

speaking population of Brussels. The BDGA-ORBEM results under the Brussels regional government (which has jurisdiction over both the French and the Dutch-speaking inhabitants of the Brussels Region). The *Arbeitsamt* results under the government of the German community (which has jurisdiction over the inhabitants of the German municipalities in the Eastern part of Wallonia).<sup>14</sup> The VDAB has 13 district level agencies (*regionale kantoren*) responsible for assisting the unemployed in the Flanders Region to find a job and to retrain them, plus one for the Brussels Region (the *Regionale Dienst voor Beroepsopleiding Brussel* or RDBB), which only is responsible for Dutch language training programmes in the Brussels Region. The FOREM has eleven district level agencies (*Directions Régionales FOREM Conseil*) responsible for assisting the unemployed in finding a job and nine regional agencies offering training programmes and reintegration programmes (*Directions Régionales FOREM Formation*).

The institutions responsible for vocational training in Brussels are either part of the Flemish Employment Agency (VDAB) that result under the Flemish government (this is the case of the Brussels district office of the VDAB, the RDBB); or they are directly resulting under the governance of the French Community Commission (which has jurisdiction over the French-speaking inhabitants of Brussels – this is the case for *Bruxelles Formation*). Figure 2.2 gives an overview of the various statutory institutions and actors responsible for the implementation of unemployment insurance policies and labour market policies in Belgium. The upper part of the figure contains the institutions resulting under regional authorities. The lower part of the figure contains federal institutions. In the lower corner on the right are local government institutions. The arrows indicate governance channels of hierarchical authority, striped lines are channels of consultation.

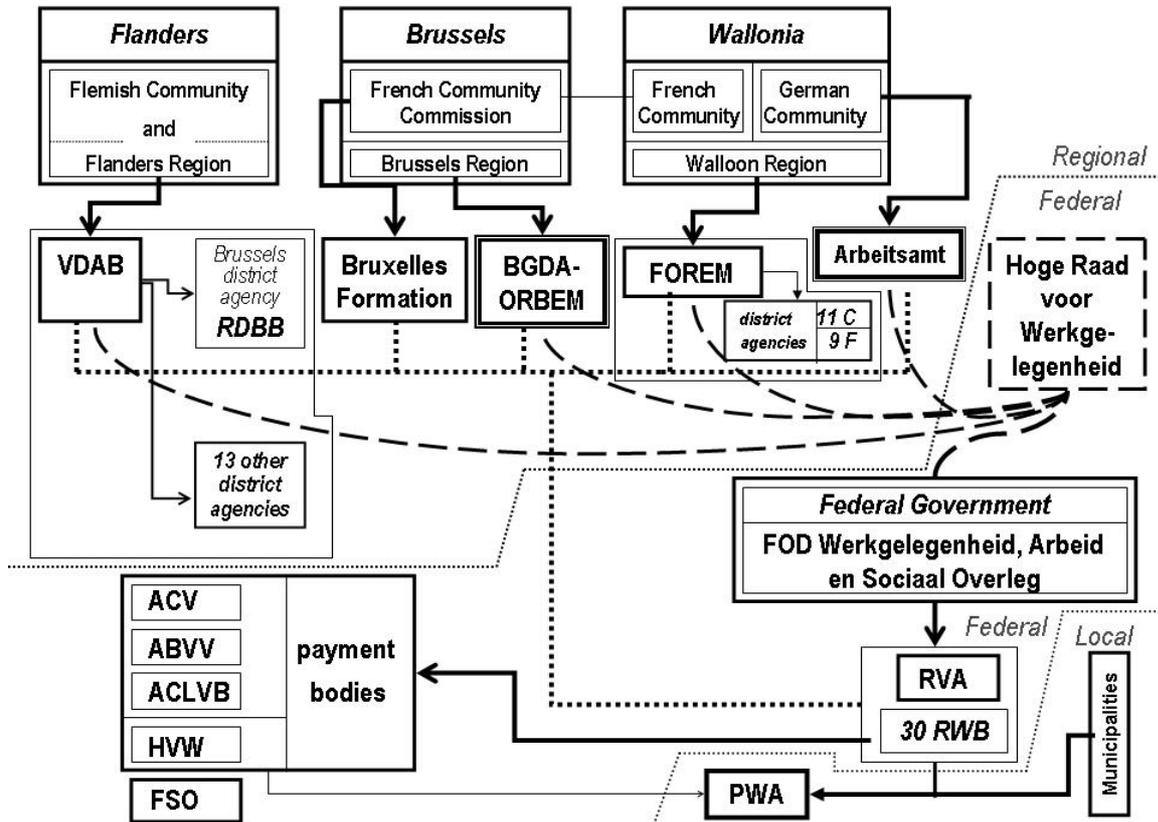
The dotted lines refer to channels over which information is exchanged. This is in particular the case between on the one hand the district agencies of the regional employment offices (VDAB, BGDA-ORBEM, *Bruxelles Formation*, FOREM, and the *Arbeitsamt*), and on the other hand the National Employment Office (RVA). This information exchange is crucial for determining the entitlement to unemployment benefits, as only the regional offices assist the unemployed in finding a job and organise the training and activation programmes (failing to take a job offer or to participate in such a programme can be a reason for suspending unemployment insurance benefits). Finally, the striped line between the regional employment offices and the High Council for Employment (*Hoge Raad voor de Werkgelegenheid*, HRW) indicates a link of representation in consultation procedures. The HRW council was established in 1995 as an advisory body to coordinate the activities of the federal and regional institutions. It is presided over by the Federal Minister responsible for social security and labour market issues, and includes representatives of the national and regional

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<sup>14</sup> Appendix I gives an overview of the geographical spread of these different jurisdictions of the Belgian Federal System.

employment offices (RVA, VDAB, FOREM and BGDA-ORBEM), from the Central Planning Office (*Centraal Planbureau*), from the Central Bank, as well as a number of academic experts.

Figure 2.2. Institutions and actors in statutory employment and unemployment policies



*Explanation of abbreviations:*

VDAB: employment office for Flanders Region and for Dutch-speaking inhabitants of Brussels; RDBB: district office of the VDAB for the Dutch-speaking inhabitants of Brussels; Bruxelles Formation: institution overseeing vocational training of French speaking inhabitants of Brussels; BGDA-ORBEM: employment office for Brussels region; FOREM: employment office for Walloon Region (C: district agencies of FOREM for job search assistance (FOREM Consultation, F: district agency of FOREM for training (FOREM Formation); Arbeitsamt: employment office for German speaking population in Eastern districts of the Walloon Region; Hoge Raad voor Werkgelegenheid: advisory institution coordinating the regional employment offices; FOD Werkgelegenheid, Arbeid en Sociaal Overleg: Federal public service responsible for Labour Affairs<sup>15</sup>; RVA: National Employment Office; RWB: district level employment offices; PWA: local employment agencies ACV: Christian trade unions (auxiliary payment body); ABVV: Socialist trade unions (auxiliary payment body); ACLVB: Liberal trade unions (auxiliary payment body); HVW: public payment body for unemployment benefits; FSO: payment body for redundancy payments (results under RVA)

### 2.3.2 FINANCING

Up to 1995, the various social security programmes were managed separately with each having its separate financing, based on legally prescribed contribution rates for employers and employees, topped up by subsidies from the central government. In case one program would run a deficit, funds

<sup>15</sup> After devolution, labour market affairs essentially became a regional competency. What was left at the federal level is dealt with by this federal public service, which operates as the shell of the former National Labour Ministry.

were transferred between programs, ad hoc. Later on, these transfers were formalised by establishing a fund for re-apportioning via the so-called Fund for Financial Balance in Social Security (*Fonds voor Financieel Evenwicht van de Sociale Zekerheid*, FFESZ) (van der Meulen, 1997: 608-621).<sup>16</sup>

During this period one can observe important shifts in the burden of financing. Up to the 1970s, when the unemployment insurance scheme only provided flat rate benefits, financing was on a tripartite basis. The employees, the employers and the state each were responsible to provide about a third of the necessary funds. In 1971 an earnings- related benefit system was introduced and the social partners saw their share of financing increase and the state's share decrease. With the economic crisis that followed the first oil price shock of 1973, the unemployment insurance budget rose by more than 500 percent and the state assumed most of this burden. State subsidies peaked during the early 1980s, providing close to 80 percent of the necessary means. From that period onwards the financing burden was again shifting towards the social partners, as the central state needed to reduce its budget deficit as part of its EMU effort. Since the 1990s most of the financing originates in the so-called wage moderation contributions.<sup>17</sup> In addition, this period saw the introduction of various other sources of finance, such as a special levy paid by civil servants, the so-called *solidariteitsbijdrage* (introduced in 1981, but phased out a decade later); a special contribution for high income groups (i.e. those with an annual income above 3 million francs, introduced in 1983, but also phased out a decade later); the establishing of the so-called *Fonds Sluizing Ondernemingen* (this fund was established in 1982 in order to reduce the moral hazard of dumping the costs of enterprise rationalisation on the unemployment benefit system) (RVA, 1997). Figure 2.3 gives an overview of the main sources of financing unemployment benefits up to 1994 (percentage share refers to the percentage of total financing of the scheme).

In 1995 the government introduced the so-called global management (*globaal beheer*) and all social security contributions came to be collected by the National Office for Social Security (*Rijksdienst voor Sociale Zekerheid*, RSZ) and accumulated into a single fund (Van der Meulen, 1997; FOD Sociale Zekerheid, 2004a).

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<sup>16</sup> The family benefit program tended to run surpluses, while the unemployment insurance and the pension systems, in spite of massive state subsidies for the former, often ran a deficit. For example, in 1980, the RVA obtained 31 billion francs from contributions, 90 billion francs in the form of state subsidies, and still ran a deficit of 1.5 billion francs. The family allowances system (RKVV) obtained 82 billion francs from contributions and had a surplus of 5.7 billion francs (Data from the *Commissie voor Financiële Problemen bij het Ministerie van Sociale Voorzorg*, reported in Van der Meulen, 1997: 607). In 1994, the Family allowances system paid 13 billion francs into the FFSEZ, but by that time the most important source of finance of this repartition fund had become the wage moderation levy, allowing a transfer to the RVA of some 152 billion francs (RSZ Annual Reports).

<sup>17</sup> Some authors (e.g., De Lathouwer, 1997) allocate the wage moderation contributions to the employers, as they formally make this contribution. But as these funds originate in employees relinquishing wage increases (i.e. the uncoupling of the indexation of wages), we think they rather should be considered as part of the employees' pay, or as a separate category.

Figure 2.3. The financing of unemployment insurance, 1966-1994



Source: own calculations based on Algemeen Verslag van de Sociale Zekerheid 1967-1995.

The RSZ then redistributed these funds on the basis of the needs of each branch of the social security system.<sup>18</sup> The ad hoc transfers of the past between the different branches had become completely institutionalised. Since the introduction of this system the distribution of the financial burden for the entire social security system between the state, the employers and the insured has remained relatively stable at the 1993 level: employers' contributions account for about 43 percent, employee contributions 22 percent, the wage moderation levy 7 percent, the state's subsidies 19 percent and other sources the remaining 3 percent. Ten years later only the share of VAT has seen a slow but steady increase from 9 percent in 2000 to 13.5 percent in 2004 (NAR, 2005).<sup>19</sup>

The social partners are involved in this new global management system via the tripartite Management Committee for Social Security (*Beheerscomité van de Sociale Zekerheid*, BSZ) (RSZ, 2005). This committee includes five representatives of respectively the employers' associations, the trade unions and the state. These fifteen members have voting rights. In addition there are two members of the mutual benefit sickness funds who only have an advisory role. Even though there now is a single global contribution for social security, the rates of this contribution still can be disaggregated in case an employee or an employer are to be exempted from participating in one of the schemes.<sup>20</sup> Table 2.2 shows the 2006 contribution rates for the wage earner schemes were

<sup>18</sup> Thus in 1995, the distribution between the various branches of the social security system was as follows: RIZIV (health care insurance and sickness benefits) 37.5%; RVP (pensions) 33.2%; RVA (unemployment) 18.3% RKWV (family allowances) 9.5%; FBZ (disability) 1.3% and FAO (accidents) 0.2%.

<sup>19</sup> Data from *Vademecum Begroting van de Sociale Bescherming Begroting 2004*, Brussel: Ministerie van Sociale Voorzorg.

<sup>20</sup> For example when people have a very low wage (in case they only pay a flat rate contribution), or when they are employed in employment schemes in the non-profit sector (e.g. DAC, PWA), or under schemes that seek to encourage private sector firms to employ long-term unemployed (Activa Plan) or to employ young unemployed (Rosetaplan) (see also section 5.3.1).

(salaried employees and manual workers still have a slightly different social security and employment protection status, they also are subject to slightly different contribution rates).

Table 2.2: Contribution rates for the social security for wage earners in 2006

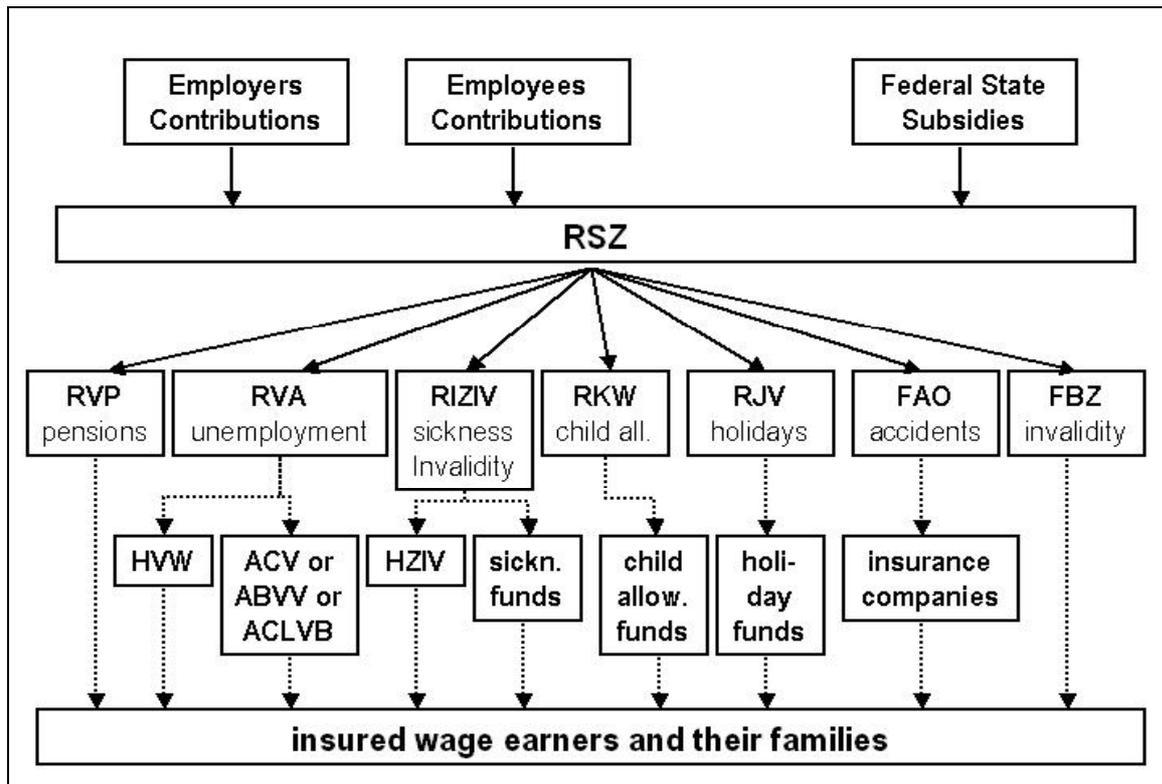
Wage earners subject to all social security programmes (pensions, health care costs, sickness insurance, child allowances, unemployment, work accidents, disability):				
	Manual workers (as a percentage of gross wages at 108 percent) <sup>1</sup>		Salaried employees (as a percentage of gross wages at 100 percent)	
	Employees	Employers	Employees	Employers
Global contribution	13.07	24.79	13.07	24.79
Annual holidays	16.27	--	--	--
Wage moderation levy	--	7.48	--	7.48
Paid educational leave	--	0.04	--	0.04
Child care	--	0.05	--	0.05
Wage earners subject only to specific schemes:				
	Manual workers (as a percentage of gross wages at 108 percent) <sup>1</sup>		Salaried employees (as a percentage of gross wages at 100 percent)	
	Employees	Employers	Employees	Employers
Unemployment	0.87	1.46	0.87	1.46
Pensions	7.50	8.86	7.50	8.86
Health care insurance	3.55	3.80	3.55	3.80
Sickness insurance	1.15	2.35	1.15	2.35
Child allowances	--	7.00	--	7.00
Disability	--	1.02	--	1.02
Accidents at work	--	0.30	--	0.30
Annual holidays	--	16.27	--	--
Wage moderation levy	--	**	--	**
Paid educational leave	--	0.04	--	0.04
Child care	--	0.05	--	0.05

<sup>1</sup> Contribution rates for manual workers are calculated taking into account their annual holiday payments that, in contrast to salaried employees, are financed via social security. \*\* 5.67% of gross wages + 5.67% of the employers contributions due (including the contributions for paid educational leave and to the Enterprise Closure Fund)

Source: RSZ, 2006

In addition to this contribution rate, there is a special unemployment insurance contribution of 1.60 percent (which, because of the added-on wage moderation levy, actually amounts to 1.64 percent) for employers who, on 30 June of the previous year, employed at least 10 persons. Contributions are levied on the entire wage, i.e. there are no contribution ceilings. Benefits on the other hand, do have quite low maximum ceilings, not only for unemployment benefits (as we will demonstrate), but also for other branches of social security such as pensions and sickness benefits. The lack of ceilings in terms of contributions combined with the relative low ceilings in terms of benefits makes the wage earner scheme very redistributive amongst its participants. Figure 2.4 gives an overview of the system of collecting and distributing social security contributions.

Figure 2.4: Social security financing



*Explanation of abbreviations:*

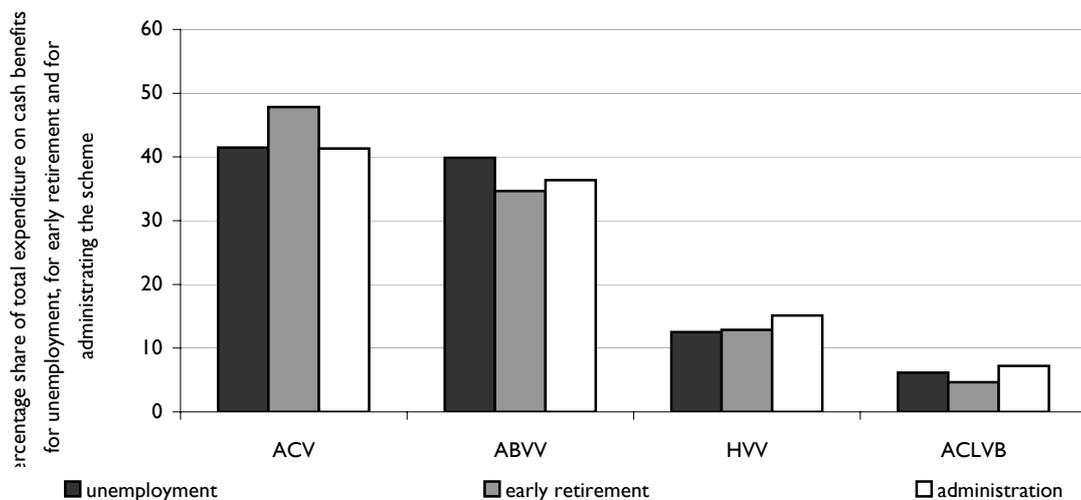
RSZ (Rijksdienst voor Sociale Zekerheid): national social security office; RVP (Rijksdienst voor Pensioenen): national pensions office; RVA (Rijksdienst voor Arbeidsvoorziening): national employment office; RIZIV (Rijksinstituut voor Ziekte en Invaliditeit): national sickness and disability agency; RKW (Rijksdienst voor Kinderbijslag voor Werknemers): national child allowances office; RJV (Rijksdienst voor Jaarlijkse Vakantie): national paid holidays office; FAO (Fonds voor Arbeidsongevallen): national fund for work-related accidents; FBZ (Fonds voor Bestaanszekerheid vd Werklieden uit het Bouwbedrijf): fund for work accidents construction ind.; HVW: public payment body for unemployment benefits; ACV: Christian trade unions (auxiliary payment body); ABVV: Socialist trade unions (auxiliary payment body); ACLVB: Liberal trade unions (auxiliary payment body)

### 2.3.3 ADMINISTRATION COSTS

In a study of 1997, the costs of administering the RVA were estimated to amount to about 2.2 percent of its annual budget.<sup>21</sup> The administrative costs of the payment bodies (UO), another 2.1 percent could be added to this. In other words, the total costs of administering the unemployment insurance system and adjunct programmes such as early retirement amounted to some 4.3 percent of the RVA budget. In its most recent annual report, the RVA lists an even lower administration costs: in 2005 it paid out 8.2 billion euro in terms of benefits (unemployment benefits, early retirement benefits and benefits for the sabbatical scheme), whereas the administration by the payment bodies was only budgeted at 162 million euro, i.e. less than 2 percent (RVA, 2005: 281). The largest auxiliary payment bodies (the Christian ACV and the Socialist ABVV) have the lowest cost per euro paid out in benefits. The smallest auxiliary payment body (the Liberal ACLVB) and the public payment organisation (HVW) have relatively more administrative costs.

In Figure 2.5 the cost effectiveness of the larger payment bodies is illustrated by the fact that for ACV and ABVV, the percentage share for administration costs is equal or smaller than the percentage share of the sum paid out to beneficiaries who are unemployed or in early retirement, while for the smaller payment bodies, HVV and ACLVB, this share is always higher. In other words, the larger schemes have a higher share of the expenditure in terms of benefits, but relatively have a lower share of the expenditure on administration (which as we argued is on average only 2 percent of total expenditure on unemployment and early retirement benefits).

Figure 2.5: Administration costs of unemployment insurance in 2005



Source: RVA, 2005

On a total budget of 8.7 billion euro, the RVA budget reserved 192 million euro (2.2 percent) for the administration of the central organisation and the 30 district level employment offices (RWB). The administration of its 600 PWA, which as we will argue are operated jointly with the municipalities, required another 33.6 million euro (0.4 percent) (RVA, 2005: 285).<sup>22</sup>

### 2.3.4 ENTITLEMENT CONDITIONS AND THE LEVEL AND DURATION OF BENEFITS

Even though the Belgian unemployment benefit scheme formally is contributory and has an element of earnings-relatedness to it, it hardly qualifies as a genuine insurance system. It is only since the 1970s that the system adopted an element of earnings-relatedness in its benefit structure (Palsterman, 2003). But even after that reform, the Belgian scheme remained unique, in that hardly any other unemployment benefit scheme in the world relies so much on needs-based criteria in its

<sup>21</sup> "Globaal financieel beheer van de sociale zekerheid voor werknemers" in *Belgisch Tijdschrift voor Sociale Zekerheid* Vol.39, No.2, June 1997, table 12, p.682.

<sup>22</sup> According to the ESPROSS database of the European Union, the Belgian social security as whole scored in 2004 slightly above the average in terms of administration costs for all social security programmes combined: the average in the EU25 was 3.1 percent of total social security expenditure, Belgium spent 3.4 percent, Denmark and the UK spent less (respectively 2.9 and 1.9 percent), Germany spent about the same as Belgium (3.4 percent), while the Netherlands spent more (5.0 percent).

benefit structure (De Lathouwer, 1997). We will demonstrate, though, that the determination of these needs is not based on some form of means-testing, but is inferred indirectly from the family status and the age of the unemployed claiming a benefit, and the labour market status of the other household members. In order to be eligible, someone must have been in an employment relationship liable to social security contributions for a number of days in the period prior to the unemployment. The minimally required number of days varies with age (Table 2.3).<sup>23</sup>

Table 2.3. Employment history and eligibility to unemployment benefits

Age	Minimum insured days and referring period
< 36 years	312 days during the last 18 months; <u>or</u> 468 days during the last 27 months; <u>or</u> 624 days during the last 36 months.
36-49 years	468 days during the last 27 months; <u>or</u> 624 days during the last 36 months; <u>or</u> 234 days during the last 27 months plus 1560 days during the 10 years before those 27 months; <u>or</u> 312 days during the last 27 months plus for each day that lacks to get to 468 days, 8 days during the 10 years prior to those 27 months.
> 50 years	624 days during the last 36 months; <u>or</u> 312 days during the last 36 months plus 1560 days during the 10 years before those 36 months; <u>or</u> 416 days during the last 36 months plus for each day that lacks to get to 624 days, 8 days during the 10 years prior to those 36 months.

The gross daily unemployment benefit is obtained by multiplying the gross daily salary which was previously earned by a percentage rate. The system makes a distinction between three periods, with replacement ratio's decreasing over time. The first period comprises the first 12 months of unemployment; the second period the subsequent 6 months; and the third period starts as of the 18<sup>th</sup> month of unemployment.

Benefits also vary according to the family situation: breadwinners are eligible for the most generous benefits, while those cohabiting with an earning partner get the lowest benefits (Table 2.4). Singles are entitled to a benefit somewhere in between these two poles. The third period, which only offers a low flat rate benefit, is only relevant for those unemployed who live with a partner who has its own income. For breadwinners and for singles, the benefits in the third period are as generous as in the second period. Finally there are, compared to other countries, quite low maximum ceilings: the gross wages on the basis of which benefits are calculated are limited to 1.4 times the minimum wage (i.e. a maximum of 1,744 euro per month).

<sup>23</sup> The periods (18, 27 or 36 months) are prolonged in some cases, e.g. if the claimant has been imprisoned, interrupted his employment relationship for raising a child (min. 6 months max. 3 years per child), made use of a career break scheme, a partial early retirement scheme, or was employed in an occupation that is exempted from unemployment insurance (min. 6 months max. 3 years) (see RVA "Infoblad – werknemers. Hebt u recht op uitkeringen na een tewerkstelling?" 15.12.2005).

Finally, unemployed persons without work experience are, upon completing their formal education, also entitled to a benefit: this is the so-called interim benefit (*wachttuitkering*). In order to be eligible for this benefit, they must have been enrolled in higher secondary education (i.e. participated but not necessarily succeeded in passing the final exams).<sup>24</sup> The benefit is only granted after a waiting period, the length of which depends upon the age of the claimant: six months for those aged less than 18 years, nine months for those between 18 and 26 years, and twelve months for those between 18 and 30.<sup>25</sup> Persons older than 30 years no longer are eligible for the interim benefit. The amount of the benefit is similar to that of social assistance, but is unlimited in time (at least until the claimant reaches the age of 30), and in contrast to social assistance benefits, it is not conditional upon a means-tested. The amount does though again depend upon age and family status.

Table 2.4. The monthly amounts of unemployment benefits without seniority supplements in 2005

	Breadwinners	Singles	Cohabitants with earning partner
First period (12 months)			
replacement rate (gross earnings)	60%	60%	55%
minimum benefit	€895	€752	€564
maximum benefit	€1,046	€1,046	€959
Second period (as of 13 <sup>th</sup> month)			
replacement rate (gross earnings)	60%	50%	40%
minimum benefit	€895	€752	€564
maximum benefit	€1,046	€872	€698
Third period (as of 18 <sup>th</sup> month)			
replacement rate (gross earnings)	60%	50%	Flat rate
minimum benefit	€895	€752	€397
maximum benefit	€1,046	€872	€397
Interim benefit (school graduates)	€872	€242 (< 18 yrs)	€212 (<18)
Flat-rate		€381 (18-20 yrs)	€339 (>18)
		€626 '21-24 yrs)	€224 (< 18p)
		€620 (>25 yrs)	€361 (> 18p)

### 2.3.5 REPLACEMENT RATES

The following calculations of the replacement rate are based on the average production worker wage for Belgium for 2005 using the OECD's new broad definition, amounting to 35,578 euro per year (OECD, 2006). Belgian unemployment benefits are determined on a monthly basis. That is why we have divided the APW by 14, assuming that the OECD's broad definition includes such items as holiday allowances and end of the year bonuses, which in Belgium amount to the wage of about two months. Thus, the monthly gross reference wage we have used to calculate the replacement rates is 2,541 euro (Table 2.5). Net wages were calculated using a programme of the social secretariat ADMB.

<sup>24</sup> Other forms of formal education make young unemployed eligible too. See RVA *Infoblad – werknemers. Hebt u recht op uitkeringen na studies?* [http://www.onem.fgov.be/D\\_Opdracht\\_VW/Werknemers/T036C/InfoNL.pdf](http://www.onem.fgov.be/D_Opdracht_VW/Werknemers/T036C/InfoNL.pdf) (visited May 24<sup>th</sup> 2006).

<sup>25</sup> The exact waiting periods are expressed in working days, i.e. respectively 155, 233 and 310.

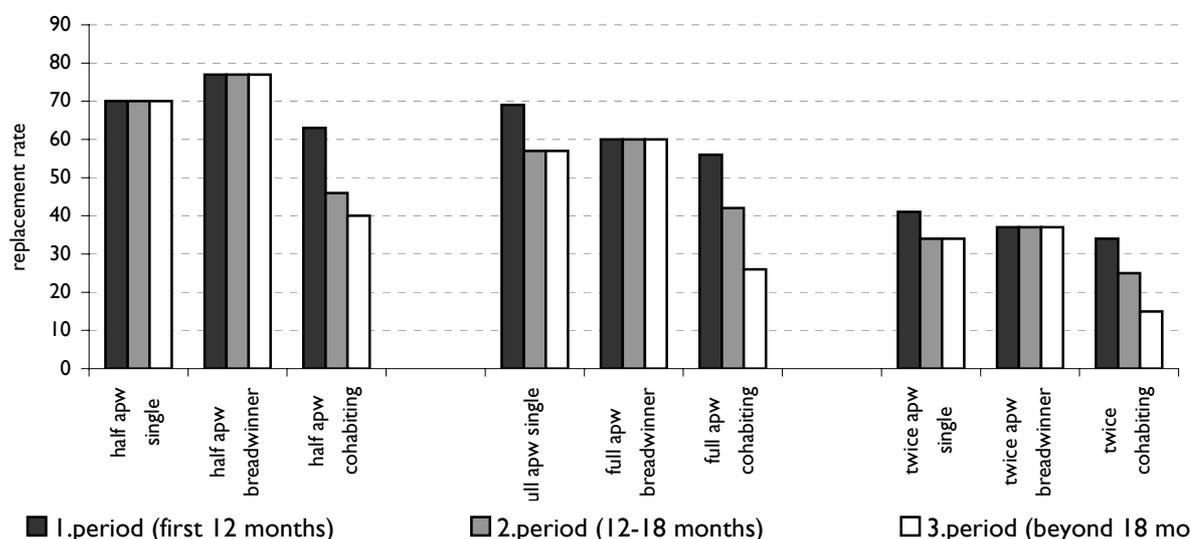
Table 2.5. Gross and net wages in 2005

<b>Monthly gross wage half APW</b>		<b>€ 1,272</b>
Net wage	single no children	€ 1,083
	single with 2 children	€ 1,137
	one-earner couple no children	€ 1,167
	one earner couple 2 children	€ 1,270
	two earners couple (partner with minimum wage) no children	€ 1,002
	two earners couple (partner with minimum wage) 2 children	€ 1,080
<b>Monthly gross wage full APW</b>		<b>€ 2,541</b>
Net wage	single no children	€ 1,520
	single with 2 children	€ 1,626
	one-earner couple no children	€ 1,740
	one earner couple 2 children	€ 1,817
	two earners couple (partner with minimum wage) no children	€ 1,500
	two earners couple (partner with minimum wage) 2 children	€ 1,577
<b>Monthly gross wage twice APW</b>		<b>€ 5,082</b>
Net wage	single no children	€ 2,580
	single with 2 children	€ 2,685
	one-earner couple no children	€ 2,857
	one earner couple 2 children	€ 2,934
	two earners couple (partner with minimum wage) no children	€ 2,562
	two earners couple (partner with minimum wage) 2 children	€ 2,639

Source: ADMP, 2006.

Even though unemployment benefits are liable to an income tax of 10 percent, most unemployed are exempt from this. Only those cohabiting with a working partner, and receiving first period benefit have to pay the income tax. Taking into account these taxation effects, one arrives at the net replacement rates for the statutory unemployment benefit system shown in Table 2.6. The rates vary according to family status as well as according to the period. For the interim benefit, no replacement rate is calculated as there are no past earnings. Figure 2.6 depicts the evolution of the replacement rates for unemployed who live in a household without children and Figure 2.7 for unemployed living in a household with two children.

Figure 2.6. Replacement rates statutory benefits for unemployed living in household without children

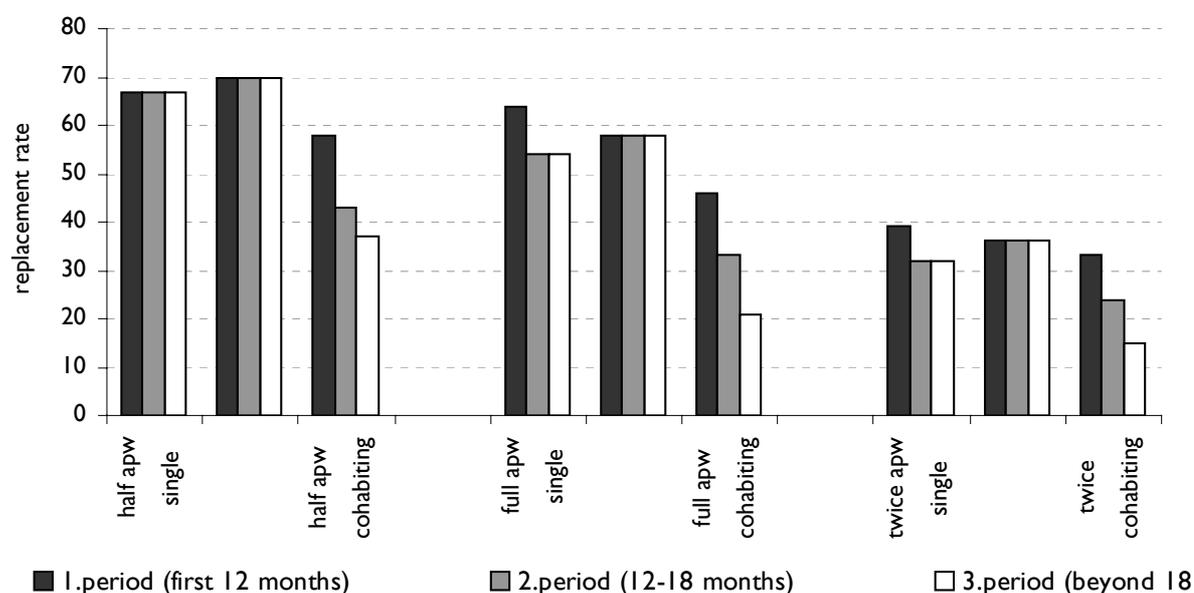


Source: own calculations

Table 2.6. Net replacement rates of statutory unemployment benefits without seniority supplements in 2005

Half the APW (€ 1,272)	net income	net benefit	repl. rate
<u>First period (first 12 months)</u>			
single no children	€ 1,083	€ 762	70%
single 2 children	€ 1,137	€ 762	67%
breadwinner no children	€ 1,167	€ 895	77%
breadwinner 2 children	€ 1,270	€ 895	70%
cohabiting partner min. wage no children	€ 1,002	€ 630	63%
cohabiting partner min. wage 2 children € 1,080	€ 630		58%
<u>Second period (as of the 13<sup>th</sup> month)</u>			
single no children	€ 1,083	€ 752	70%
single 2 children	€ 1,137	€ 752	67%
breadwinner no children	€ 1,167	€ 895	77%
breadwinner 2 children	€ 1,270	€ 895	70%
cohabiting partner min. wage no children	€ 1,002	€ 457	46%
cohabiting partner min. wage 2 children € 1,080	€ 457		43%
<u>Third period (as of 18<sup>th</sup> month)</u>			
no children, partner min. wage	€ 1,002	€ 397	40%
2 children, partner min. wage	€ 1,080	€ 397	37%
<u>Full APW (€ 2,541)</u>			
<u>First period (first 12 months)</u>			
single no children	€ 1,520	€ 1,046	69%
single 2 children	€ 1,626	€ 1,046	64%
breadwinner no children	€ 1,740	€ 1,046	60%
breadwinner 2 children	€ 1,817	€ 1,046	58%
cohabiting partner min. wage no children	€ 1,500	€ 863	56%
cohabiting partner min. wage 2 children € 1,877	€ 863		46%
<u>Second period (as of the 13<sup>th</sup> month)</u>			
single no children	€ 1,520	€ 872	57%
single 2 children	€ 1,626	€ 872	54%
breadwinner no children	€ 1,740	€ 1,046	60%
breadwinner 2 children	€ 1,817	€ 1,046	58%
cohabiting partner min. wage no children	€ 1,500	€ 628	42%
cohabiting partner min. wage 2 children € 1,877	€ 628		33%
<u>Third period (as of 18<sup>th</sup> month)</u>			
no children, partner minimum wage	€ 1,500	€ 397	26%
2 children, partner minimum wage	€ 1,877	€ 397	21%
<u>Twice APW (€ 5,082)</u>			
<u>First period (first 12 months)</u>			
single no children	€ 2,579	€ 1,046	41%
single 2 children	€ 2,685	€ 1,046	39%
breadwinner no children	€ 2,857	€ 1,046	37%
breadwinner 2 children	€ 2,934	€ 1,046	36%
cohabiting partner min. wage no children	€ 2,562	€ 863	34%
cohabiting partner minim wage 2 children	€ 2,639	€ 863	33%
<u>Second period (as of the 13<sup>th</sup> month)</u>			
single no children	€ 2,579	€ 872	34%
single 2 children	€ 2,685	€ 872	32%
breadwinner no children	€ 2,857	€ 1,046	37%
breadwinner 2 children	€ 2,934	€ 1,046	36%
cohabiting partner min. wage no children	€ 2,562	€ 628	25%
cohabiting partner minim wage 2 children	€ 2,639	€ 628	24%
<u>Third period (as of 18<sup>th</sup> month)</u>			
no children	€ 2,562	€ 397	15%
2 children	€ 2,639	€ 397	15%

Figure 2.7. Replacement rates statutory benefits for unemployed living in household with 2 children



Source: own calculations.

In addition, older unemployed are entitled to a seniority supplement, provided that (a) they are 50 years or older; (b) have worked for at least 20 years as a wage earner; and (c) are unemployed for at least one year. These supplements again vary according to family status.<sup>26</sup> The Law foresees 13 different categories, each with a different benefit formula (in particular the group of cohabiting beneficiaries consists of a multitude of subcategories depending upon when the person became unemployed, and upon his or her age; in particular the category of unemployed aged 58-64 enjoys substantially higher benefits)<sup>27</sup>. Table 2.7 gives an overview of some of the categories.

Table 2.7. The monthly amounts of unemployment benefits with seniority supplements in 2005

	breadwinners	singles	cohabitants
<i>Second period (as of 13<sup>th</sup> month)</i>			
replacement rate (gross earnings)	60% + € 170	54.5% (50-55 years) 60.0% (> 55 years)	40% + supplement
minimum benefit	€ 958	€ 802 (50-55 years) € 882 (> 55 years)	€ 653 (50-55 years) € 728 (55-57 years) € 802 (58-64 years)
maximum benefit	€ 1,150	€ 950 (50-55 years) € 1,046 (> 55 years)	€ 785 (50-55 years) € 872 (55-57 years) € 959 (58-64 years)

Source: own calculations.

<sup>26</sup> Once granted, this status of older unemployed is not withdrawn, even for spouses/second wage earners for whom a duration limit exists in the standard unemployment benefit scheme. The earnings-ceilings under the OU for occasional or supplementary work income are higher than in the normal unemployment benefit.

<sup>27</sup> See Koninklijk Besluit houdende de Werkloosheidsregeling 25.11.1991 in particular article 127 (available at [www.juridat.be](http://www.juridat.be))

As a consequence of the seniority supplements, the replacement rates offered during the second period by the statutory unemployment insurance system can be substantially higher for older unemployed with a long working history. Table 2.8 gives a few examples for unemployed with no dependent children. In assessing the generosity of these replacement rates, one must bear in mind that in contrast to many other countries, unemployment benefits are rarely supplemented with social assistance. Thus in an OECD study on the year 2002, Belgium came out on top in terms of the replacement rates of its unemployment benefit scheme offered during the first 5 years of unemployment. But, once social assistance supplements were taken into account, Belgium only occupied a middle position (OECD, 2004).

Table 2.8. Net replacement rates of statutory unemployment benefits including seniority supplements, 2005

	< 50 years	50-54 years	55-57 years	58-64 years
<i>Half APW (€ 1,272):</i>				
<i>breadwinner (€ 1,167):</i>	77	82	82	82
<i>single (€ 1,083):</i>	70	74	81	81
<i>cohabiting (€ 1,002):</i>	46	65	73	80
<i>Full APW (€ 2,541):</i>				
<i>breadwinner (€ 1,740):</i>	60	66	66	66
<i>single (€ 1,520):</i>	57	63	69	69
<i>cohabiting (€ 1,500):</i>	42	52	58	64
<i>Twice APW (€ 5,082):</i>				
<i>breadwinner (€ 2,857):</i>	37	40	40	40
<i>single (€ 2,579):</i>	34	37	41	41
<i>cohabiting (€ 2,562):</i>	25	31	34	37

Source: own calculations.

### 2.3.6 BENEFIT DURATION

The benefits during the second or third period, i.e. as of the 13<sup>th</sup> or 18<sup>th</sup> month of unemployment, are in principle unlimited in time. This is one of the main reasons why the Belgium system, in spite of its average replacement rates, scores very high in overall benefit generosity, if compared to other OECD countries. Thus, during the period 1973-1989, the amount paid in unemployment benefits in GDP as a percentage share of unemployed in the total population, on average amounted to 99 percent – the highest share in the whole OECD area.<sup>28</sup>

Formally, the unemployment benefit system has a rule that beneficiaries have to be available for the labour market.<sup>29</sup> But in practice this rule is rarely enforced. Many long-term unemployed are simply considered to be incapable to perform a job, and in some other countries would have ended up in a

<sup>28</sup> In other OECD countries it varied between 15 percent in the UK and 26 percent in the US, over 52 percent in Sweden and 66 percent in Germany to 74 percent in Denmark and 76 percent in the Netherlands. Only Switzerland, with 96 percent came close to the Belgian ratio (calculations based on data from the SOCX OECD social expenditure data set the LIS Comparative Welfare State Data Set (Huber et al., 1997).

<sup>29</sup> I.e. to reside in Belgium and to accept a suitable job-offer. In this context suitable refers to skill level, physical capability, working time and time to commute.

disability scheme. There is however a clause in the unemployment benefit code that very often leads to a suspension of benefits. This so-called Article 80 suspends the eligibility for a benefit for those unemployed who cohabit with an earning partner, and who have been unemployed for an 'abnormal' length of time. The assumption is that these unemployed are no longer willing to look for a job. The clause was introduced in 1991, but earlier versions of the unemployment insurance code contained similar articles (for example Article 147 in the 1987 version of the Labour Code). In order to be suspended, the unemployed has to cohabit with an earning partner (i.e. he or she must not be a breadwinner). The unemployed partner is expected to be able to fall back on the income of the earning spouse, and an unemployed youngster is expected to fall back on the income of the parents with whom he/she lives. Unemployed above the age of 50 with a work history of more than 20 years are exempted from possible suspension. An "abnormally" long unemployment spell initially was defined as amounting to twice the average duration of an unemployment spell in a district (controlling for the age and the gender of the unemployed). In 1996 this was reduced to a factor of 150 percent. As a consequence, the maximum benefit period for those to whom Article 80 applies can vary from 2 years (for men under 36 in the district of Arlon) over 2.5 years (for women younger than 36 in the district of Oostende), to 6 years and 10 months (for men over 46 in the district of Tongeren) and 8 years and 9 months (for women over 46 in the district of Mons) (De Lathouwer et al., 2003: 8). This suspension procedure is automatic: the unemployed receives a letter 3 months before the suspension is to take place. In case he or she enrolls in a training programme or some active labour program, the suspension can be postponed.

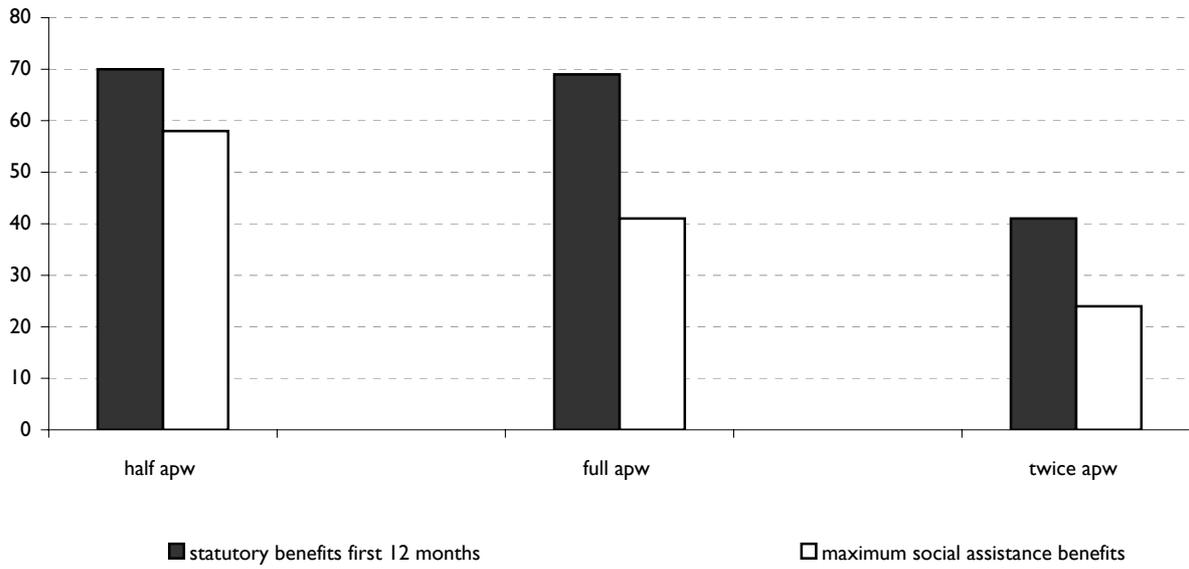
In essence article 80 has introduced a form of means-testing for a particular category of unemployed. An unemployed can appeal before the director of the district level employment office (RWB) against his or her suspension. The most common reason for cancelling the suspension is that the family income of the family unit in which the unemployed lives is below a certain threshold (in 2003, this amounted to 16,750 euro per year increased by 670 euro for every person that has to be supported). This means-test is far more generous than the means-test that applies to social assistance, because partners can earn up to 140 percent of the minimum wage before the unemployed spouse is subject to suspension (De Lathouwer, 2003: 9). During the period 1991-2001, some 21,345 unemployed saw their benefit suspended because of article 80. On an annual basis, about between 3 and 4 percent of the unemployed see their benefit suspended. In some years the number of suspension peaks, in particular in 1996 when the regulations were made more stringent (when the factor on the basis of which an unemployment spell is considered to be abnormal, was lowered from 2 to 1.5) and the proportion of suspension was between 6 and 7 percent (de Lathouwer et al., 2003: 83). More than 80 percent of suspended unemployed are women. According to calculations based on data of the social security administration (*Kruispuntenbank Sociale Zekerheid*, KSZ) only 22 percent get back to work (20 percent within 4 months and the

remaining 2 percent within 17 months). More than 72 percent remained inactive and have neither work nor a benefit. This is hardly better than the exits from the benefit system back to work of the non-suspended unemployed: 14 percent within 4 months and 20 percent within 17 months (de Lathouwer *et al.*, 2003: 92-93). In section 5.4.2 we will show that from 2004 onwards, the RVA started, in the context of the European Employment Strategy, to monitor the job search activities of all the unemployed more closely, and also began to apply sanctions to those unemployed who appear to be unwilling to take part in the reintegration programmes of the regional employment offices (VDAB, FOREM, BGDA and ADG).

## 2.4 SOCIAL ASSISTANCE

Those who do not qualify for any of the benefits discussed up to now have to fall back on the means-tested social assistance scheme. In Belgium these benefits are called 'leefloon' or 'revenu d'intégration', they are administered by the Public Social Assistance Centres (*Openbare Centra voor Maatschappelijk Welzijn, OCMW / Centres Publics d'Aide Sociale, CPAS*). These centres are run by local governments. The benefits are means-tested for the incomes of other household members and depend upon the household status. In 2005, the basic monthly benefits were: 626 euro for singles; 417 euro for persons cohabiting with someone else; 834 euro for couples without children. In addition, social assistance beneficiaries are also eligible for family allowances. These benefits are not subject to taxation. Thus the maximum net replacement rates for single persons who live in a household without children would be 58 percent (half APW), 41 percent (full APW); and 24 percent (twice APW). For a couple without children (assuming a former one earner couple situation), the maximum replacement rates are: 71 percent (half APW); 48 percent (full APW); and 29 percent (twice APW). The social assistance means-test is stricter than the one used in the suspension of unemployment benefits according to article 80 (see above). Beneficiaries are allowed to have a monthly labour market income of 200 euro, before the means-test comes into force. The means-test applies to all types of income of the claimant: labour market income, social security transfers, income from real estate, alimentation, income earned by a spouse, of the parents (as long as the young claimant benefits from a family allowance), or of the children in case the patrimony of the applicant was reduced in an 'abnormal way' during the past 5 years.

Figure 2.8: Replacement rates unemployment benefits during first 12 months and social assistance benefits for single person in household without children





### 3 STATUTORY EMPLOYMENT PROTECTION

#### 3.1 INDIVIDUAL DISMISSALS

Statutory individual employment protection distinguishes between manual workers (*arbeiders*) and salaried employees (*bedienden*), with the latter enjoying more protection. By the end of 2003, about 38 percent of the dependent workforce benefited from the status of manual worker, 48 percent of the status of salaried employee, with the remaining 14 percent enjoying the status of civil servant.<sup>30</sup>

For manual workers the statutory notice period depends upon the tenure, shown in Table 3.1. For workers with tenure of less than 5 years, the rules are embedded in legislation. For workers with tenure of more than 5 years, a national collective agreement (IPA CAO No.75) makes the employment protection more advantageous for the employee (increasing the notice period the employer has to observe, and reducing the period the employee has to respect).

Table 3.1: Statutory notice periods for manual workers

Tenure	Employer	Employee
less than 6 months	1 week	3 days (law)
6 months – 5 years	5 weeks	2 weeks (age < 20) (law) 3 weeks ( $\geq$ age 20) (law)
5 - 10 years	6 weeks	2 weeks (CAO No.75)
10 - 15 years	8 weeks	2 weeks (CAO No.75)
15 – 20 years	12 weeks	2 weeks (CAO No.75)
$\geq$ 20 years	16 weeks	4 weeks (CAO No.75)

For salaried employees with an annual income of less than 26,912 euro (in 2005), the employer's statutory notice period is three months plus three months for every five years of tenure, as shown in Table 3.2.<sup>31</sup> Salaried employees, who earn more than this annual income threshold, have to conclude an individual arrangement with their employer, which has to be at least as advantageous as the statutory arrangement for the lower income category. If the employer and employee fail to come to such an agreement, a labour court decides the case. In determining the notice period, the court takes into account the age, the tenure and the wage of the employee. In case the notice periods are not observed, both manual workers and salaried employees are entitled to a severance payment that normally equals the wage that they would have received during the notice period.

<sup>30</sup> Data from the RSZ [www.rsz.fgov.be/Onssrsz/NL/Statistics/Brochures/Yellow/2003/xls/tabellen\\_20034\\_nl\\_wdn.xls](http://www.rsz.fgov.be/Onssrsz/NL/Statistics/Brochures/Yellow/2003/xls/tabellen_20034_nl_wdn.xls).

<sup>31</sup> In case the wage of the salaried employee exceeds 27,597 euro gross per year and individual agreements are concluded at the moment notice is given. These agreements, however, cannot be less favourable than the statutory rule. In case the gross wage is above 55,193 euro the individual agreement can be concluded when the employment contract is negotiated. The clause on notice period in general uses the so-called Claves formula that takes into account tenure, age, function and wage:  $(0.88 \times \text{years of tenure}) + (0.06 \times \text{age}) + (0.033 \times \text{wage}) - 1$ . For example, the notice period for an employee aged 45 and 3 months, with 20 years and 7 months of tenure, and with an annual gross income of 40,000 euro is calculated as follows:  $(0.88 \times 20.58) + (0.06 \times 45.25) + (0.033 \times 40) - 1 = 21$  months.

Table 3.2: Statutory notice periods for salaried employees

Tenure	Employer	Employee
less than 5 years	3 months	6 weeks
5 – 10 years	6 months	3 months
10 – 15 years	9 months	3 months
15 – 20 years	12 months	3 months
20 – 25 years	15 months	3 months
25 – 30 years	18 months	3 months
30 – 35 years	21 months	3 months
35 – 40 years	24 months	3 months

Neither the Employment Office (RVA) nor the works council (*ondernemingsraad*) need to consent with individual dismissals, though after being fired, employees can go to the labour court.<sup>32</sup> It is up to the employer to provide proof that the dismissal was not arbitrary. In case that the court judges the dismissal to have been arbitrary, a worker is entitled to a severance pay amounting to 6 months of gross wages. Certain categories of workers (such as pregnant women, sick employees, union delegates and employee representatives) benefit special employment protection.<sup>33</sup>

During a trial period, manual workers cannot be dismissed during the first 7 days, but can be dismissed without notice during the second 7 days. For salaried employees the trial period lasts at least one month, and the notice period is 7 days for both employers and employees. Fixed term contracts cannot be terminated before the end of the term. They can only be renewed three times, and the total accumulated length of employment under such contracts may not exceed 30 months. In 2005, about 8.5 percent of the dependent workforce was employed under such contracts.<sup>34</sup>

### 3.2 COLLECTIVE DISMISSALS

Belgian labour law defines as collective all forms of notice that are not related to the individual person of the employee, and that concern within a period of 60 days at least 10 employees (for enterprises with 20 to 100 employees), 10 percent of the workforce (for enterprises with 100 to 300 employees), or 30 employees (for firms with more than 300 employees). In case that an employer wants to resort to a collective dismissal, he has to comply with the following information or consultation procedure:

- 1) The employer has to inform workers representatives (the works council or the trade union delegation in the firm; or, in absence of either, the workers themselves) about the planned redundancies. This includes the reasons for the redundancy, the number and categories of

<sup>32</sup> Article 63 of the Labour Code formally only applies to manual workers, but in practice is also applied to salaried employees.

<sup>33</sup> See for example Article 40 of the Labour Code which stipulates that a pregnant woman cannot be dismissed from the moment the employer knows about her pregnancy until one month after the maternal leave she is legally entitled too. In case the employer does dismiss her during that period, she is entitled to a severance pay equal to 6 months of gross wage.

<sup>34</sup> Data from Eurostat [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-NK-06-017/EN/KS-NK-06-017-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-NK-06-017/EN/KS-NK-06-017-EN.PDF).

- workers involved, the period over which the redundancies will be carried out, the criteria that will be used in selecting employees for dismissal, the method of calculating the redundancy pay;
- 2) The employer must consult the works council and/or the union delegates about possibilities to avoid the planned redundancies, and of mitigating the consequences (e.g. measures for supporting, redeploying and retaining the dismissed workers). However, an agreement between the employer and the employees' representatives on the redundancies and an accompanying 'social plan' is not mandatory; and
  - 3) The employer has to inform the director of the regional employment office (VDAB, FOREM, BGDA-ORBEM, ADG), about the proposed redundancies and to send a copy of the information letter that had to be provided to the employees' representatives.

There are a number of national collective agreements that govern the aspects of reemployment. In 1992 an agreement was concluded that governs the methods used in outplacement and specifies the role of the trade unions in supervising the employers' choice of outplacement office.<sup>35</sup> In 2002 this was followed by an agreement that made it mandatory for employers to arrange outplacement for all workers aged over 45 with at least one year of service.<sup>36</sup> Up to that date outplacement was only arranged on a voluntary basis. Industry-based collective agreements can further extend this right.

Since devolution of labour market policies, different practices have emerged in the 3 regions. The regional employment offices (VDAB, FOREM, BGDA-ORBEM and ADG) have set up Regional Reemployment Units (*tewerkstellingscel - cellule sectorielle pour l'emploi*, RRU) with varying roles. In the Flanders Region the reemployment unit is presided over by the director of the district-level employment agency and includes representatives of employers, employees, the industry-wide training fund (*sectoraal opleidingsfonds*), the redeployment fund (*herplaatsingsfonds*)<sup>37</sup>, the outplacement office (*herplaatsingsbureau*), and of the SERR (a parity based advisory council at the regional level). The reemployment units are financed by a special employers' contribution. For example, *Vormelek-Formelec*, the reemployment unit of the electro technical industry, is financed by a levy of 0.75 percent of gross wages.<sup>38</sup>

In case of a collective dismissal, the redundancy payment amounts to half of the difference between the net wage, and the statutory unemployment benefit that the employee is entitled to. There is a maximum ceiling for the net wage that is taken into account. In April 2006, this maximum ceiling was set at a gross wage of 2,731 euro reduced by social security contributions and income tax. Employers have to pay this extra benefit for a period of up to four months.

<sup>35</sup> CAO No.51 of February 10<sup>th</sup> 1992.

<sup>36</sup> CAO No.82 of July 10<sup>th</sup> 2002.

<sup>37</sup> Redeployment funds are financed by state subsidies and industry funds.

<sup>38</sup> Source: [www.vormelek.be](http://www.vormelek.be)

In the event of the closure of an enterprise and the employer defaults, the Redundancy Payments Fund (*Fonds tot vergoeding van de in geval van sluiting van ondernemingen ontslagen werknemers* often abbreviated to *Fonds Sluiting Ondernemingen* or FSO) pays the employees who are dismissed (Table 3.3). The fund was set up under the auspices of the National Employment Office (RVA). It is administered by a management structure similar to the RVA, and is financed from levies payable by employers. The levies vary from year to year, and according to industry branch and the size of the enterprise. But in general they tend to amount to some 0.25 percent of gross wages.

The FSO played an important role in the compensation of the employees of the defaulting national airline carrier Sabena in 2002. It compensated 11,322 employees by paying a total sum of 13 million euro in extra benefits in 2002. In more 'normal' years, it compensates between 4,000 and 7,000 dismissed employees with an annual budget of 5-7 million euros. In addition, the FSO also sometimes pays supplementary early retirement benefits, temporary unemployment benefits (benefits paid to employees whose employment contract is temporarily suspended), and so-called bridging benefits (benefits that bridge the period between a defaulting employer and the new employer after the bankrupt firm underwent a restart).

Table 3.3: Benefits paid by the Redundancy Payment Fund

	2001	2002	2003	2004	2005
<u>Redundancy payments in case of enterprise default</u>					
Number of beneficiaries	3,840	11,322	6,581	7,258	4,603
Total amount paid out (x 1,000 euro)	4,979	13,045	7,110	7,328	5,784
<u>Bridging benefits</u>					
Number of beneficiaries	562	593	355	619	1,193
Total amount paid out (x 1,000 euro)	2,207	2,059	983	2,012	3,538
<u>Temporary unemployment benefits</u>					
Total amount paid out (x 1,000 euro)	106,765	130,302	141,054	129,626	131,578
<u>Supplementary early retirement benefits</u>					
Number of beneficiaries	4,902	5,491	5,021	4,535	3,973
Total amount paid out (x 1,000 euro)	19,031	22,115	21,083	19,392	17,531

Source: Annual Report of the RVA 2005.

## 4 EXTRA STATUTORY ARRANGEMENTS

### 4.1 INDUSTRIAL RELATIONS AND COLLECTIVE BARGAINING

The Belgian system of collective bargaining occurs at three levels: (1) national or inter-sector, (2) industry-wide or sector, and (3) enterprise (Humblet & Rigaux, 2005). There is a hierarchical relationship between these levels that implies that an agreement at one particular level cannot be less favourable than agreements on a higher level. At the national level, negotiations take place in the National Labour Council (*Nationale Arbeidsraad*, NAR), a bipartite organisation that was established in 1952.<sup>39</sup> Within the NAR the central trade union federations (ACV, ABVV, ACLVB) and employer associations (VBO, Unizo, UCM and Boerenbond) negotiate wages and employment conditions for private sector employees.

#### 4.1.1 NATIONAL MULTI-INDUSTRY AGREEMENTS

At the national level, the social partners conclude multi-industry agreements (*Inter Professioneel Akkoord*, IPA) that have no binding power but rather are a kind of “gentlemen’s agreements” (Ruyssveldt & Visser, 1996: 236). Between 1965 and 1975 they were concluded every two years. Between 1975 and 1986, no IPAs were concluded because the social partners failed to come to a central agreement. Since 1987, agreements are again concluded on a biennial basis, except for the period 1997/1998.

The content of an IPA is not binding as such, and needs to be elaborated and formalised into national or sector collective agreements. The national agreements are almost always subject to administrative extension (*algemeen verbindend*) so that, during the period that they are in force, they tend to have the same effect as labour legislation and social legislation (Humblet & Rigaux, 2005). The national CLAs regulate issues that concern all branches of the economy such as the minimum wage<sup>40</sup>, wage equality between the sexes<sup>41</sup>, the framework for part-time work<sup>42</sup>, the framework for night shifts<sup>43</sup>, the timing for wage bargaining at the industry level and the so-called ‘wage norm’ (*loonnorm*) which sets margin for wage increases, and specifies the framework for subsequent

<sup>39</sup> There are two bodies where the social partners meet at the national level: the National Labour Council (*Nationale Arbeidsraad* or NAR) is responsible for social affairs and forms the framework for national collective labour agreements. In addition it advises the government and parliament on labour law and social security. The National Economic Council (*Centrale Raad voor het Bedrijfsleven* or CRB), on the other hand, advises the government on economic matters.

<sup>40</sup> CAO No. 21 [www.cnt-nar.be/CAO/cao-21.doc](http://www.cnt-nar.be/CAO/cao-21.doc)

<sup>41</sup> CAO No. 25 [www.cnt-nar.be/CAO/cao-25.doc](http://www.cnt-nar.be/CAO/cao-25.doc)

<sup>42</sup> CAO No. 35 [www.cnt-nar.be/CAO/cao-35.doc](http://www.cnt-nar.be/CAO/cao-35.doc)

<sup>43</sup> CAO No. 46 [www.cnt-nar.be/CAO/cao-46.pdf](http://www.cnt-nar.be/CAO/cao-46.pdf)

bargaining at the industry level (as not to endanger the nation's competitiveness).<sup>44</sup> One of the national agreements that directly relates to unemployment insurances, stipulates the arrangements for early retirement (the so-called *conventioneel brugpensioen*).<sup>45</sup>

#### 4.1.2 NATIONAL INDUSTRY LEVEL AGREEMENTS

The next, and arguably most important, level of collective bargaining is that of the industrial sector. Industry-level bargaining takes place within the so-called Joint Committees (*Paritaire Comité's*, PC). The first PCs were established in the metal and mining industries in 1919, but it was only in 1968 that they became the legally prescribed forum for collective wage bargaining.<sup>46</sup> The agreements concluded in a PC can be subject to administrative extension if one of the signatory parties submits a petition to that effect. This administrative extension is customarily rendered without further ado, unless the terms conflict with the government's wage restraint policy. There are 95 Joint Committees and 75 Joint Sub Committees (*Paritaire Subcomité's*, PSC). The sector wage agreement can be topped up at the company level. In 1999, there were 8 national agreements concluded within the NAR, 959 sector agreements concluded in PCs and PSCs, and 2,821 agreements concluded at the company level.

#### 4.1.3 IS THERE A TREND TOWARDS REGIONAL AGREEMENTS?

In addition to these three levels of wage bargaining, a certain degree of consultation at the regional level has emerged. For the Flanders Region there is the Social and Economic Council of Flanders (*Sociaal-Economische Raad voor Vlaanderen*, SERV)<sup>47</sup>, which is a tripartite body. In the Walloon Region and in the Brussels Region there are bipartite consultation bodies: the Economic and Social Council of the Walloon Region (*Conseil Economique et Social de la Région Wallonne*, CESRW)<sup>48</sup> and the Economic and Social Council of the Brussels Region (*Conseil Economique et Social de la Région Bruxelloise / Economische en Sociale Raad voor het Brussels Hoofdstedelijk Gewest*, CESRB/ESRB).<sup>49</sup> But so far these bodies only offer a forum for consultation. They do not, as yet, provide a separate framework for bargaining. But in April 2006 the first steps seem to have been made towards concluding a regional collective agreement in the metal and engineering industry. That month the Socialist Metal Workers Union (*Centrale der Metaalindustrie van België*, CMB) decided to split up into

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<sup>44</sup> For example, CAO No. 66 [www.cnt-nar.be/CAO/cao-66.doc](http://www.cnt-nar.be/CAO/cao-66.doc) and Interprofessioneel Akkoord 2005-2006 [www.vbo-feb.be/index.html?file=590](http://www.vbo-feb.be/index.html?file=590)

<sup>45</sup> CAO No. 17 [www.cnt-nar.be/CAO/cao-17.pdf](http://www.cnt-nar.be/CAO/cao-17.pdf)

<sup>46</sup> Act of 5 December 1968.

<sup>47</sup> [www.serv.be](http://www.serv.be)

<sup>48</sup> [www.cesrw.be](http://www.cesrw.be)

<sup>49</sup> [www.esr.irisnet.be](http://www.esr.irisnet.be)

autonomous regional branches that in the future might attempt to conclude regionally specific collective agreements.<sup>50</sup>

## 4.2 EXTRA STATUTORY UNEMPLOYMENT INSURANCE<sup>51</sup>

According to a survey by Van Ruysseveldt, the level of extra statutory protection is the highest in those Joint Committees where the trade unions are the strongest (such as PC312 en PC311), and the lowest where the unions are weak (such as PC210 and PC202) (Van Ruysseveldt, 2000).

Central to extra-statutory benefits are special funds, the so-called Funds for Existential Security, set up by the social partners and financed by contributions from employers of a particular industrial branch. There are rarely industry-wide extra statutory unemployment benefits that apply to all employees of an industry. Most of the extra statutory arrangements simply lower the eligibility requirements to access the existing industry-wide early retirement schemes (primarily by lowering the minimum age). In other words, in Belgium most industry-wide extra-statutory unemployment benefit schemes primarily tend to facilitate early labour market exit. They are not seen as supporting a temporary status in which those concerned are expected to re-enter the labour market at a later stage. There are a few exceptions to this rule, in particular industries that are characterised by high seasonal fluctuations (such as the construction industry or the workers in the harbour). These industrial branches traditionally offer various forms of temporary unemployment benefits. Such benefits can help to avoid permanent dismissals and therefore paradoxically contribute to maintaining labour force participation. Such schemes are said to allow employers to manage their labour force and limit transaction costs such as redundancy payments, recruitment costs and the costs for (re)training their workforce (Sels and Van Hootehem, 1999:174).

In addition to the industry-wide schemes, there are also supplementary unemployment benefits that are negotiated at the enterprise level. Often such negotiations take place in the context of a restructuring of the enterprise. A typical example is formed by the enterprise-based schemes negotiated in the context of the restructuring of the textile industry during the 1980s. Employers tend, for fiscal reasons, to collude with employees in masking redundancy payments as supplementary unemployment benefits.

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<sup>50</sup> Erik Ziarczyk "ABVV-Metaal beslist over Vlaams-Waalse splitsing" in *De Tijd* of April 21<sup>st</sup> 2006; "Voor ABBV-Metaal moet de beste tijd nog komen" in *De Standaard* of Saturday April 22<sup>nd</sup> 2006; "La classe ouvrière vole en éclats" in *Le Soir* of Saturday April 22<sup>nd</sup> 2006. It remains however unclear how the split has to work out in practice, in particular what the consequences will be for the Brussels Region.

<sup>51</sup> We will only discuss statutory unemployment protection. Statutory employment protection is far less common and tends to be limited to certain enterprises and industries, for example the textile industry during the restructuring of the 1980s, and more recently in the insurance industry.

#### 4.2.1 FUNDS FOR EXISTENTIAL SECURITY

Most Joint Committees have established a so-called Fund for Existential Security (*Fonds voor Bestaanszekerheid*, FvB). Originally FvBs were set up in industries with activities that were restricted by weather conditions, such as the construction industry, the harbour, coal trade and ship repair, to compensate workers for various forms of weather induced temporary unemployment. Over time most other PCs have set up an FvB, and the kind of support they offer, on the one hand has broadened, but on the other hand has moved away from this temporarily bridging small spells of unemployment. Nowadays, the main purpose of the most FvBs is to provide extra-statutory early retirement benefits, sickness insurance benefits, accident insurance benefits, holiday and end of year supplements (du Bled, 1996). In some cases these funds take on responsibility for paying benefits that the employer is supposed to pay (such as supplements to the statutory early retirement schemes). There are some 167 funds.<sup>52</sup> Some funds are financed by a contribution from the employers.<sup>53</sup> Some funds directly collect these contributions, while in other cases this is done by the RVA. The level of the contributions is determined by the collective agreement concluded in the Joint Committee. As we argued, these agreements normally are subject to administrative extension, so that all employers of a particular sector are required to contribute to the fund.

#### 4.2.2 EARLY RETIREMENT

In 1974 a national collective agreement was concluded within the NAR that introduced a supplementary unemployment benefit for older dismissed workers, the so-called *Conventioneel Brugpensioen* (CB).<sup>54</sup> The benefits of this pre-pension scheme were intended for employees between 60 and 65. They amounted to half of the difference between unemployment benefits and the net reference wage (gross wage plus some fringe benefits minus taxes and employers share of social security contributions). There is a (price indexed) ceiling to the benefit which currently amounts to 2,611 euro. The original intension behind the introduction of this scheme was to create job openings for young unemployed. That is why they always included a replacement condition (De Deken, 2002). However, some enterprises were allowed to deviate from this general rule, when they could demonstrate that they were faced with particular harsh market conditions or when they wanted to restructure the company. Many companies have been reported to make use of this kind of exception. It has been estimated that only 35 percent of early retirees actually are being replaced

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<sup>52</sup> A full list of all the funds can be found at [www.meta.fgov.be/pc/pcc/nlcc06.htm](http://www.meta.fgov.be/pc/pcc/nlcc06.htm)

<sup>53</sup> In PC102.08 these contributions amounted to 1.2 percent of gross wages (without a ceiling) (CAO 68039 of June 26<sup>th</sup> 2003).

<sup>54</sup> Collectieve Arbeidsovereenkomst Nr.17 van 19 December 1974 tot invoering van een regeling van aanvullende vergoeding ten gunste van sommige bejaarde werknemers indien zij worden ontslaan, gewijzigd door CAO Nr.17 bis van 29 januari 1976, Nr.17 nonies van 17 Juni 1983, Nr.17 dudevicies van 26 Juli 1994, Nr.17 vicies van 17 December 1997, Nr.17 vicies quarter van 19 December 2001 en Nr.17 vicies sexes van 7 oktober 2003 (pdf downloaded on 15<sup>th</sup> June 2006 from [www.cnt-nar.be/CAO/cao-17.pdf](http://www.cnt-nar.be/CAO/cao-17.pdf))

(Van Ruysseveldt, 2000: 267). A similar story can be told about the enforcement of the age restrictions. Currently, the minimum age is set at 58, and a minimum career of 25 years is required. But as we will demonstrate, many industrial sectors or individual employers have lowered the eligibility age for the scheme. Thus, in the first half of 2004, 22 percent of the new entries into the CB scheme were between 50 and 54 years old (OECD, 2005: 92). That is why it has often been argued that from a measure to combat youth unemployment, the pre-pension scheme has developed into “an instrument that allows enterprises during economic harsh times to restructure by dismissing workers of 50 years or older in a socially acceptable manner” (Federaal Ministerie van Tewerkstelling en Arbeid, 1999:102). Moreover, older workers have started to see the scheme as providing a right to an early exit from the labour market.

The schemes have become increasingly difficult to finance. That is why in more recent years the eligibility age has been increased to 58 years.<sup>55</sup> Employers and employees have sought to circumvent these cost containment measures using a series of arrangements known as ‘pseudo early retirement’ or the ‘Canada Dry’ arrangements (Gieselink *et al.*, 2002).<sup>56</sup> These arrangements seek to emulate an early retirement benefit for those who formally are not eligible for the CB pre-pension, because they have not reached the minimum age, by making creative use of the special status that the ‘older unemployed’ (OU) enjoy. As we discussed above, the unemployed with a work history of more than 20 years are entitled to a higher benefit. This benefit than is topped up by a freely negotiated redundancy payment and/or by a supplementary benefit financed out of the second pillar of the pension system. In contrast to the CB scheme there is no replacement condition. For the employer, the ‘Canad Dry’ arrangements tend to be cheaper than a normal CB pre-pension, because there are no social contributions due – though this is of course at the expense of the social security budget. Such arrangements thus can be considered to form an example of a moral hazard in which individual employers and individual dismissed employees collude to conclude a favourable arrangement at the expense of the community of insured. The unemployed worker, benefiting from such an arrangement, does not need to declare the topped up redundancy payment, which also explains the lack of data on the use of such schemes. The government wanted to limit the spread of these arrangements by increasing the minimum eligibility age for the status of the OU scheme. Because there is no legal obligation to declare non-statutory benefits, there are also no data on how many people are being dismissed using a ‘Canada Dry’ arrangement (one can only assume that part of those benefiting from the status of older unemployed also benefit from the topped up benefit).

<sup>55</sup> Still a number of exceptions remain in place: employees with tenure of 38 years can retire as early as 55-57, if this was the rule in the collective wage agreement concluded between 1986 and 1996. If workers have an working history of 20 years and worked in night shifts, or if they were employed in the construction or car industry, they are eligible for an early retirement benefit at the age of 56. The measure was initially removed in 2000, but has on an industry level basis ever since been extended.

<sup>56</sup> The name ‘Canada Dry’ alludes to the advertising slogan for the beverage of the same name: “It has got the colour of whisky, but it is not whisky”. By analogy, the arrangement resembles the pre-pension scheme although legally it is an unemployment benefit topped up by some form of voluntary redundancy pay.

Another cost containment measure was the introduction of a similar scheme on a part-time basis in 1993.<sup>57</sup> The part-time scheme allows to retire on a part-time basis as of the age of 55. It provides a supplement on top of the statutory part-time unemployment benefit. But so far, this scheme has not been very popular.

Table 4.1 gives an overview of the use of the various early exit arrangements in the year 2003. Even though disability pensions in Belgium are, in contrast to such schemes in countries like the Netherlands or Sweden, rarely ever used as a route towards an early exit from the labour market (because they are traditionally only granted on strict medical grounds, and because they offer lower benefits than the 'normal' early retirement schemes), we have added this category in the table.

Table 4.1: Early exit from the labour market

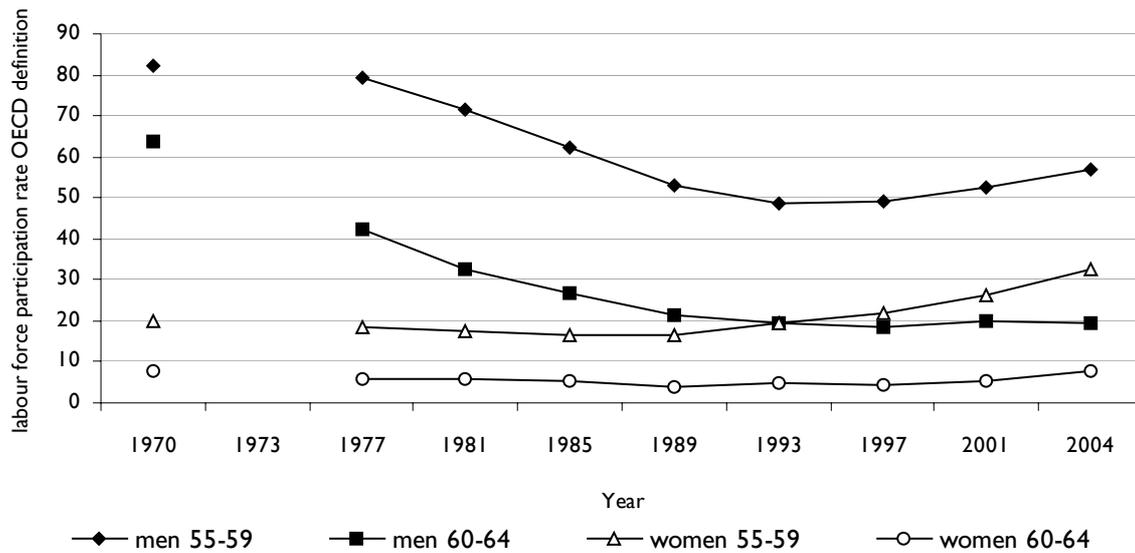
		50-54 years	55-59 years	60-64 years
Early retirement (CB)	absolute	6453	41,284	60,178
	% of age group	0.9	38.3	55.8
Partial early retirement	absolute	--	863	210
	% of age group	--	0.1	0.0
Older unemployed (OU)	absolute	41,132	71,899	33,386
	% of age group	5.9	11.2	6.8
Disability pensions	absolute	42,148	49,046	34,278
	% of age group	6.0	7.3	7.0

Source: Vanhoutte, 2005.

The majority of the population over the age of 55 has exited the labour market via the CB or the OU schemes. This is, as we will demonstrate, to a large extent due to the fact that industry-level collective agreements tend to lower the statutory early retirement age. All this has led to a dramatic decline in the labour force participation rates of elderly workers. In Figure 4.1 we offer a time series of these rates for men and women since the 1970s. During the 1990s women aged 55-59 started to have higher participation rates than men in that age group. This may be a consequence of the fact that women not only increased their participation levels, but that they participated via more precarious labour contracts that did offer less the kind of extra-statutory exit routes, though, most men continue to be able to maintain a lower retirement age, in spite of the attempts of the government to close down the more statutory early exit routes.

<sup>57</sup> CAO Nr.55 van 13 juli 1993 tot instelling van een regeling van aanvullende vergoeding voor sommige oudere werknemers, in geval van halvering van de arbeidsprestaties, gewijzigd door de collectieve arbeidsovereenkomsten Nr.55 bis van 7 februari 1995 en Nr.55 ter van 10 maart 1998 (pdf downloaded on 15<sup>th</sup> June 2006 from [www.cnt-nar.be/CAO/cao-55.doc](http://www.cnt-nar.be/CAO/cao-55.doc)).

Figure 4.1: Development of male and female labour force participation rates since the 1970s



Source: OECD Corporate Data Environment, NIS (1980).

#### 4.2.3 INDUSTRY LEVEL AGREEMENTS ON SUPPLEMENTARY UNEMPLOYMENT BENEFITS

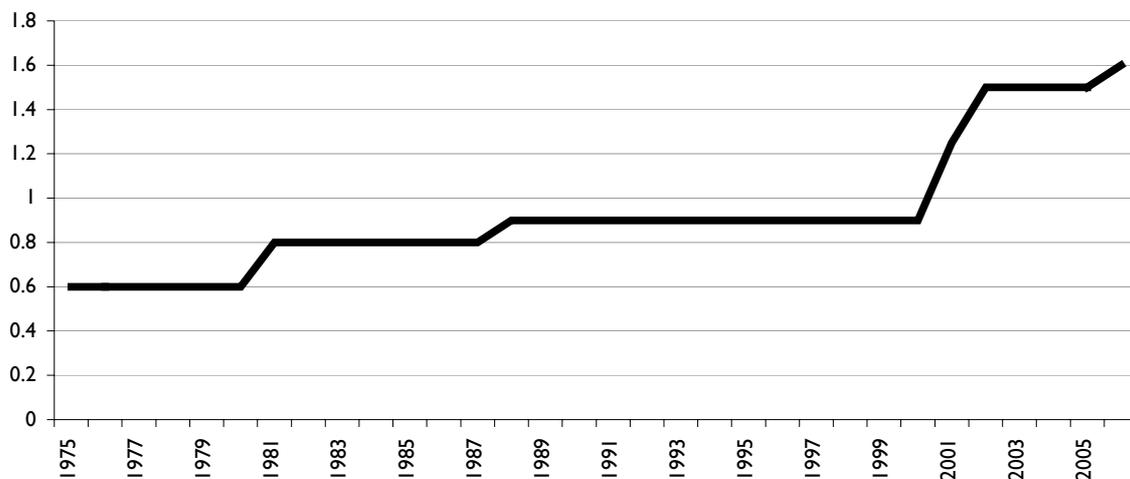
Most industry-level agreements lower the entitlement age for the *Conventioneel Brugpensioen*, to allow for a part-time CB, or to allow for a further increase of the benefits of this national scheme. In appendix I we document a detailed example of how in the sector of quarries PC102 and its PSCs, access to early retirement has been made easier than under the statutory regime. As is evident in this example of one industrial branch, it is sheer impossible in the context of this report, to do justice to the differences between sectors and sub-sectors. Almost every PSC has its own regulations regarding access to early retirement, so we are likely to find 170 different rules about eligibility and benefit levels. In general, though, those regulations tend to lower the age at which early retirement can begin – contrary to the state's policy to phase out early retirement schemes.

Some PCs also offer supplementary unemployment benefits for which all workers in the industry are eligible irrespective of their age, but these schemes, which are not simply a route towards an early exit from the labour market, seem to be far less common. In a way, this comes as a surprise, as the Belgium statutory scheme – with its comparatively low maximum benefit levels (and thus relatively low replacement rates for middle and higher wage earners), ought to form a fertile ground for the growth of extra-statutory schemes (Briers, 1995: 77). In addition, as we will demonstrate, the extra-statutory benefits hardly increase the earnings-related nature of the insurance. On the contrary, as they often consist of flat rate supplements, they make the benefit systems even more progressively skewed to the benefit of low earners.

Case study: PCIII manual workers in the metal and engineering industry<sup>58</sup>

This fund is itself, in contrast to the majority of FvBs that rely on the public social security administration RSZ, responsible for collecting the contributions (Van Gutte, 1995). It relies upon two ‘subcontractors’: (1) the regional offices (the so-called *uitgiftbureaus*) that collect the contributions, and that were set up by the employers’ association Fabrimetal; and (2) the payment bodies (*syndicale uitbetalingsinstellingen*) that pay out the benefits that are affiliated to the three main trade union affiliations (comparable to the UO of the RVA). The fund is administered by a governing council (*raad van beheer*) with parity representation: 15 representatives of the employers and 15 representatives of the trade unions and employees. Both are nominated by the Joint Committee. The chair of the council alternates between a representative of the employers and a representative of the employees. The fund is financed by a contribution paid by the employers based on gross wages. Because the responsibilities of the fund have gradually been extended, so have the contribution rates (Figure 4.2). Especially in 2002, when the fund started to be involved in ‘normal’ extra-statutory pensions (i.e. not early retirement schemes).

Figure 4.2: Development of the contribution rate of the FvB of PCIII for manual workers



In addition, employers have to pay extra contributions in case they send their older employees into early retirement. For example, if during the period 1997-2006 an employer dismissed a worker over 50, he had to pay an extra flat rate contribution that had to be paid once per case. The level of this contribution depends upon the age of the dismissed employee: ranging from 86.76 euro for an employee aged 56 to 607.34 euro for an employee aged 50. Presumably this measure was intended to limit the moral hazard of the scheme (i.e. employers who are too much abusing the FvB, in order to finance the restructuring of their enterprise at the cost of the industrial branch as whole). There

<sup>58</sup> Most of the recent regulations of this FvB are specified in the *Collectieve Arbeidsovereenkomst van 30 Mei 2005* (registration No.74715) available on <http://meta.fgov.be/pdf/pk/111111-2005-001851.pdf> (downloaded on August 25<sup>th</sup> 2006).

are also special supplementary contributions for early retirement arrangements (for example, during the period 1987-2001, an extra 0.30 percent had to be contributed in order to finance the lowering of the CB age to 57 (in 2001, it was reduced to 0.13 percent and from 2006 onwards it was again reduced to 0.03 percent). Other special contributions are collected for training of employees, for training of officers of the employers associations and trade unions, for financing special annual holiday supplements.

As for entitlement conditions and benefits, every employee in the industry has an individual right to the benefits, irrespective of the fact whether the employer has fulfilled his obligations (e.g. has paid his contributions). The fund pays extra statutory benefits in the field of sickness pay, disability, early retirement, annual paid holiday and unemployment. We will only elaborate the conditions for unemployment benefits. A fundamental distinction is made between 'temporary' unemployment (*gedeeltelijke werkloosheid*) and 'complete' unemployment (*volledige werkloosheid*). Temporary unemployment arises when the employment contract is only suspended, not terminated, because of (1) technical problems in the firm, (2) weather conditions or (3) economic reasons (for example a fall in demand). Interruptions in production because of strikes do not fall under this type of unemployment compensation. Complete unemployment arises when the employee is dismissed for economic reasons. Eligibility criteria overlap with those of the statutory unemployment scheme, except for the level and duration of the benefit, which vary according to the age of the unemployed, the type of unemployment and whether he/she worked part-time or full-time.

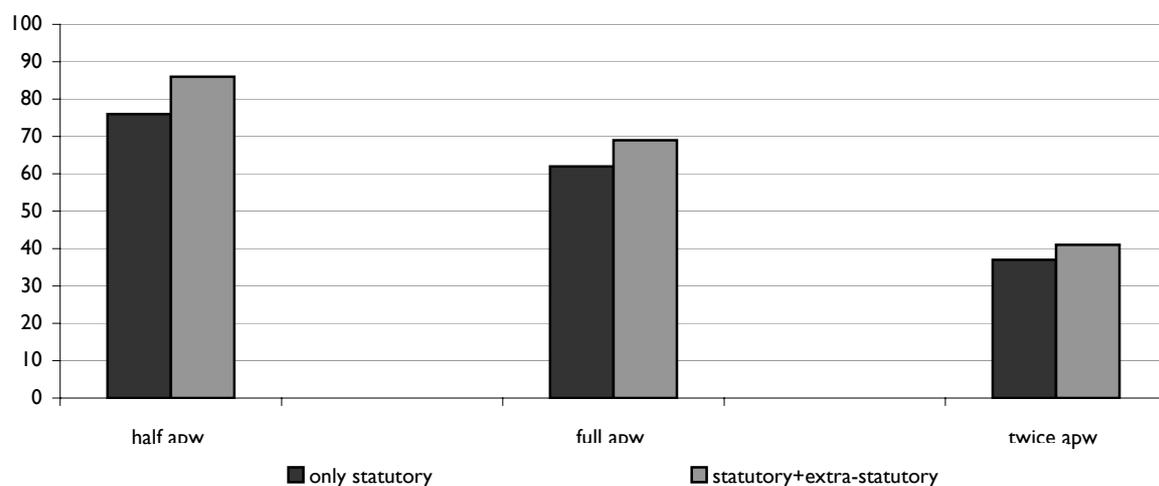
Table 4.2: Benefit levels and duration of unemployment insurance of the FvB of PC III manual workers

	Duration	Benefit Part Time	Benefit Full Time
<u>Temporary unemployment</u>	as long as suspended	€ 4.50 per day	€ 9.00 per day
<u>'complete' unemployment</u>			
under age 35	120 days	€ 2.50 per day	€ 5.00 per day
between 35 and 44	210 days	€ 2.50 per day	€ 5.00 per day
above 45	300 days	€ 2.50 per day	€ 5.00 per day
above 57	until retirement		€ 77.00 per month

One of the surprising aspects of this scheme is that it only grants flat rate benefits. We would have expected that the extra-statutory scheme would try to strengthen the earnings-related nature of the statutory scheme, which is, as we demonstrated earlier, because of the low maximum benefit ceilings very weak indeed. Flat rate supplements hardly change this. On the contrary, they increase comparatively more the replacement rates for unemployed who had a low paying job, as becomes evident in Figure 4.3 and Figure 4.4. In Figure 4.3 we have estimated the effect of the extra statutory benefits on the replacement rate for a worker, who lives in a household without children, with a full-time employment contract who has not reached the age of 57 or more who is dismissed

(i.e. who experiences ‘complete’ unemployment).<sup>59</sup> As is evident in Table 4.2, eligibility for this extra statutory benefit can last up to 120 days (for those under 35), 210 days (for those aged 35-44), and 300 days (for those aged 45-57). For the latter group, the maximum duration corresponds more or less with the first period of 12 months eligibility in the statutory scheme. In other words, after that period, the unemployed metal worker aged 45-57 back onto the lower second period benefits of the statutory scheme without seeing them topped up by an extra statutory benefit from the FbZ of the industrial branch he used to work in.

Figure 4.3: Impact of the extra statutory unemployment benefits of the fvb of pc III for manual workers on the replacement rates for breadwinners of less than 57 years, without children to support



In Figure 4.4 we have done the same calculation for a single worker who has no children to support, with a full-time employment contract. It becomes evident that the bonus for low wage workers is even higher in this case, leading to a net replacement of close to 100 percent. The replacement rates of the benefits in case of temporary unemployment are even higher, as is documented in Figure 4.5 (breadwinners without children) and Figure 4.6 (singles without children). For workers under the age of 45, the practice of topping up benefits results in three periods: during the first 5 months (those under 35 years) or the first 9 months (those aged between 35 and 44); they receive a topped up first period statutory benefit (similar to the one reported in Figures 4.3 to 4.6). During the next 7 months (those under 35 years), or next 3 months (those aged between 35 and 44), they are entitled to the normal statutory benefits without the industry-bargained supplement; as of the 13<sup>th</sup> month they fall back on the benefit level of the second statutory period.

<sup>59</sup> These calculations have been executed 4 months after those reported in section 2.3.6 which might explain minor differences, as some tax brackets and social security brackets may have undergone their annual adjustment in between, or some tax exemption might have been abolished or created. For this figure we recalculated the gross and net wage, the gross and net statutory unemployment benefit, as well as the gross and net topped up unemployment benefits. Statutory benefits are only subject to a 10 percent income tax for beneficiaries who live together with an earning partner. Extra statutory benefits, on the other hand, are all subject to this tax. To convert daily rates into monthly benefits we used a factor of 26, which is common in these calculations. This means that the net extra statutory supplement in the PC III amounts to €117.00 for full-time ‘complete’ unemployed workers and €234.00 for full-time ‘temporary’ unemployed workers.

Figure 4.4: Impact of the extra statutory unemployment benefits of the fvb of pc III for manual workers on the replacement rates for singles of less than 57 years, without children to support

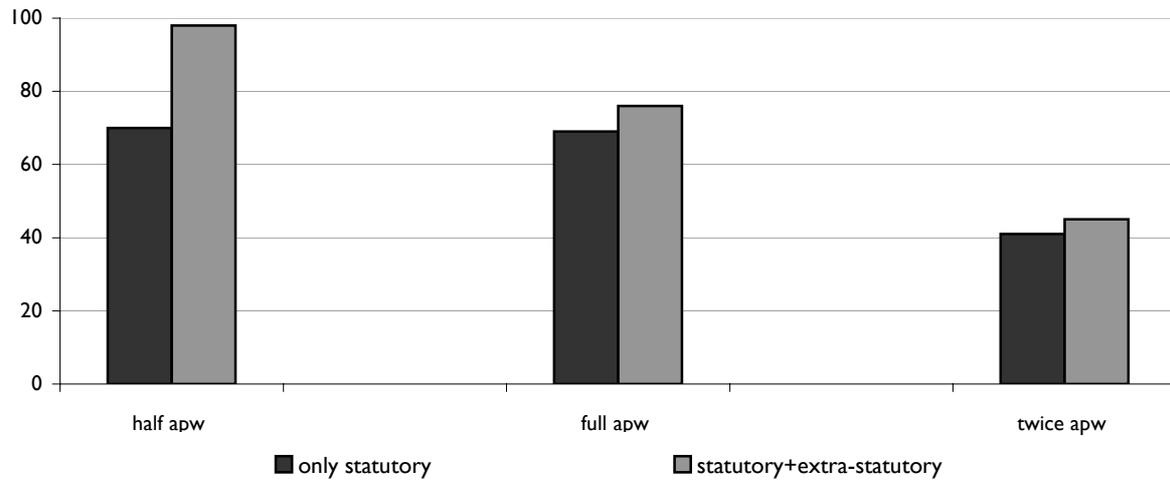


Figure 4.5: Impact of temporary extra statutory unemployment benefits of the fvb of pc III for manual workers on the replacement rates for breadwinners of less than 57 years without children to support

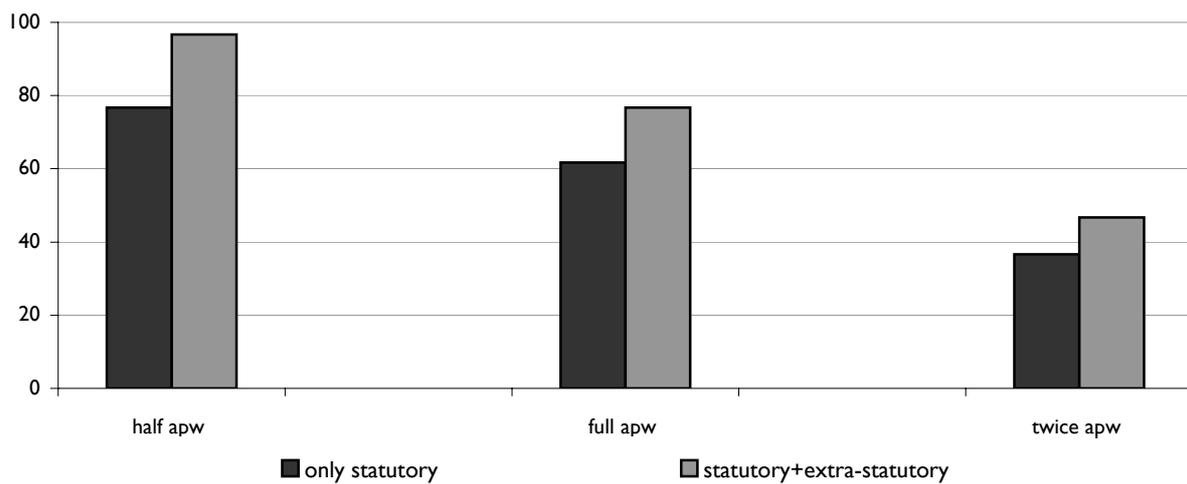
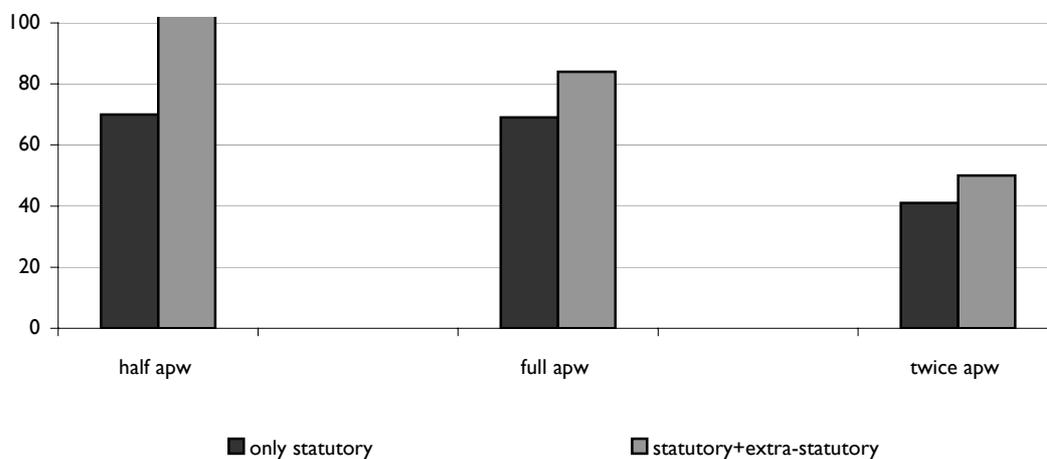


Figure 4.6: Impact of temporary extra statutory unemployment benefits of the fvb of pc III for manual workers on the replacement rates for singles of less than 57 years, without children to support



This case study based on the FvB of PC111 is not necessarily representative for the all FvBs. There is a large variety between PCs in the organisation of extra statutory unemployment insurance. To mention only a few possible differences that result from a cursory study of collective agreements: Most FvBs do not collect the employers' contributions themselves but mandate the RSZ to do so; Contributions are not always expressed as a percentage of the wage sum. In 2001, the FzB of the construction industry (PC124) adopted a system of flat rate contributions that replaced the at the time prevailing 10.27 percent rate (in the construction temporary unemployment is far more prevalent, hence the much higher contribution burden, compared to industry such as metal and engineering). The construction industry requires a quarterly contribution of its employers varying between €400 and €480 (the expectation was that in terms of revenue this would amount to a zero-sum operation); and Not all industrial branches use a flat rate supplement system like the one we documented in our case study. Again, to take the example of PC124, in the construction industry, a distinction is made between the skill levels of workers. Unskilled workers obtain per month a net supplement of €159, while skilled workers are divided into three skill categories obtaining respectively €191, €254 and €271. Such a system, scaled according to skills, is likely to boost the earnings-related nature of the benefit system.

### 4.3 PRIVATE INSURANCE

Though unemployment is normally considered to form a non-insurable risk, there are some minor exceptions to this general rule of thumb. These exceptions relate to policies that insure the income risks of unemployment for the capacity to redeem a mortgage. The government of the Flanders Region introduced such an insurance in 1983. The government concluded a contract with a private insurance company, Ethias, that guarantees the redemption payments during the first 5 years of a mortgage contract, in case the borrower becomes unemployed or incapacitated to work (or in case of a self-employed borrower, only in case he/she becomes incapacitated to work). The scheme was officially called "insurance to guarantee the redemption of a mortgage in case of involuntary unemployment or disability of employees and disability of self-employed" (Briers, 1995: 99; see also Pieters et al., 1984).<sup>60</sup> The insurances are free and automatically apply if the mortgage loan complies with certain conditions. The other two regions followed suit in 1983 (Brussels)<sup>61</sup> and in 1986 (Wallonia).<sup>62</sup> Such schemes though, are often said to be less intended as a form of unemployment protection, than a measure to stimulate the construction industry.

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<sup>60</sup> More details can be found in the brochure [http://premies.woneningenk.be/files/premiespdf/24\\_19.pdf](http://premies.woneningenk.be/files/premiespdf/24_19.pdf).

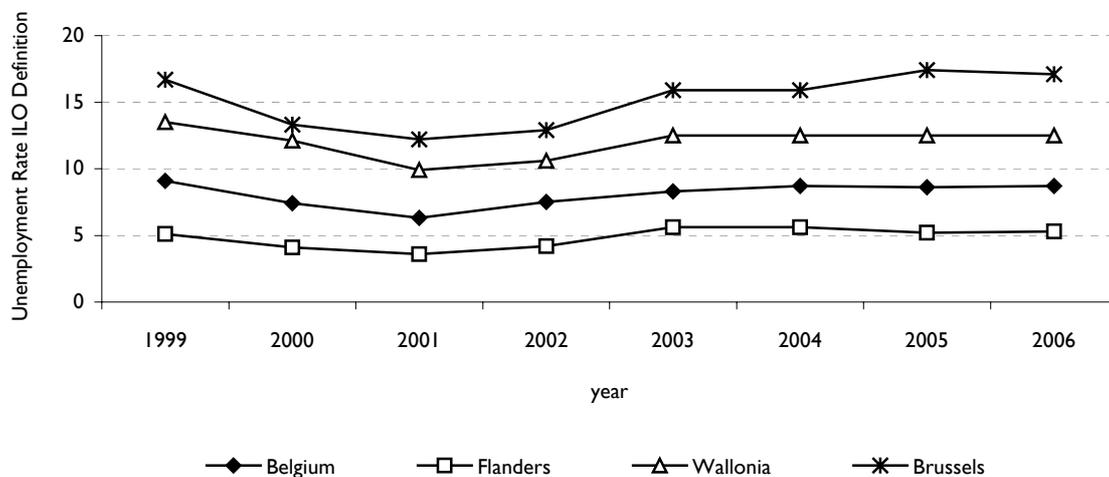
<sup>61</sup> "Aides au logement: Bruxelles sous la loupe" in *Le Soir* April 8<sup>th</sup> 1983.

<sup>62</sup> "Waalse verzekering tegen inkomensverlies" in *Financieel Economische Tijd* of April 26<sup>th</sup> 1986.

## 5 REINTEGRATION AND ACTIVE LABOUR MARKET POLICIES

As we argued, since devolution was implemented in the area of labour market policies, the regions became the main actors in the area of reintegration and activation policies. In what follows we will primarily focus on the policy developments in the Flanders Region, though occasionally we will extend the argument to the other two regions.<sup>63</sup> It is important to take into account that the labour market performance in the 3 regions, though following a comparable trend over time, has been quite different, in particular in terms of unemployment rates as becomes evident in Figure 5.1.

Figure 5.1: The development of unemployment rates in Belgium and its three regions



Source: Own calculations based on ECODATA database of the National Statistical Office (NIS)

One should not automatically draw conclusions about an apparent better performance of the labour market in the Flanders Region, because it makes little sense to see this region in isolation of the Brussels Region. Many inhabitants of the Flanders Region traditionally tend only to work, but not to live, in the Brussels Region. Brussels is no different than many other large metropolitan areas in Europe in that it has a substantial unemployment problem – in particular amongst the large migrant population in the inner-city areas, which form the core of the region. There are many jobs in Brussels, but most are occupied by commuters that live in the Flemish and Walloon districts that border to the Brussels Region. Given the fact that most of the unemployed migrant workers in the Brussels Region are from North-African origin, they tend to, when it comes to training, be ‘clients’ of the French-speaking agency *Bruxelles Formation* – not from the Flemish branch office of the VDAB in Brussels (the RDDB).

<sup>63</sup> This is for pragmatic reasons: on the one hand, a detailed discussion of all the three regions would turn this case study into three case studies. On the other hand, the documentation of the two other regions, Wallonia and Brussels, is more fragmented, which at any rate would not allow a symmetrical treatment.

Our focus will be primarily on institutions and policies in the Flanders Region, but there are nevertheless also a number of federal policies that have repercussions for the activation of the unemployed by the regional authorities. Moreover, the federal RVA continues to be responsible for all decisions on paying out of unemployment benefits. This means that it can instruct the payment bodies (UO) to interrupt paying out benefits to unemployed who fail to comply with their obligations. But in order to determine whether this is the case, the RVA depends upon information from the VDAB, the FOREM and the BGDA-ORBEM.

## **5.1 JOB PLACEMENT SERVICE AFTER DEVOLUTION**

Job placement services have been subject to devolution and have become a regional competence: in Flanders they are governed by the VDAB, in Wallonia by the FOREM, in Brussels by the BGDA-ORBEM and in the German districts of Wallonia by the *Arbeitsamt*. An employer can hire staff without the intervention of these placement agencies, and employees can offer their work to potential employers without having to pass via these services. Since 2003, the three main regional agencies (VDAB, FOREM and ORBEM-DBGGA) also have their own temporary employment agency “T-service interim” (the creation of such an agency was pioneered in the Flanders Region in 1999, the other regions soon followed suit). In addition to this, the Flemish VDAB and the Brussels ORBEM-BDGA also have established their own outplacement services.

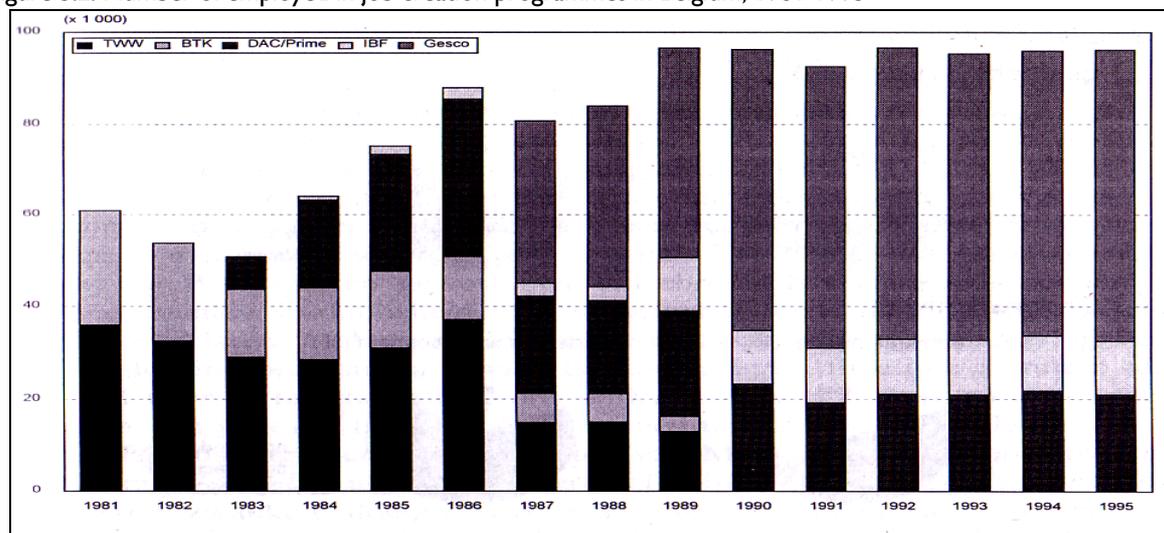
In 1997, the Flanders Region decided to abolish the state monopoly on employment exchange and job placement, and the VDAB had to start to compete with commercial employment agencies. Large commercial temporary employment agencies became more active in training and recruitment. More than 250 organisations applied to become recognised as employment exchanges. This policy initiative has been related to the new guidelines that the International Labour Organisation issued on employment placement services (ILO, 1997; Struyven, 2005). In 2006, the government of the Flanders Region even decided to privatise the public temporary employment agency T-Interim, by separating it from the VDAB, even if the regional state remains the majority shareholder of the new holding company (Denys, 2006).

## **5.2 ANTECEDENTS OF REINTEGRATION: JOB CREATION PROGRAMMES**

Until a few years ago, active labour market policies in Belgium were largely limited to various forms of subsidised employment in the non-profit sector. Some of those programmes have their origins in the interbellum, like *Tewerkgestelde Werkloze (TW)* or *Chomeur Mis au Travail (CMT)* established in 1933. But towards the end of the 1970s a series of new programmes were created such as the

*Bijzonder Tijdelijk Kader (BTK)* (1977). During the 1980s, these initiatives were followed by the creation of the so-called *Derde Arbeid Circuit (DAC)* (1982) and the system of *Gesubsidieerde Contractuelen (Gesco)* or *Agents Contractuels Subventionnés (ACS)* (created in 1986 to replace all the existing schemes). These arrangements sought to contain the rapidly rising unemployment by creating precarious contracts in the public and non-profit sectors. They had emanated from negotiations between the government and the trade unions, and were largely financed by the National Employment Office (RVA). Up to the 1990s the number of jobs in these programmes increased to about 100,000 (Figure 5.2). From then onwards this number has remained stable.

Figure 5.2: Number of employed in job creation programmes in Belgium, 1981-1995

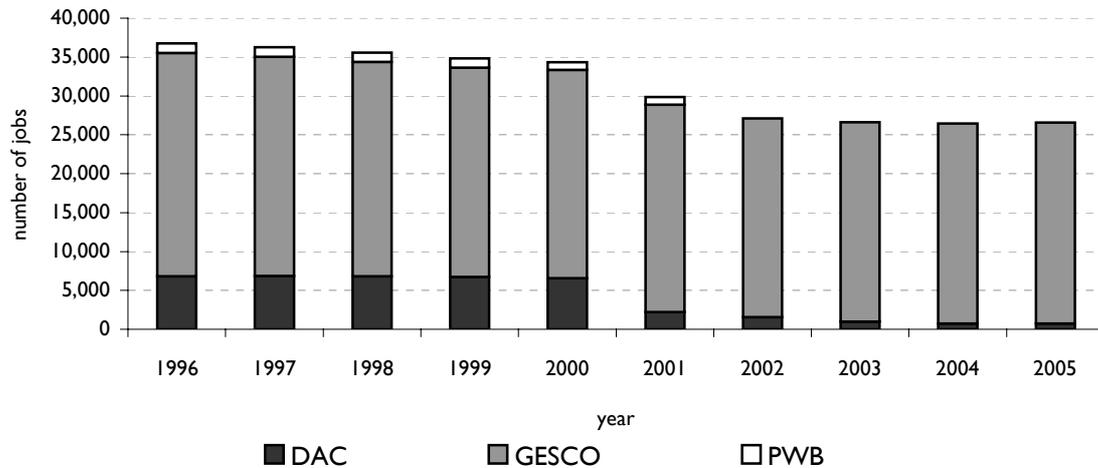


Note: IBF stands for *Interdepartementaal Begrotingsfonds* another federal job creation programme specifically in the non-profit sector.

Source Pacolet, 1997.

With the devolution of labour market policies, these programmes came to be primarily administered by the regional governments. The regions carry the burden of the wage costs, but obtain for every job a federal subsidy that corresponds to an unemployment benefit. Figure 5.3 gives an overview of the number of such job creation positions in the Flanders Region. The main problem with these schemes is that they only created a parallel labour market in the public and the non-profit sector, with very little transitions to the regular labour market. Moreover, according to early evaluation studies, disadvantaged unemployed, such as low-skilled persons, women and long-term unemployed, tended to be systematically underrepresented in these schemes (Bouwen et al., 1978). More recent studies though do claim that these programmes are primarily to the benefit of low-skilled and long-term unemployed (Nicaise, 1996). This is probably related to the fact that initially the job creation programmes were not targeted at specific groups, while more recently the rules have been changed in such a way that the programmes became more targeted at these problematic groups. Still, the transition to the regular labour market is not facilitated.

Figure 5.3: Number of employed in job creation programmes in Flanders, 1996-2005



Note: PWB stands for 'Programma ter bevordering van de werkgelegenheid', a job creation programme in the non-profit sector in the Flanders Region.

Source: Own calculations, based on data from Vlaams Subsidieagentschap voor Werk en Sociale Economie <http://aps.vlaanderen.be/statistiek/cijfers/arbeidsmarkt/algemeen/werkbel013.xls> accessed on September 25<sup>th</sup> 2006.

According to an econometric study on the Walloon Region, these programmes even reduce the transition to the regular labour market (Mahy *et al.*, 1996). In part this poor performance is the paradoxical consequence of making the employment contracts, granted by these job creation schemes, less precarious: the DAC-TCT schemes offer contracts of indeterminate duration and therefore soon tend to become saturated. After an initial reduction of unemployment these programmes do little to improve the employment situation. Only when additional funds are made available to create additional jobs, be expected to have a net effect. In the Flanders Region, this sort of criticism has led to a change of policy. On the one hand, as has been the case as of 2000, some of the Gesco jobs have been converted into regular employment contracts in the semi-public non-profit sector. By 2002 this happened with 4,800 DAC jobs, 1,000 Gesco position in education and 1,800 PWB jobs (VRIND, 2002: 210). On the other hand, the remaining jobs in the Gesco programme again came to be attributed on a temporary basis.

## 5.3 LOCAL SERVICES AND LOCAL JOBS

### 5.3.1 THE LOCAL EMPLOYMENT AGENCIES

In 1987, the so-called Local Employment Agencies (*Plaatselijke Werkgelegenheidsagentschappen*, PWA) were established, allowing unemployed workers to supplement their benefits by working in the local community. The scheme was initially run on a voluntary basis with three goals in mind:

- To relieve the labour shortages in the social economy (e.g., in areas such as nursing and care);

- To limit the growth of the clandestine economy, in which many long-term unemployed were suspected to make a living supplementing their unemployment benefits;
- To activate the long-term unemployed and to facilitate their transition to the labour market.

The PWAs were to operate like a special kind of temporary employment agencies. In 1987 a framework was created that made it possible for municipal authorities to establish non profit associations (*vereniging zonder winstbejag*), that were to offer temporary job contracts to long-term unemployed. These associations were governed by representatives of local political parties. It was encouraged, but not required, to have representatives of the trade unions on the boards as well. Like earlier forms of subsidised employment, the programme was targeted at the long-term unemployed. Those working under the PWA system received a supplement to their unemployment benefits. In 2006, this supplement amounted to 4.10 euro per hour, and the PWA employed could work up to 45 hours per month.<sup>64</sup> The PWA employed did not have a formal employment relation with the PWA, and kept their status of beneficiary of an unemployment benefit.

Whereas earlier programmes had been limited to employment in public organisations (e.g. schools and local public services) or non profit organisations (e.g. cultural associations), the PWA system also opened up to a series of domestic services (e.g. cleaning, laundry work). Initially, PWA services made a slow start, primarily because of the resistance of trade unions and by the associations of small businesses in the service sector (such as the Unizo). By the end of 1988, only about a quarter of all municipalities had established a PWA. In 1994, the federal government reviewed the PWA programme in the context of its *Global Plan*. Every municipality was now obliged to set up a PWA service. The PWAs were integrated into the so-called ‘Security and Community Action Plans’ (*samenlevings- en veiligheidscontracten*) designed to improve the overall quality of living and sense of security (for example by creating jobs such as the *stadswachters* who had to assist the regular police). By 1996, more than 98 percent of the municipalities in the Walloon Region and 85 percent in the Flanders Region had established a PWA, and all municipalities in the Brussels Region had done so.<sup>65</sup>

With the introduction of the obligation for municipalities to establish a PWA service, came also the requirement to take representatives of the social partners (ACV, ABVV, ACLVB, VBO, NCMV and the *Boerenbond*) on the governing boards of these agencies. The unions used this leverage to change the status of those employed by the PWAs. In 1999, this was changed from an ‘unemployed with a PWA contract’ to that of an ‘employee with a part-time employment contract for an indefinite

<sup>64</sup> The so-called town guards (*stadswachters*) that were recruited in the context of Security and Community Action Plans can work up to 53 hours per month under the PWA scheme. Unemployed working in market gardening are allowed to work up to concentrate the 90 hours for every two months into a single month.

<sup>65</sup> Thus, the gap between Flanders and the Walloon region, which has been related to the fact that Flanders already had a more developed non-profit sector before the introduction of PWAs, had narrowed.

period'. Still, the nature of this contract continued to be far more precarious than a normal contract, as the supplement to the unemployment benefit is only paid out for hours actually performed. In case of sickness, the PWA employee only receives his or her unemployment benefit. Thus the figures for PWA refer to the number of unemployed who worked at least one hour for a PWA. That is why we also list the total annual number of hours worked under a PWA contract. Figure 5.4 presents an overview of the development of the absolute numbers of hours worked under PWA contracts and the absolute number of employed (left Y-axis), as well as the number of employed as a percentage of the labour force (Eurostat resident population concept) (right Y-axis).

Figure 5.4: The development of employment in PWA 1995-2005



Source: Own calculations based on RVA statistical year books and on RVA, 2001; and the Eurostat statistical database. S

In the year 2005, employment in PWA started to decline, because the funds came in part to be redirected towards the broader service voucher system (see below). Some have criticised the PWA system for not really providing a perspective of returning into the normal labour market. They claim that the work provided by the agencies is little more than activity with “psycho-social purposes”, i.e. that these semi-formal jobs do not reintegrate the unemployed but give them the possibility to have contacts and meaningful relationships (Nicaise, 2001b:6).

PWA jobs can be clearly contrasted with more integrative programmes such as the jobs provided by the Reintegration Firms (*inschakelingsbedrijven* or *invoegbedrijven* in the Flanders Region; and *enterprise d’insertion* in Wallonia). Under these schemes the regional governments endow enterprises, that employ unemployed that are difficult to mediate, with a subsidy of 80 percent of the wage costs during the first year of employment (a subsidy that, in the course of the subsequent years, is progressively reduced to 60, 40 and 20 percent). In 2006, there were 311 enterprises licensed as

integration firms (127 in the Flanders Region, 8 in Brussels and 176 in Wallonia). Unemployed and beneficiaries of social assistance are being referred to those firms by the employment office (RVA) and by the social assistance offices (OCMV). Only long-term unemployed without a secondary school degree or beneficiaries of social assistance are eligible for a job with a reintegration firm. In 2005, the RVA referred 3,899 long-term unemployed to reintegration firms (data from *De Standaard* of July the 19<sup>th</sup> 2006).

Other schemes that encourage regular enterprises to employ long-term unemployed include the Activa Plan (primarily aimed at employing older long-term unemployed) and the Rosetta Plan (or *startbaanovereenkomst* targeted at young unemployed for whom it tries to get a job or an apprenticeship). Both plans exempt employers from certain social security contributions. The Activa Plans, in addition, offers a wage subsidy. In 2003, some 48,051 people in the Flanders Region were employed by this so-called ‘social economy’ (this number also includes employment in special enterprises aimed at disabled workers – though the magnitude of this latter type employment is not that important in the total figure) (GOM West Vlaanderen, 2005).

### 5.3.2 THE SERVICE VOUCHERS SCHEME

The service voucher scheme (*dienstencheque* or *titres de service*) was introduced in 2000 in order to further promote the provision of local services. The main idea behind the scheme was to allow both non-governmental organisations and for-profit enterprises to provide services at prices that can compete with the clandestine and underground economy. Already in 1986, the government had decided to reduce social contributions rates for low-skilled service sector employment, and had made part of the wage costs for employing long-term unemployed in domestic services, tax deductible. The service voucher system allows households to purchase special subsidised vouchers, which they can use to pay for ‘local community services’ such as childcare, care for the elderly and the sick and household tasks, such as cleaning. The service voucher employer received 21 euro for every hour of employment (6.70 euro is paid by the user, and 14.30 euro is paid the state – with user charge being tax-deductible, thus in fact only amounting to 4.70 euro).<sup>66</sup>

Initially, the service jobs were only provided by the local employment agencies (PWA), but later on the scheme was extended to also include profit-based providers. The scheme aims to create ‘proper’ jobs in the local services area (with normal wage contracts with social security benefits), and to combat the clandestine work in this sector. The original legislation allocated the organisation to the regions, but in 2004, the management was put under federal control. With this centralisation

<sup>66</sup> From 2007, this will be reduced to 20 euro in order to contain the exploding costs of the system (“Dienstencheques. Een vervelend klusje?” in *KNACK* of October 25<sup>th</sup> 2006).

came a dramatic expansion of the scheme. If during the first years only some 2,500 jobs were created, the target of the 2004 reform was to accomplish a tenfold increase of that number. And indeed the scheme did become hugely popular. By 2005, some 30,000 people were employed under the new scheme (Table 5.1). Many of these jobs though were on a part-time basis. In terms of FTE, the gross job creation because of the scheme was estimated to amount to some 17,350 jobs (Gevers, 2006: 146).

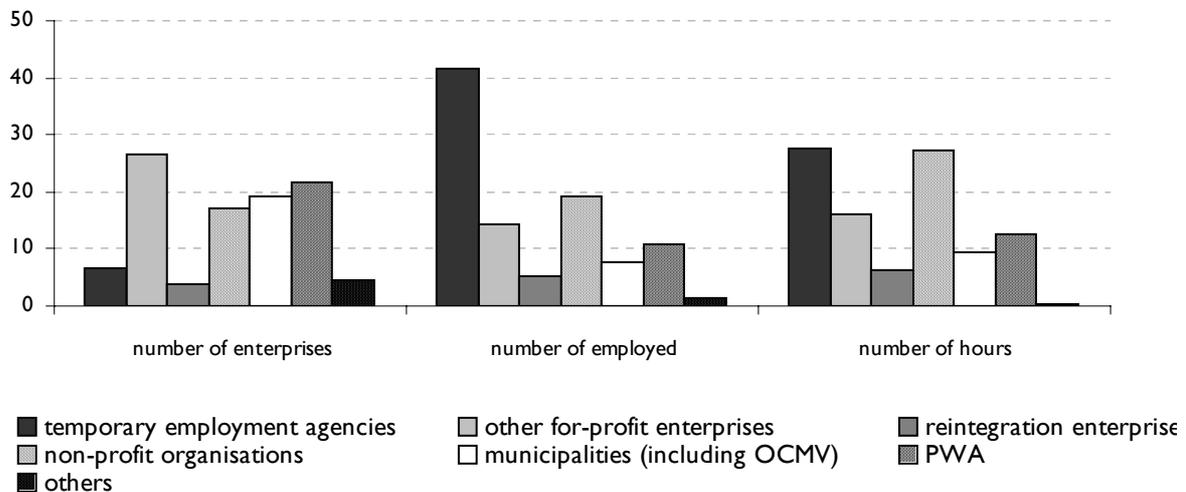
Table 5.1: The development of the service voucher scheme

	2004	2005
Employed	15,077	28,933
Recognised enterprises	785	1,092
Active enterprises	504	794
Registered users	120,247	251,182
Active users	98,814	190,737

Source: Gevers et al, 2006.

In 2005, the enterprises that employ persons on the basis of a service voucher were distributed as shown in Figure 5.5.

Figure 5.5: Percentage share of types of service voucher enterprises and employment



Source: calculations based on data in Gevers, 2006.

There are some significant differences between the regions in terms of the distribution between the types of enterprise. Thus in the Walloon Region, non-profit employers<sup>67</sup> tend to dominate (46 percent in terms of the number of employees), whereas in the Flanders Region for-profit employers<sup>68</sup> tend to prevail (64 percent of the total number of employees). In the Brussels Region, the share of commercial private sector employers is even more than 85 percent (Gevers, 2006).

<sup>67</sup> These include non profit associations (VZW), PWA, OCMW and municipalities.

<sup>68</sup> These include temporary work agencies, reintegration firms and other commercial enterprises.

The problem with the voucher system is that a lot of substitution effects occurred: many of the newly created jobs replaced existing jobs – and not only, as the scheme intended, jobs in the clandestine sector. The substitution effects occurred in particular during the first year of the scheme's existence. In the 2005 edition of the report commissioned by the government it is estimated that, in the year 2004, about 42.4 percent of service voucher workers already had a job before they started to work under the scheme. That would mean that only 8,684 out of the 15,077 service voucher jobs that year were newly created positions. Taking into account that a service voucher worker on average only worked 65.4 percent of a full time job, only 5,679 FTE jobs were created that year (Gevers et al., 2005:123). In the follow-up report a year later, the substitution effect is very much played down: now, one can read that in 2004 substitution amounted to only 12 percent, and that in 2005 it even went down to a mere 3,4 percent (Gevers et al., 2006). Whereas the 2005 report specifies in detail how these percentages were calculated, it is impossible to figure out the basis of the 2006 assessment. VOSEC, an advocacy group of the non-profit sector reports that in the Flanders Region, some 52 percent of service voucher workers already were employed before they entered the system; and 36 percent of them had been so on a wage earner contract (VOSEC, 2006:11). The high share of temporary employment agencies also casts doubt on the sustainability of the new jobs.

## **5.4 EUROPEAN EMPLOYMENT STRATEGY ACTIVATION MEASURES**

In the advent of the European Employment Strategy (EES), that was launched in 1997, came a refocusing of labour market policies to the supply side. Even though the job creation programmes of the past and local service initiatives such as the PWA and the service vouchers, in part had been set up with the intend to improve the labour market skills of low-skilled unemployed, during the 1990s one can observe a trend towards a more individual career guidance arrangements and a more strict monitoring of the job search behaviour of the unemployed. Whether this really was a consequence of the EES, is a question we do not want to address in this paper, but what is evident is that during the 1990s, the traditional job creation initiatives were increasingly complemented by EES type of activation measures. This started in the Flanders Region, but later extended to the other two regions of the country, and in 2004 it became a core element of federal policies.

### **5.4.1 CAREER GUIDANCE SYSTEM IN THE FLANDERS REGION**

In 1991, the Flemish employment agency (VDAB) introduced in the context of its management contract with the Flemish government, a system career guidance (*trajectbemiddeling*), in order to facilitate the unemployed to find a job. During the first months of being without a job, the unemployed was to be supported by a set of basic self-service provisions that have to allow him/her

to manage his/her own job search, by means of a 'personal file' (i.e. a file that he/she can create and manage himself/herself); by a training guide of various programmes offered by the VDAB; by a vacancy database (*Werk Informatie Systeem, WIS*, through which the unemployed can search for a job); and by an applications data base (*Kandidaten Informatie en Selectie Systeem KISS*, on which the unemployed can upload his/her c.v.). If an unemployed fails to find a job within the first months, he is inserted into a compulsory career guidance system. This occurs after 3 to 9 months depending upon the age and the level of education of the unemployed.<sup>69</sup> The system consists of five modules that can be combined depending upon the skills and the experiences of the unemployed concerned.<sup>70</sup>

- I. Diagnosis and counselling (*trajectbepaling en diagnosestelling*): a VBAD counsellor assesses the possibilities and expectations of the job seeker and together they draw up an action plan;
- II. Job application training (*soliciatietraining en begeleiding*): where the job seekers learn to write letters of application and how to participate in a job interview;
- III. Occupational training in a job training centre (*beroepsspecifieke opleiding in opleidingscentrum*);
- IV. Personal skills training (*persoonsgerichte vorming*): where job seekers can learn what is expected from them in actual work situations (in particular programmes for Dutch for non-native speakers, but also ICT skills);
- V. Workplace integration (*opleiding en begeleiding op de werkvloer*): these training programmes often occur in the form of apprenticeships.

It is concluded by an assessment module in which further career guidance steps are decided.<sup>71</sup>

Table 5.2: Enrolment in the various training programmes of the career guidance system of the VDAB

	2000	2001	2002	2003	2004	2005
<i>Number of registered unemployed</i>	169,647	169,651	187,023	207,806	225,633	235,344
I. Diagnosis and counselling	141,053	161,611	132,307	155,255	154,608	199,633
II. Job application training	10,205	8,769	9,307	13,001	12,892	10,980
III. Occupational in training centre	28,760	26,375	28,109	30,781	34,262	38,327
IV. Personal skills training	5,561	10,185	11,299	14,167	13,803	15,124
V. Workplace integration	19,683	22,083	23,952	26,905	29,981	38,944
Total number unemployed reached	--	161,611	170,976	191,508	181,687	--

*Participation in the various training programmes is not mutually exclusive, which explains that the total number unemployed reached is not the mere sum of all the individual modules. In later years, people may continue to participate in one of the training modules (II-V) without having to pass via the first module of diagnosis and counselling.*

*Source: Own calculations based on data from the statistical database of the VDAB, and from an answer by the Flemish Minister of Labour, Frank Vandenbroucke, to a question in the Flemish Parliament formulated by Member of Parliament Bart de Wever (question 69 on January 13<sup>th</sup> 2006) available at <http://jisp.vlaamsparlement.be/docs/schv/2005-2006/VANDENBROUCKE/69/antw.069.doc>.*

<sup>69</sup> 3 months for unemployed under 25 without higher education, after 4 months for unemployed under 25 with higher education and unemployed above 25 years who register for the first time with the VDAB, and after 9 months for unemployed over 25 who re-register at the VDAB.

<sup>70</sup> The documentation and literature on the scheme always refers to six modules, but for some strange reason, the counting starts at two – with the voluntary phase presumably forming the first module. In order not to complicate the presentation, we decided to distinguish only five modules.

<sup>71</sup> In 1999, the Walloon counterpart of the VDAB introduced a similar scheme, the so-called *Accompagnement du parcours professionnel*. Here too, we find a system of measures that can be individually tailored towards the needs of job seekers: ranging from information and advice (*information le conseil et l'orientation de la personne vers les organismes compétents*) over a diagnosis of their needs (*identification et analyse des besoins de la personne*) and personal training (*la promotion de l'offre de compétences portées par personne*) to an assessment of the process and possible follow-up measures (*la capitalisation et l'évaluation des actions menées*) (for more details see Hoge Raad voor de Werkgelegenheid 2003b: 119-120).

The VDAB has estimated the outflow percentages of these programmes (i.e. the percentage of people that were reintegrated into the regular labour market). These figures are disaggregated according to the length of unemployment prior to entering the programme and whether or not the job seekers are part of groups that is hard to mediate (the 'difficult to mediate' group includes low-skilled unemployed and unemployed who experience difficulties in speaking Dutch). What is striking is that over the years a declining trend of successful outflows is observed (Table 5.3).

Table 5.3: Outflow of career guidance in the Flanders region

	2000	2001	2002	2003	2004	2005
Overall outflow	73.3%	71.9%	63.2%	58.2%	59.8%	61.1%
< 1 year unemployed/not-difficult group	85.2%	83.8%	69.9%	66.7%	68.3%	--
< 1 year unemployed/difficult group	75.0%	71.9%	61.9%	54.0%	54.9%	--
Between 1 and 2 years unemployed	68.5%	68.8%	64.2%	55.6%	58.9%	--
> 2 years unemployed	68.5%	68.8%	59.2%	56.6%	58.9%	--

Source: Kerncijfers VDAB various years.

It may well be that the career guidance system is increasingly successful in terms of the number of unemployed that is reached, it is a bit premature to claim, as a study of the HIVA did for the period 2001-2003, that an overall improvement can be observed (De Cuyper & Struyven, 2004). The decline might be related to the increased case load of the consultants of the employment office. It has been reported that this increased case load might have increased risk selection by counsellors, and to the practice of 'parking clients', i.e. to enter job seekers into the system just in order to be able to register them as new cases, without making any further counselling effort (De Cuyper, 2004: 149-150). On average, a counsellor has about 188 cases in his portfolio. He receives 162 new cases per year (Holderbeke, 2004: 342). The decline in successful intermediation of job seekers via the career guidance system thus might be related to the performance-oriented criteria that the VDAB uses in its attempts to boost the 'efficiency' of its administration. In this steering mechanism, the number of newly started cases is the central parameter. The rates mentioned in Table 5.3 are gross outflows. In 2003, the VDAB commissioned a study in which the net effects of the career guidance system between 1999 and 2001 have been assessed (Degreave, 2004).

In this context, net rates compare the outflows of those who went through the career guidance system, compared to a similar unemployed who did not. This resulted in the outflow rates in Table 5.4. A distinction is made between the so-called 'labelled' and 'spontaneous' cases. Labelling refers to the automatic enrolment of certain target groups based on European guidelines (for example school graduates under the age of 25 without higher education who have been unemployed for more than 3 months). Spontaneous cases are unemployed who themselves take the initiative to enrol in the career guidance system. The percentages in the table refer to the difference between the flow back to work of unemployed that did not enrol in the career guidance system compared to

those who did, and is considered to give an indication of the true net contribution of the system to get people back to work. The table makes a distinction between the so-called ‘limited’ trajectories through the career guidance system, and the ‘extensive’ ones (‘limited’ means that job seekers participated in less than three modules of the system).

Table 5.4: Net outflow rates of career guidance in the Flanders region 1999-2001

	Labelled cases	Spontaneous cases
Limited trajectories	23 (68%-46%)	36 (82%-46%)
Extended trajectories	29 (76%-47%)	36 (83%-47%)
< 6 months unemployed	13 (81%-68%)	19 (87%-68%)
6-12 months unemployed	26 (75%-49%)	34 (83%-49%)
> 1 year unemployed	45 (69%-24%)	53 (77%-24%)

The percentage points reported are the difference between two outflow percentages:

([percentage of the research group, i.e. with guidance] - [percentage of control group, i.e. without guidance])

Table 5.4 demonstrates that ‘spontaneous cases’ have a higher success rate than the ‘labelled cases’, and that the career guidance system has more effect on long-term unemployed. Obviously, it is in particular in the 5<sup>th</sup> module, ‘workplace training’, where practical work skills are acquired via a system of apprentices, that employers play an important role that goes beyond the formal involvement of the social partners in the governance of labour market institutions (NAP, 2001).

On the one hand, this can be in the form of apprenticeships adjunct to the training programmes of the fourth module (‘occupational in training centre’). In that case education in a training centre is alternated with apprenticeships in enterprises (the so-called *Alternerende opleidingsvormen*). These apprenticeships can involve up to 50 percent of the training period. There is no recruitment obligation for the firm that offers the apprenticeship, nor does it have any financial obligations. On the other hand, there is a scheme of full-time workplace integration, the so-called *Individuele Beroepsopleiding* (IBO). In this case, the employer provides a full-time on-the-job training. Again he does not have to pay a normal wage to the apprentice, nor social security contributions on his behalf. But he has to pay a special premium to the apprentice, which amounts to the difference between the average unemployment benefit and the wage he would have to pay for a normal employment contract. The employer also has to pay for the work accident insurance. These type training-programmes are only possible for skill profiles for which the VDAB does not organise a training programme in one of its centres. This second type of training can last up to 6 months (for certain cases up to 12 months). In 2006, this scheme was extended by a co-operation with temporary employment agencies. This so-called IBO-Interim scheme combines temporary work (of maximum 4 weeks) with a subsequent training at the employer (of up to 26 weeks). Only older unemployed (above 50 years), unemployed with migrant background or partially disabled unemployed can enrol in the IBO-Interim programme.

Another targeted on-the-job training programme is the Work Experience Programmes scheme (*Werkervaringsprojecten* or WEP-plus).<sup>72</sup> This scheme is intended for low-skilled long-term unemployed (who have been unemployed for more than two years). It subsidises employment in the non-profit sector for up to one year. Non-profit organisations receive an annual subsidy ranging up to € 14,030. In addition, the non-profit employers receive a counselling fee, varying between 15 and 35 percent of this wage subsidy, and are exempted from paying social security contributions. These types of employment contracts are concluded by a mandatory job application training of two months at the end of the term. Like earlier national job creation programmes, such as DAC-TCT, Gesco-ACS, and the Flemish WEP-plus scheme, are financed by federal funds: per job position, the VDAB receives a lump sum from the federal unemployment insurance system.

The VDAB also offers wage subsidies to non-profit firms that employ underprivileged groups (e.g., the partially disabled). These firms are the so-called integration enterprises (*invoegbedrijven*) and they receive up to 80 percent of wage cost reimbursed during the first year of employing an underprivileged person.<sup>73</sup> Wage subsidies, in the form of a lump sum per person employed, are also paid to sheltered workshops (*sociale werkplaatsen*) that recruit disabled persons.<sup>74</sup>

Table 5.5: Employer-based training of underprivileged unemployed financed or subsidised by the VDAB<sup>75</sup>

	2001	2002	2003	2004	2005
IBO	6,988	7,742	9,740	11,951	14,520
WEP-plus	3,444	2,842	2,450	2,366	1,933
Apprenticeships	8,856	14,566	10,678	10,859	11,440
Social workshops	440	523	646	467	409
Integration enterprises	30	38	189	145	300

#### 5.4.2 ACTIVE MONITORING OF UNEMPLOYED

In July 2004, the federal RVA started a new nation-wide activation scheme. Up to then, Belgian unemployment insurance had been notoriously passive in dealing with the unemployment. Even though the country scored well in terms of the OECDs active labour market policy expenditure measure, this was primarily due to the job creation programmes such as DAC and Gesco. The district level branch offices (RWB) of the RVA hardly applied sanctions to unemployed who did not try to find a job on their own initiative. Benefits were only suspended for unemployed, cohabiting with an earning partner, who had been unemployed for much longer than the average in their

<sup>72</sup> For a more detailed description see [www.slimtewerkstellen.be/pdf/WEPPLUS0106.pdf](http://www.slimtewerkstellen.be/pdf/WEPPLUS0106.pdf); [www.sd.be/site/NR/rdonlyres/C47FC78D-C3DD-466E-A2CA-8151A5E3B301/0/Web\\_Actueel\\_05\\_09\\_22.pdf](http://www.sd.be/site/NR/rdonlyres/C47FC78D-C3DD-466E-A2CA-8151A5E3B301/0/Web_Actueel_05_09_22.pdf); and [www.sln.be/documenten/documents/1.6\\_SLN\\_Nota\\_wep\\_plus\\_2002\\_12.pdf](http://www.sln.be/documenten/documents/1.6_SLN_Nota_wep_plus_2002_12.pdf).

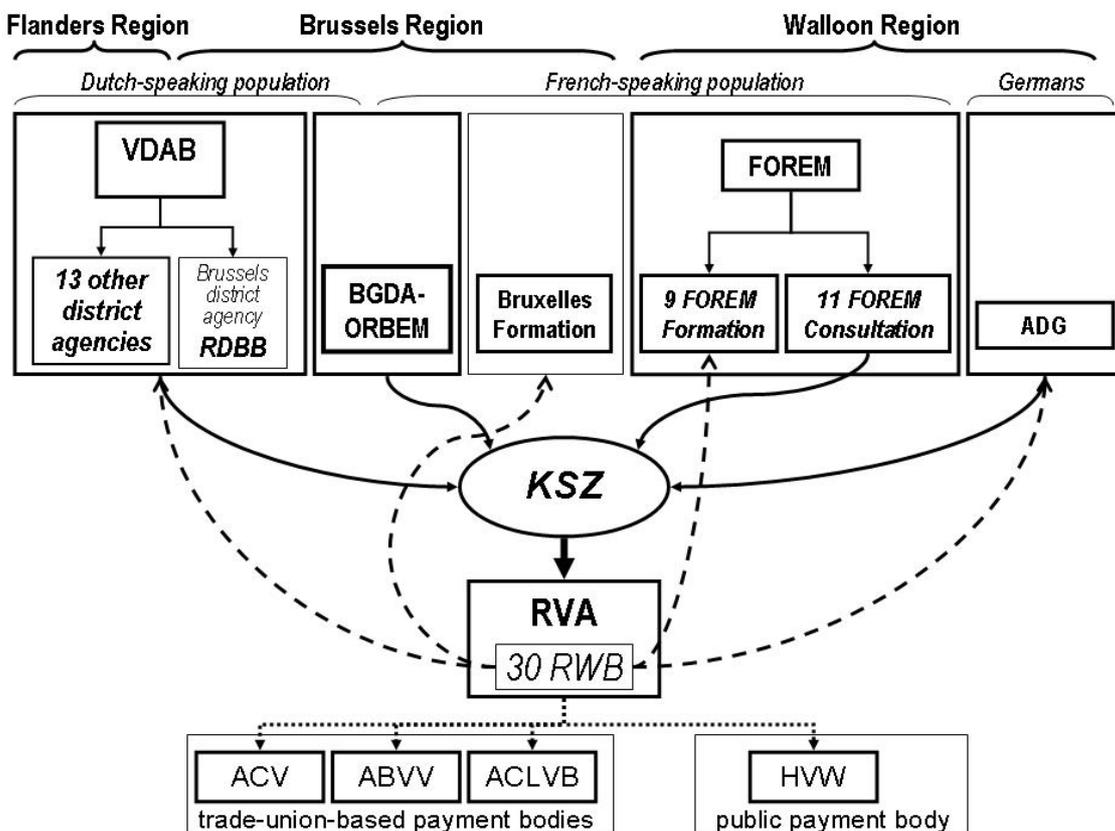
<sup>73</sup> For more details see the VDAB leaflet *Meerwaardeconomie: Invoegbedrijven/Invoegafdelingen* available on the website [www.slimtewerkstellen.be/pdf/INVOEGBEDRIJVEN%200206.pdf](http://www.slimtewerkstellen.be/pdf/INVOEGBEDRIJVEN%200206.pdf) (accessed on September 10<sup>th</sup> 2006).

<sup>74</sup> For more details see the VDAB leaflet *Sociale werkplaatsen* available at the website [www.slimtewerkstellen.be/pdf/SOCIALE%20WERKPLAATSEN1006.pdf](http://www.slimtewerkstellen.be/pdf/SOCIALE%20WERKPLAATSEN1006.pdf) (accessed on September 10<sup>th</sup> 2006).

<sup>75</sup> Source: Annual Reports of the VDAB (various years); the numbers refer to newly started employment tracks.

district. In the context of the EU promoted activation policies, a new system was created to monitor the unemployed much closer, the so-called *Actieve Opvolging van Werklozen* (AOW). Because eligibility to unemployment benefits became more conditional upon participation in activation programmes, the new system required a better coordination between the various governance levels that had evolved after the devolution of labour market policies. For that purpose the federal and regional governments had concluded a cooperation agreement in 2004, in which they agreed to use the KSZ information database for social security as the platform for exchanging information between the various federal and regional institutions (Laeremans, 2006).<sup>76</sup> This information exchange is represented in Figure 5.6. Solid lines refer to flows of information (for example when the local employment agency obtains information about the job search behaviour of an unemployed person or whether this person participates in a job training programme). Striped lines are used when one a beneficiary is referred from one institution to another (primarily when the local employment office refers the beneficiary of an unemployment benefit to a regional placement and training agency). Dotted lines are used to indicate chains of command (for example when a local employment agency instructs a payment body to initiate or to suspend the paying out of an unemployment benefit).

Figure 5.6: Cooperation between the federal and regional authorities in the monitoring of unemployed



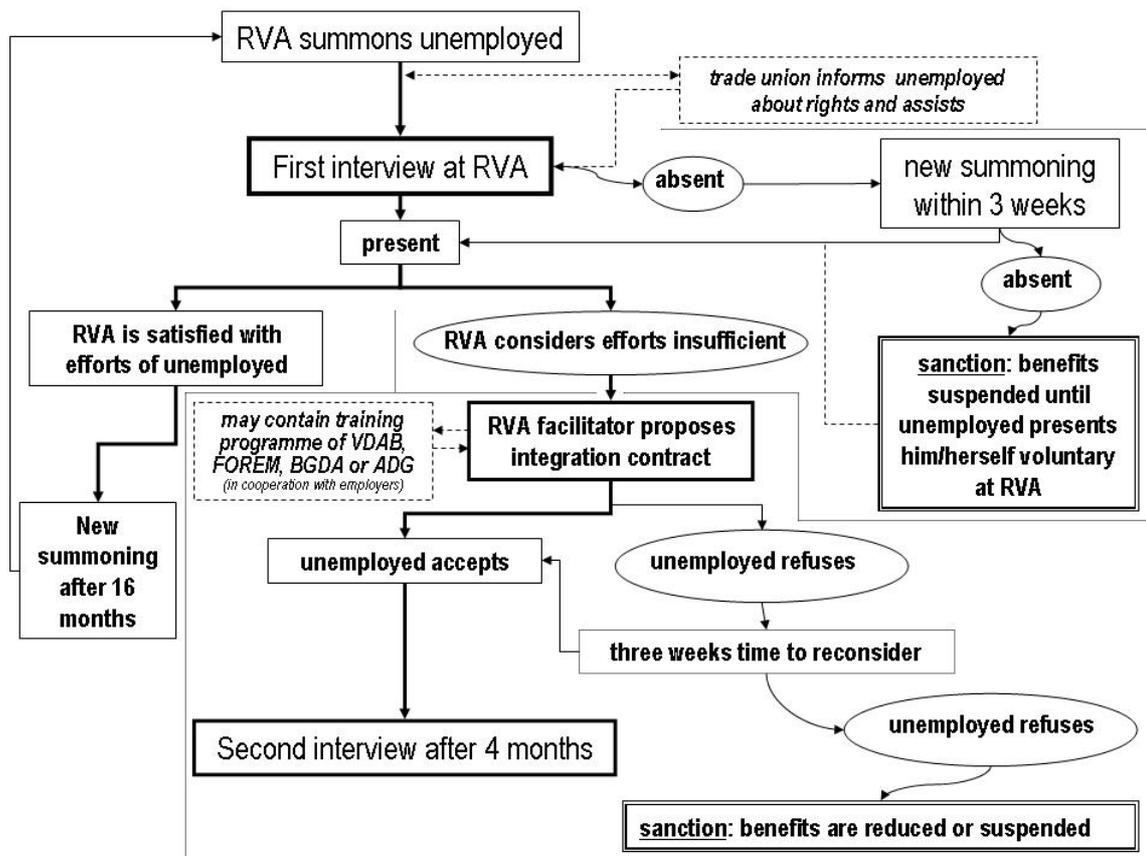
<sup>76</sup> As we discussed in section 2.3.6., this *Kruispuntbank van de Sociale Zekerheid* had been created in 1990 to facilitate information exchange between the various labour market institutions that had undergone some degree of fragmentation after devolution of the nation's institutions.

The regional employment offices thus inform the RVA about the participation of the beneficiaries of unemployment insurance benefits in activation schemes such as the above described career guidance system in the Flanders Region. The new monitoring procedure is executed though by officers of the district level branch offices of the RVA. As in the past, they in the end make a decision whether or not the unemployment benefit has to be suspended and then instruct the payment bodies. They simply implement this decision, but as the trade union-based payment bodies also operate as a kind of insurance brokers, they also offer their members legal advice and support in case they want to contest the sanction of suspension imposed by the RVA. When the RVA summons an unemployed person, his trade union immediately invites him/her for a meeting to inform him/her about his/her rights and to assist him/her in defending his/her case. Sometimes trade union officers can even accompany the unemployed to their interviews at the RVA.

The new monitoring procedure consists of the following steps:

- 1) All those who have been unemployed for more than 21 months (for those under 25 years, 15 months) are invited for a personal interview at the district branch office (RWB) of the RVA
- 2) During this first interview, the employment officer, the so-called “facilitator”, assesses the efforts that the unemployed has made to find a job (taking into account the personal situation of the unemployed – i.e. age, level of education, skills, social conditions, family situation etc.). The facilitator also takes into account information provided for by the regional employment offices (VDAB, FOREM, BDGA-ORBEM and ADG) about training programmes and activation schemes (such as the career guidance system) that the unemployed might have been participating in.
- 3) If the facilitator considers that those efforts were insufficient, an individual action plan for the coming 4 months is proposed, in the form of a reintegration contract. This can contain enrolment in one of the activation schemes operated by one of the four regional employment offices (VDAB, FOREM, BDGA-ORBEM or ADG)
- 4) Four months later a second interview is scheduled where the RVA assesses whether the unemployed complied with the action plan. Did he take concrete steps specified in the contract? If this is the case, he will only have to start the procedure again in 12 months and no sanctions are applied. In case the facilitator decides the unemployed did not comply with the action plan, a temporary sanction is imposed (a reduction or suspension of the benefit) and a more strict reinsertion contract is proposed.
- 5) Non-compliance with the second reintegration contract can lead to a permanent suspension of unemployment benefits (and eligibility for unemployment insurance benefits can only be regained after 312 days of employment during the 18 months preceding his new application for a benefit)

Figure 5.7: First phase of the monitoring procedure for controlling the unemployed



In 2005 about 96,000 unemployed were targeted by the new activation measures. Only long-term unemployed, i.e. those who have been more than 21 months unemployed (unemployed younger than 25 years, as of 15 months) who were no longer in the first benefit period, were targeted. It is too early to assess the impact, though Table 5.6 gives some information of the progress of the implementation of the new system.

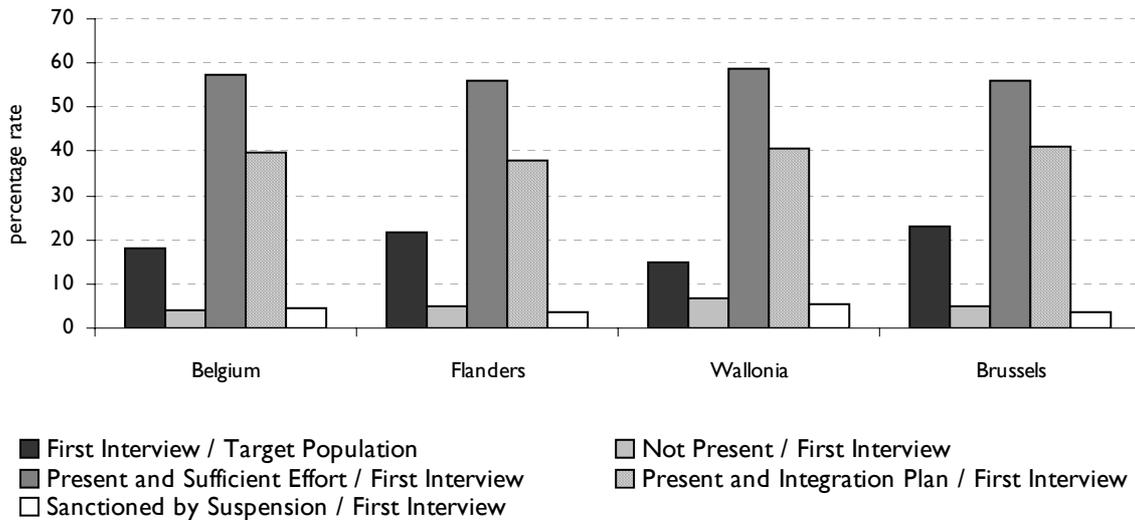
Table 5.6: Introduction of activation measures in 2004-2005

	Belgium	Flanders	Wallonia	Brussels
Target population on 1.7.2004	95,917	26,588	54,028	15,301
First Step (information letter)	91,274	26,223	50,220	15,079
Second Step (first interview)	16,558	5,632	7,483	3,464
not present at 1 <sup>st</sup> interview	695	286	508	171
present at 1 <sup>st</sup> interview	9,504	3,164	4,409	1,938
sufficient efforts	6,608	2,130	3,053	1,431
integration contract	2,679	964	1,267	448
suspensions (temp. & permanent)	730	202	399	129

Source: Hoge Raad voor de Werkgelegenheid, 2005: 45

Of those present at the interview, 70 percent were considered to have made sufficient efforts to find a job (67 percent in Flanders, 69 percent in Wallonia and 74 percent in Brussels). Figure 5.8 reveals further differences between the regions in terms of the way in which the unemployed are processed by the new system.

Figure 5.8: Regional performances of monitoring the unemployed compared to the national average



The main difference here is the extent to which (at the time of measurement) the targeted population actually had been contacted and summoned for an interview. In this respect, the Walloon Region seems to lack significantly behind the two other regions. This gives reasons to support the contention expressed in the Flemish media, that the new scheme is less enthusiastically enforced in the Walloon Region, than in the other two regions. On the other hand though, the Employment Offices in the Walloon Region seem more likely to apply a sanction of suspending the benefit of unwilling unemployed. These data only offer a first impression of the functioning of the new system. The adequacy of the system will only be generally reviewed in 2007.



## 6 LABOUR MARKET PERFORMANCE

In this section we will, complying with the instructions of the project guidelines, focus primarily on data that cannot be obtained from international databanks such as Eurostat, the OECD or the Luxembourg Income Study. A major problem in this context is that administrative labour market statistics for the Flanders region are available in more detail, than those available for the two other regions in the country. Thus, the statistical services of the Walloon region often simply refers to the labour force survey data of Eurostat, rather than providing its own administrative data. As such our analysis will be asymmetric and often only focus in on the Flanders region.

### 6.1 UNEMPLOYMENT

In its annual reports and statistical yearbooks, the National Employment Office does however also provide some administrative data on unemployment and on the recipients of unemployment benefits for the country as a whole. Some of these data are even disaggregated for age, gender and region. The database of the VDAB allows for more detailed decompositions for the Flanders Region on the basis of such criteria as length of unemployment spells, ethnicity and the nationality of job seekers. The statistical offices of the two other regions occasionally allow to match these Flemish data.

#### 6.1.1 ADMINISTRATIVE UNEMPLOYMENT DATA FOR BELGIUM

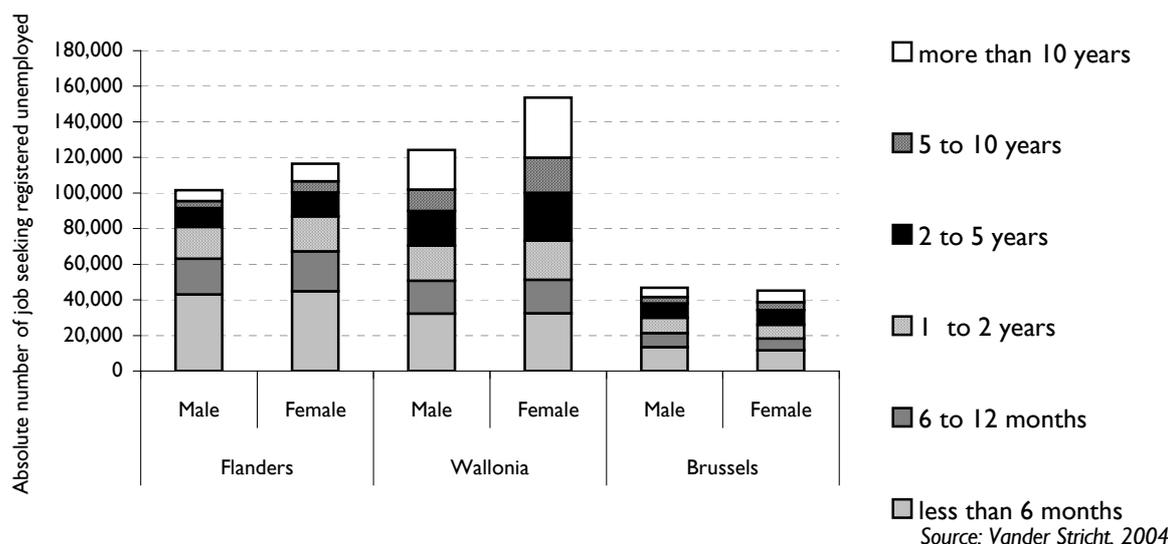
Only about two thirds of the beneficiaries of unemployment benefits are actually registered as job seekers. By far the largest category of beneficiaries, exempted from a job search (*vrijgesteld van inschrijving*), is in early retirement (*conventioneel brugpensioen*). Other important categories of exempted beneficiaries include those who enrol full-time in a sabbatical scheme (*Loopbaanonderbreking*) (this can be parental leave or a leave to offer medical or palliative care to a relative), or who make full-time use of the time credit scheme (*Tijdskrediet*). Using administrative data, it is possible to compile a breakdown of jobseeking beneficiaries according region, gender and length of unemployment spell for the year 2003. This breakdown is presented in Figure 6.1. This Figure is based on the IVEPS definition of unemployment, which is slightly different compared to the one used in Table 6.1. We already saw that the unemployment rate in the Flanders Region was much lower than in the Wallonia. Figure 6.1 shows that most unemployed in the Flanders region have a relatively short spell of unemployment; about 42% of all the unemployed fall in the category of less than 6 months. In Wallonia this category accounts for only 26% of all the unemployed in that region. In both regions women tend to be more present in the categories of long-term unemployed. In Wallonia, as much as 23% fall in this category, while in the Flanders Region, this is only the case for 8% of all unemployed women. Brussels is somewhere in the middle with 17%.

Table 6.1: Administrative unemployment data for 2005

	Belgium	Flanders	Wallonia	Brussels
Active population (aged 20-65)	6,232,311	3,626,563	1,994,329	611,419
Covered by unemployment insurance	2,927,291	2,047,169	1,052,114	326,486
Full-time unemployed with benefit	718,506	317,820	304,329	96,360
Men	324,766	136,713	138,672	49,381
Women	393,743	181,108	165,657	46,976
Unempl. with benefit registered as job seekers	469,420	181,272	217,701	70,447
Unempl. with benefit exempted job seeking	249,086	149,490	86,628	25,913
Enrolled in vocational training progr.	16,212	9,144	5,991	1,077
Employed in sheltered workshop	588	341	241	6
Part-time employed & part-time benefit	47,924	25,903	17,168	4,853
Over 50 years	125,683	71,681	40,940	13,063
includes a.o. full-time early retirement	109,018	73,565	31,019	4,435
Social and family reasons	6,954	5,111	1,555	289
Other reasons	51,429	37,310	20,733	2,190
includes a.o. full-time sabbatical scheme	16,095	11,003	4,129	963
and full-time time credit scheme	12,886	8,738	3,113	1,035

Source: statistical yearbooks and annual reports of the RVA-ONEM.

Figure 6.1: Unemployment numbers by region, gender and duration in 2003



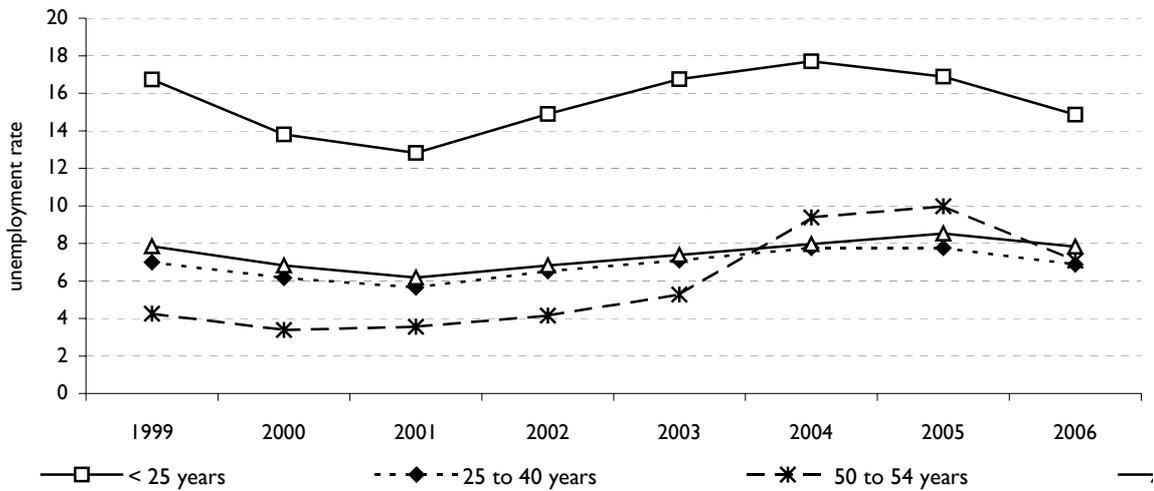
## 6.2.2 REGIONAL ADMINISTRATIVE DATA BY AGE, GENDER, DURATION AND ETHNICITY

The administrative database of the Flemish employment service allows for a more detailed breakdown of unemployment rates.<sup>77</sup> Figure 6.2 shows the development of the total unemployment rate in the Flanders Region during the past 7 years and that for young workers (aged below 25) with prime age workers (between 25 and 40 years) and older workers (between 50 and 54 years).<sup>78</sup>

<sup>77</sup> The database can be accessed via <http://arvastat.vdab.be/nwwz/index3.htm>.

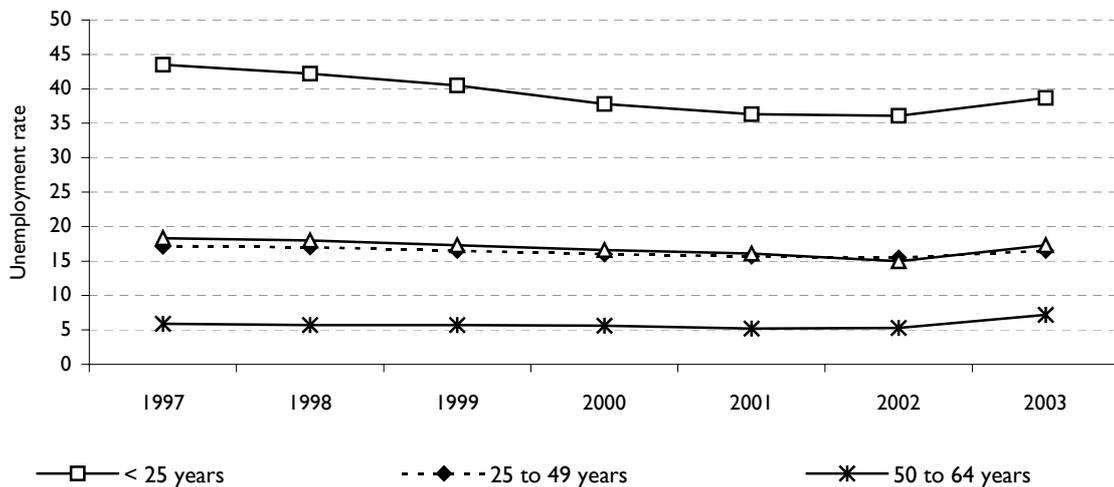
<sup>78</sup> We decided not to look at unemployment rates of workers aged over 55, since most of them would not be counted as jobseekers, but as early retirees (even if, as we argued, in Belgium it is integrated into the unemployment benefit system). The figures refer to the situation in January of each year.

Figure 6.2: The development of unemployment rates by age group in the flanders region 1999-2006



The time series we could retrieve for Wallonia starts and ends two years earlier and uses different age categories.<sup>79</sup> In Figure 6.3 we compare unemployment rates for young workers (defined as under 25 years) with prime age workers (defined as between 25 and 49 years) and older workers (defined as between 50 and 64 years). This means that compared to Figure 6.2, the rates for older workers in Figure 6.3 tend to underestimate the scope of the problem – as most workers above the age of 55 are likely to have exited the labour market via the early retirement scheme.

Figure 6.3: The development of unemployment rates by age group in Wallonia 1997-2003



Source: Vander Stricht, 2004.

For both regions we also could retrieve a time series on the length of unemployment spells. Figure 6.4 presents the development of the absolute number of unemployed with a benefit who are registered as job seekers in the Flanders Region. It compares the total number of unemployed with the number of people who (1) only have been employed for one year, (2) have been unemployed for

<sup>79</sup> The administrative data for Wallonia are taken from Vander Stricht, 2004.

one to two years, and (3) have been unemployed for more than two years. Figure 6.5 shows a similar time series for the Wallonia from a statistical yearbook of the FOREM, for 1992-2003.

Figure 6.4: Development of absolute unemployment numbers by duration in the Flanders region 1999-2006

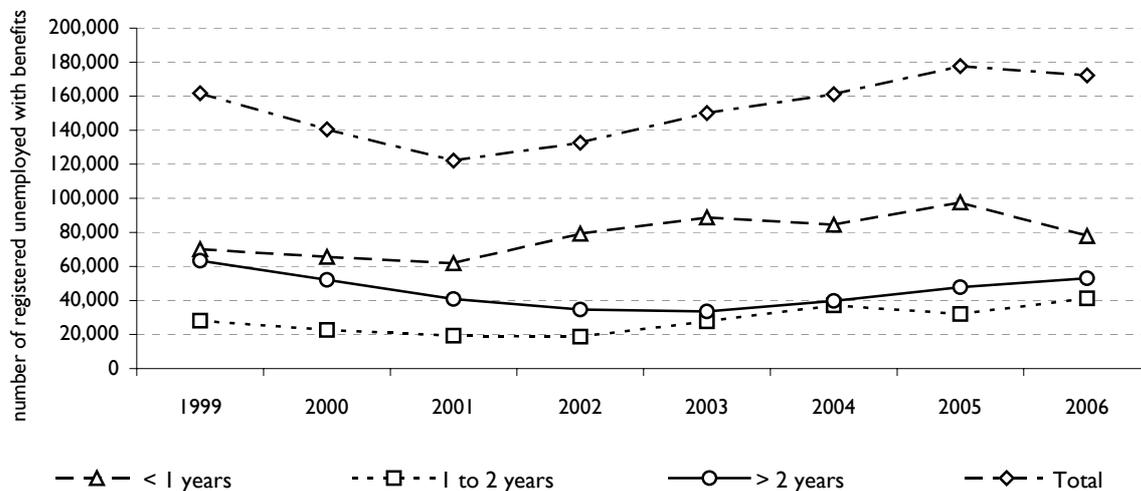
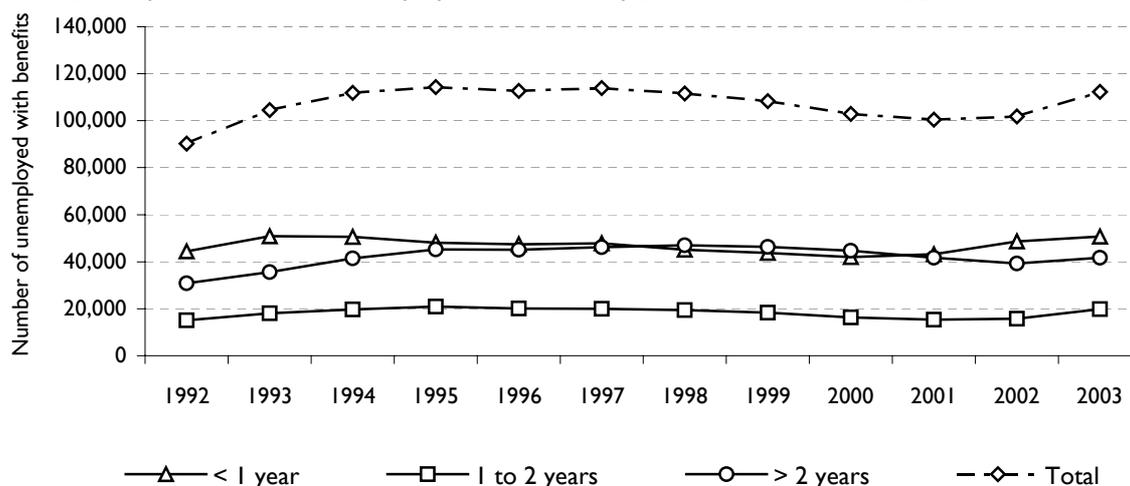


Figure 6.5: Development of absolute unemployment numbers by duration in Wallonia 1992-2003



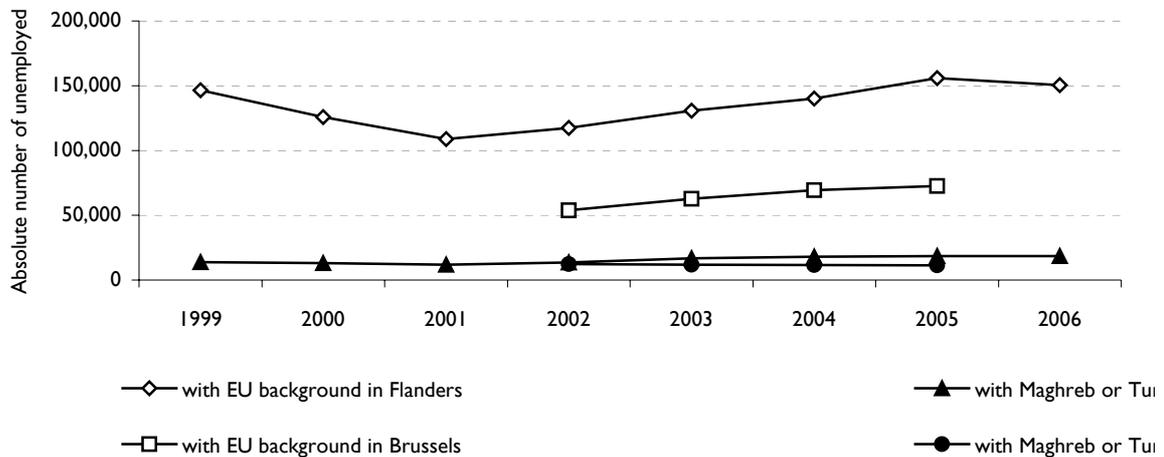
Finally we also compiled a time series for an ethnic breakdown of unemployment. In the Flanders Region and in the Brussels Region (as we argued, Wallonia does not keep track of the ethnic background of the beneficiaries of unemployment benefits).<sup>80</sup> Unfortunately, it is not possible to decompose the labour force according to ethnicity, so we could not calculate unemployment rates.<sup>81</sup> Still, the absolute numbers in Figure 6.6 do give an indication of the fact that the unemployment of ethnic minorities fluctuates less over time (which probably means that it remains consistently high). Migrant workers (in the figure we compare workers born in Maghreb countries

<sup>80</sup> Administrative data for the Brussels Region were retrieved from the annual statistical yearbooks of the BGDA-ORBEM for the years 2003, 2004 and 2005.

<sup>81</sup> For a discussion of the data problems when analysing the ethnic dimension of the Belgian labour market see EUMC (2003). This report also explains the asymmetry of availability of data in the 3 regions, arguing that French-speaking Belgium rejects ethnic registration because this kind of labelling and categorising is seen as doing injustice to the principles of equality.

or in Turkey with workers born in the EU) seem to benefit less from cyclical upswings or from active labour market policies.

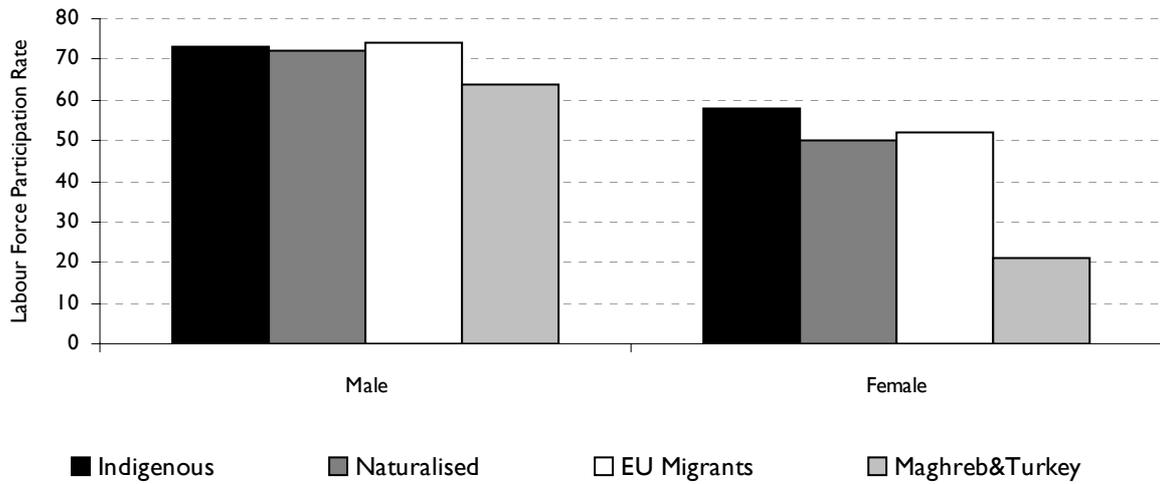
Figure 6.6: A comparison of the absolute number of unemployed with a European and a Maghreb or Turkish background in the Flanders region and in the Brussels region, 1999-2006



Survey-based analysis of the labour market in the whole country conform this pessimistic assessment of the position of migrant workers (see in particular Okkerse & Termote, 2004). From these survey data we compiled a comparison of the labour force participation rates of migrants of Maghreb countries and Turkey, with those of the indigenous population, naturalised migrants, and of migrants from EU countries (Figure 6.7). We did a similar exercise for the comparison of unemployment rates (Figure 6.8). In both Figures the data are averages for the years 2003 and 2004. Figure 6.7 demonstrates that migrants from Maghreb countries and Turkey have a substantially lower labour force participation rate; and that this difference relative to other groups, is the most pronounced for women. The ethnically based differences are even more pronounced when one considers the unemployment rates reported in Figure 6.8.

The study of Okkerse and Termote also gives evidence of the fact that migrant workers on average experience longer spells of unemployment. About 60 percent of migrants are unemployed for more than one year, while for workers with an indigenous background this percentage is only 48 percent. One important reason behind the poor labour market performance of migrant workers is linked to their low skill level; yet the authors conclude that this is an insufficient explanation: the effect of education on reducing the likelihood of being unemployed turns out to be far weaker in the case of migrant workers of Maghreb countries and Turkey, than in the case of workers with an indigenous background.

Figure 6.7: A comparison of labour force participation rates of migrants and indigenous workers in Belgium



Source: Okkerse & Termote 2004.

Figure 6.8: A comparison of unemployment rates of migrants and indigenous workers in Belgium

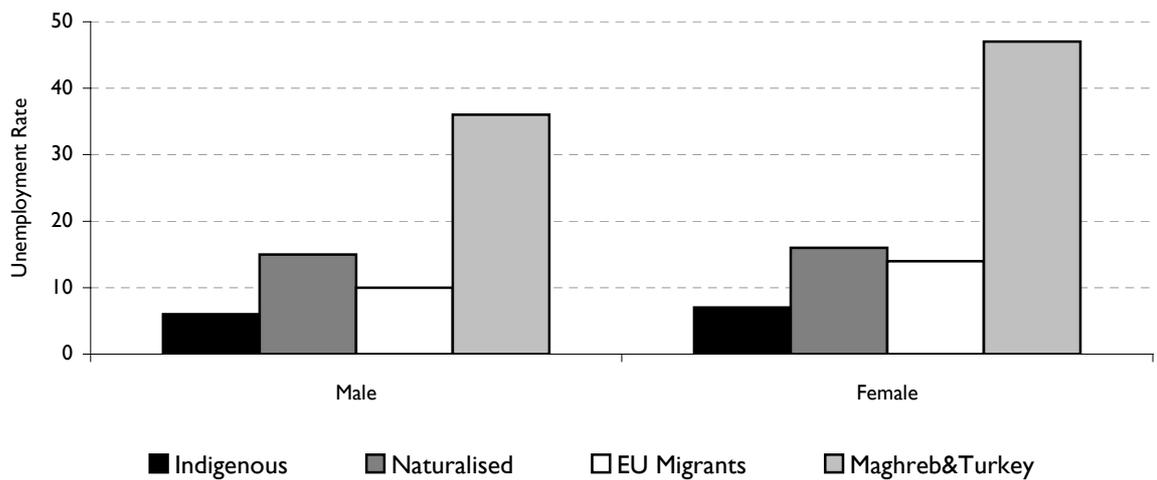
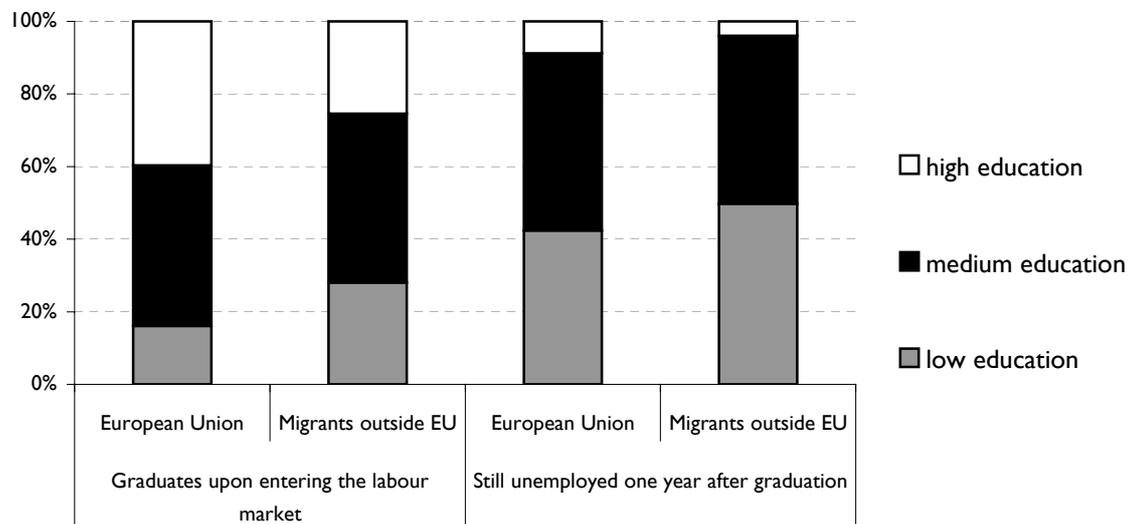


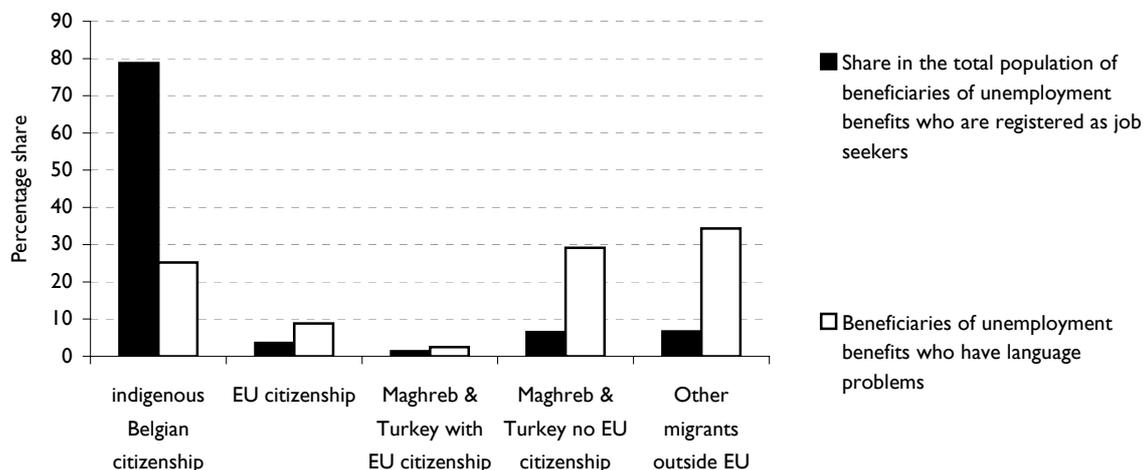
Figure 6.9: A comparison of the labour market successes of graduates with an EU and a non-EU origin in the Flanders region in 2002-2003



The VDAB has attempted to shed light on the poor labour market performance by developing a longitudinal analysis of data for the Flanders Region (VDAB, 2004b). This study monitored during one year, all 55,347 students who graduated in the Flanders Region in the year 2002, and who registered at the labour exchanges. Graduates with a migrant background (in Flanders about 90 percent of whom are from Maghreb and Turkish origin) turned out to enter the labour market with a significantly lower level of education.

Not only in term of educational attainment, but also in terms of the subject areas do they tend to choose areas that are not in much demand in the labour market. For example, female students with a migrant background often tend to opt for 'textile' or 'garment'. But this study too found that mismatch in educational attainment is not the only important reason for the poor labour market performance of workers with a migrant background. In another study, the VDAB has looked at another possible explanatory factor: the language problems of migrant workers (VDAB, 2005b). In this study, again based on administrative data, the VDAB analysed the language proficiency of all the 227,340 beneficiaries of unemployment benefits register as job seekers in the Flanders Region in the year 2003. Figure 6.10 compares the share of migrants in total unemployment with the share of migrants with language problems in the total population of unemployed with language problems.

Figure 6.10: Language problems and unemployment in the Flanders region in 2003



Again we see that the migrants from outside the EU are much more likely to have language problems. There are also a substantial number of indigenous Belgians with language problems in the Flanders Region. These are primarily workers who migrated from the French-speaking part of the country to the Dutch-speaking Flanders Region (in particular French speakers from the capital who migrated to the 'green belt' of Flemish municipalities bordering to the Brussels Region).

## 6.2 INFLOW INTO AND OUTFLOW OUT OF EMPLOYMENT (FLANDERS REGION)

Comprehensive data on inflow into and outflow out of the labour market are scarce. In 2002, the Flemish government commissioned a panel survey to map employment growth, job creation and job destruction by firms in the Flanders Region (Peeters & Gevers, 2004). This study is based on a longitudinal survey of 2,007 enterprises of which 1,399 replied.

### 6.2.1 INFLOW INTO EMPLOYMENT

In this study, inflow percentages for each enterprise were calculated using the following formula:

$$\text{inflow percentage in enterprise } i = \frac{I_{t1-t0}}{T_{t0}} \times 100$$

with  $I$  standing for the number of employees flowing in between  $t_0$  (1 January 2001) en  $t_1$  (31 December 2001) and  $T$  the number of workers in the enterprise at  $t_0$  (1 January 2001). Thus, inflow can vary between 0 percent (in case the firm did not recruit any new employees in 2001) and 100 percent (none of the employees working in the enterprise at the end of the year were working there on January 1<sup>st</sup>). In order to get a comprehensive picture for the entire Flanders Region, the inflow percentages of individual firms were aggregated using the following formula:

$$\text{average inflow percentage} = \frac{\sum_{I=i}^N (I_{t1-t0})_I}{\sum_{I=i}^N (T_{t0})_I} \times 100$$

Similar calculations have been replicated for the year 2002 (Peeters & Gevers, 2005). Table 6.2 reports the inflow percentages for 2001 and 2002. These percentages refer to both permanent and fixed-term contracts. Table 6.3 shows the inflow by type of contract (the category 'other' includes various job creation programs).

Table 6.2: Inflow into employment by firm size in the Flanders region 2001-2002

	2001	2002
Enterprises with less than 10 employees	17.0	11.5
Enterprises with more than 10 employees	14.5	11.7

Table 6.3: Inflow according to type of contract in the Flanders region in 2001

	Permanent	Fixed term	Other
Enterprise size:			
Enterprises with less than 10 employees	74.3	17.1	8.6
Enterprises with more than 10 employees	73.7	21.4	4.9
Sector (only enterprise 10 > employees):			
Industry	81.9	15.1	3.0
Services	86.2	10.7	3.1
Public and non-profit	40.3	50.7	9.0

The industry and service sectors only marginally differ in terms of the types of contracts they offer, in spite of the fact that the manual workers status is far more predominant in the industrial sector (73 percent) compared to the service sector (38 percent). One could have expected that the shorter notice periods for manual workers ought to reduce the need to recruit personal with fixed-term contracts. Fixed-term contracts are very common in the public and non-profit sector – especially in education (69 percent). This can be related to the fact that a permanent contract in this sector often involves a civil servant status. It has been argued that such ‘irreversible’ appointments rely upon fixed-term contracts as method for the screening of candidates (Peeters & Van Gerven, 2004:16). In other parts of the non-profit sector fixed term contracts are often relied upon because of the uncertainties of subsidies.

## 6.2.2 OUTFLOW OUT OF EMPLOYMENT

Outflow percentages for each enterprise were calculated using a formula similar to that for determining the inflow.<sup>82</sup> These calculations resulted in the following outflow percentages: 14.4 percent for enterprises with less than 10 employees; 13.9 percent for firms with more than 10 employees. Table 6.4 reports a breakdown of outflow out of enterprises according to reasons for ending the employment relation. The table reports averages of the reasons given by each organisation. On the basis of these data one can conclude that the majority of outflows are voluntarily. Only about a third occurs because employees got fired; and most of these ‘forced’ outflows are related to the malfunctioning of the employee. Dismissals because of restructuring have experienced quiet a dramatic increase during the period under investigation (which is not that surprising given the fact that economic situation worsened that year). Table 6.5 reports similar data, though as the share of all outflows in a year.

Table 6.4: Reasons for outflow in the Flanders region by firm (weighted averages per firm, %), 2001-2002

	< 10 employees		≥ 10 employees	
	2001	2002	2001	2002
Natural Outflow(retirement, disability, decease)	8.6	13.3	12.0	13.1
Voluntary Outflow:	51.9	49.0	51.9	47.0
<i>Voluntary resignation</i>	48.4	46.0	38.6	38.5
<i>Sabbatical or voluntary early retirement</i>	3.5	3.0	13.3	8.5
End of Fixed Term Contract:	8.0	8.2	9.3	7.6
Forced Outflow:	28.9	34.7	30.9	36.3
<i>Dismissed because of malfunctioning</i>	17.1	20.6	18.6	20.7
<i>Dismissed because of restructuring (including forced early retirement and outplacement)</i>	3.8	5.9	9.3	8.0
Other Reasons:	10.6	2.9	5.2	3.6

<sup>82</sup> I is replaced by U which represents the number of employees flowing in between t0 and t1.

Table 6.5: Reasons for outflow in the Flanders region by firm (share of all registered outflows, %), 2001-2002

	< 10 employees		≥ 10 employees	
	2001	2002	2001	2002
Natural Outflow (retirement, disability, decease)	4.6	14.4	7.8	9.7
Voluntary Outflow:	36.2	45.8	43.7	38.1
<i>Voluntary resignation</i>	34.4	43.4	34.7	30.4
<i>Sabbatical or voluntary early retirement</i>	1.8	2.4	9.0	7.7
End of Fixed Term Contract:	34.5	7.5	25.2	21.6
Forced Outflow:	17.4	29.6	18.5	27.4
<i>Dismissed because of malfunctioning</i>	14.2	20.7	13.9	14.1
<i>Dismissed because of restructuring (including forced early retirement and outplacement)</i>	3.2	8.9	4.6	13.3
Other Reasons:	7.2	2.7	4.8	3.2

According to this kind of measurement, voluntary outflows still form the most important reason, though in 2001, the expiring of fixed term contracts in small firms also played a very important role. This trend, however, was not prolonged during the next year, which might be related the worsening economic situation: small firms probably stopped to recruit people, and so not many fixed-term contracts could have ended that year. Such a cyclical interpretation is also corroborated by the steep rise in 2002 in forced outflows because of reorganisations in larger firms.

## 7 PUBLIC OPINION AND SOCIAL SECURITY (FLANDERS REGION)

In 2001, the Free University of Brussels undertook a large public opinion survey on solidarity and the welfare state in the Flanders Region (Elchardus & Tresignie, 2001).<sup>83</sup> One of the reports that came out of this project analyses public support for social security (Debusscher & Elchardus, 2002). One of the questions concerned the support for various kinds of social benefits by asking respondents “should benefits for ... programme be increased”.

Table 7.1: Public support for social security benefits in the Flanders region

	reduce a lot	reduce	leave the same	increase	increase a lot
Unemployment	9.2	24.3	51.5	11.9	3.1
Disability	1.0	2.9	54.4	33.9	7.9
Social assistance	12.1	20.7	51.8	12.4	3.1
Pensions	0.7	1.1	34.5	46.0	17.7
Health care	2.2	5.2	40.7	35.4	16.4
Child allowances	3.9	4.3	49.0	30.7	12.2
Study grants	3.5	5.3	43.6	32.8	14.8

Even though on the whole a clear majority either wants to keep social security at their present level or increase them, in the case of unemployment insurance benefits, support is the weakest. Only social assistance benefits find less support amongst the Flemish population. This has been related to a distinction some people make between ‘deserving’ and ‘non deserving’ poor, and to the higher risk for moral hazard in social assistance and unemployment benefit schemes. In the report, comparisons are made with the Netherlands (using data of a study by van Oorschot, 1996).

Table 7.2: Public support for social security benefits in the Flanders region and the Netherlands

	Flanders Region	Netherlands
Unemployment benefits:		
Strongly increase	15	9
Leave benefits as they are	52	62
Strongly reduce	34	30
Social assistance benefits:		
Strongly increase	16	29
Leave benefits as they are	52	72
Strongly reduce	33	13
Pension benefits:		
Strongly increase	64	42
Leave benefits as they are	35	55
Strongly reduce	2	3

The two countries do not differ dramatically in terms of support, though in the Flanders Region the unemployment benefit systems finds relatively more support than the social assistance scheme. For pensions there is even more support to increase benefits in the Flanders Region, than in the Netherlands.

In their analysis of the legitimacy of social transfers in general, Debusscher and Elchardus, investigated the effect of such factors like education, gender or the extent to which respondents themselves had benefited from social insurance benefits. In this context they reported evidence contradicting the utilitarian model they sought to test. Thus, respondents with a higher education background were found to be more likely to support in general an increase of benefits, and women turned out to be less supportive of social security programmes than men. The socio-economic status and the sector of employment of the respondents turned out to have no effect on the attitudes towards the social security system. However, if one only considers the support basis for unemployment insurance, those with a higher educational background and a higher social and economic status, turn out to be more supportive of a reduction of benefit levels, and less supportive of increases of benefits.

According Debusscher and Elchardus, the Utilitarian theories performed slightly better when it came to account for a concrete commitment towards increasing benefits and taxes, than when one tries to account for a more general support for the welfare state. In this context the researchers found a significant correlation between the age of the respondents and the willingness to contribute financially to the system. This willingness was the least among those aged 26-35. Older age groups were more supportive, but also the age group 18-25 had a more positive attitude towards social security than those aged 26-35.

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<sup>83</sup> The postal sample consisted of 7,500 respondents with a response rate of 52.8 percent. The representativeness was increased by weighting the respondents for representativeness on a.o. gender, age, place of residence and level of education).

## **8 CONCLUSION**

In our historical account of the main trends in the history of unemployment insurance, we discovered two problems in considering the Belgian case as epitomising the so-called ‘Ghent system’ of trade union based unemployment insurance funds, subsidised by the state. The system that was introduced in city of Ghent towards the beginning of the 20<sup>th</sup> century never restricted unemployment insurance to trade union members. Being designed by a Liberal politician the scheme allowed, from the very beginning, the unemployed to receive their benefits via a publicly administered fund (that operated next to the trade union funds). What in the theoretical literature is termed as ‘Ghent system’ resembles much more the system that was introduced in the city of Liège, but that had to taste defeat in the course of Belgian history (only to resurface at a later stage in a number of Scandinavian countries). It thus would be more appropriate to call a system, in which only trade union members are entitled to a benefit, and which is subsidised by the state, a ‘Liège system’ (which gives an interesting twist to the claims of fame in a country with competing language communities...).

As a consequence, the role of trade unions in the Belgian unemployment insurance system is quite different from what one would expect in a truly ‘Ghent system’: the union does not choose the kind of insurance policy it administers; entitlement to benefits is not limited to union members; and it are not only union members who foot the bill of the insurance scheme. Rather, it is the state, together with both social partners (employers’ associations and trade unions) that determine how to organise the insurance and how to administer it. All wage earners are entitled to receive unemployment benefits – irrespective of trade union membership. And all the three parties (the state, the employers and the wage earners) jointly finance the scheme. Who bears more of this financial burden is hard to say, but formally the share directly paid by employees in the form of contributions for unemployment insurance is very low. In times of high unemployment, nominal contributions rates were not increased, but recourse was taken first to state subsidies, and later (when EMU made it imperative to reduce the state debt) to employers’ contributions and to the so-called wage moderation. The latter resulted in payments formally made by the employers, but these resources, in the end, came from a state imposed wage moderation, which means at the expense of the purchasing power of employees. This wage moderation, though state imposed, was the outcome of tripartite negotiations in which trade unions did form an essential negotiating party. But the conclusion seems warranted that employees and their unions have at best an indirect leverage on the streams that finance unemployment insurance and active labour market policies.

So what is then the role of trade unions in the Belgian system? Apart from their formal role as a cash desk of the national unemployment insurance scheme, one could probably best describe the position of the unions as enacting the role of insurance brokers: they advise their members and help them with the paper work to complete their application for unemployment benefits. They also give legal assistance in case of disputes with the unemployment insurance administration. More recently, they assist their members to cope with the new system of actively monitoring the job search of the unemployed.

It must have become clear by now that the Belgian case does not really fit any of the theoretical models set up by Lucy Kok in her contribution to this research project (Kok, 2006). In the end, in spite of the role that the trade unions fulfil, the statutory unemployment benefit scheme could, if to fit any of these models, at best be qualified as resulting under model 5. The problem with Kok's models though is that they force us to label something that essentially is a non-market mode of coordination into a neoclassical framework of markets.

When one considers the *demand side*, there clearly is an element of *choice* in the Belgian model of unemployment insurance: the employee can choose his or her UO. But as we argued this is more like choosing a broker than really choosing an insurance policy. The choice of this insurance broker is not made on the basis of a strict cost/benefit analysis. In part it is determined by ideological loyalties; in part it is based on the services the broker provides. The rules of entitlement and contributions are the same for all 'insurance policies'. They are not the outcome of the adjustment of supply and demand via the price mechanism. They rather seem to be the outcome of negotiations in the context of the kind of tripartite neo-corporatist institutions, that neoclassical economics tend to be incapable to model. Forcing the Belgian reality into Kok's framework, one could conclude that on the demand side it is in the end the "government" that chooses the insurance policy (with the qualification that it is a neo-corporatist government that makes these choices together with the social partners).

In terms of *entitlement*, we demonstrated that in the Belgian variant of the 'Ghent system' all wage earners are entitled to an unemployment insurance benefit. They have access to benefits either via their trade union OU, or via the public OU. This does not mean that the role of the union needs to be exaggerated in the perception of employees. After all, insurance like institutions thrive on trust, and union officials may reinforce this trust by standing closer to the insured, than the officials of the state, who tend to have more of an arms-length relationship with their 'clients'. The trade unions also do form an important bridge between the insured and the public insurance system in that they help to complete dossiers and that they support their members in case their entitlement claims are contested by the unemployment insurance administration. This may be one, but certainly not the

only, reason for the comparatively high trade union density that one can continue to observe in Belgium.

Regarding the third criterion in Kok's model, *who pays*, one can again point to the inadequacies of the neoclassical theory to capture neo-corporatist realities. None of the models allows for the possibility that employers might have to pay (either on behalf of their own employees, or for all the employees in a particular industry). There is also no consideration of the possibility of general revenue financing in the form of subsidies. But it is precisely those two sources of finance that have been by far the most important ever, since structural unemployment started to rise in the 1970s. Within the system of so-called global financial management, adopted in 1996, it is not justified to claim that the employees pay alone for the system. They not even have to cough up the majority of the necessary means. Formally, employee contributions only play a minor role in the financing of unemployment benefits. Direct state subsidies and the revenues generated by the so-called wage moderation carry the main burden. Regarding the latter, one could argue that it can be interpreted as an indirect employee contribution. Official accounting, though, rather sees it to form a part of the employer's contributions.

On the other hand, one could argue that the distinction between employer and employee contributions is essentially a fictitious one. What appears to be clear though, is that there is no direct link between how much employees pay into the system and successes in terms of labour market policy (i.e. lowering unemployment and/or increasing labour force participation), or the possible costs of employment protection (high unemployment and low labour force participation; and insider/outsider problems). But indirectly the neo-corporatist system may well feed such considerations into the governance system and into the process of rule making. A similar story can be told when one looks at the *supply side*. In the Belgian neo-corporatist reality, institutions that 'supply' unemployment insurance again form a hybrid of tripartite governed public insurance institutions and trade unions-based 'suppliers'.

Finally, when we consider the supposed 'market' for employment services, the Belgian reality will again confuse the pure models of the neoclassical approach: the neo-corporatist actors that are involved in the 'supply' of unemployment insurance, are in part the very same as those that are active in the 'market' for employment services (model 1 or model 3). On the other hand, they also contract private companies for employment services, without though letting the market mechanism take over the coordination of the whole system. What is more important than to try to fit these complicated facts in the simplistic models of neoclassical economics, is the reality of an institutional separation between, on the one hand, the compensation and control of the unemployed (which remains the responsibility of the Federal RVA and the trade unions); and, on the other hand, active

labour market programmes, training and assistance to the unemployed in their job search (which since devolution has become the responsibility of the regional authorities VDAB, FOREM, BGDA-ORBEM, ADG). This is hard to reconcile with any of the three models of the supposed 'market' for employment services. As we argued, this does not mean that the regional governments have not been introducing market elements in their employment services, or that they allow for some competition within public labour exchanges, or that they might be working with private employers to further skill formation or even opening labour exchanges and job creation programmes to private providers (as, for instance, the service voucher scheme in effect did). In the end, though, all this is done with public money, and under the guidance of a public tripartite administration, with administratively determined prices and subsidies. The principal actors in this game are not linked to each other by a market structure, in which the laws of supply and demand determine prices and equilibrium. The market mechanism guides only to a very limited extent the behaviour of the actors involved. Rather, they learn to respond to a series of administrative instructions which in essence are not very different from the former hierarchical bureaucratic structure. These instructions often were developed in a process of neo-corporatist intermediation, which means that the actors that have to implement these instructions in part were also responsible for their very formulation (something they did acting on behalf of the community of insured which they represent).

In brief, the Belgian system of unemployment insurance and employment services does not really fit any of the 105 theoretical models Kok proposes in her theoretical framework. One can wonder what the added value of such a framework for the study of the four cases in this project is, when one of these cases cannot be fitted into any of the models. The framework has difficulties in coping with the complicated 'real world' of hybrid institutions typical of the kind of neo-corporatist arrangements prevalent in a country like Belgium. It also does not allow for conceiving how a number of the problems it seeks to investigate (such as the problem of moral hazard, adjusting demand and supply, or enhance the costs effectiveness and limiting administration costs of the system), might be resolved in another way, than by taking recourse to the promotion of competitive markets.

A final remark on the unemployment benefit system: it may also be erroneous to label the Belgian system of income support for the unemployed as a genuine 'insurance' system. Because benefits guarantee a minimum income, and have a very low maximum ceiling, the system hardly qualifies as 'earnings-related'. It offers quite high replacement rates for low-income groups, but median and high income groups are far less well off. Moreover, the scheme makes a distinction between the household status of the beneficiaries, as well as their age. The characteristic of the scheme are the outcome of a political process. The actors involved in setting up these institutions were hardly

driven by a costs benefit analysis, and the arrangements that came into place are not the outcome of a series of decisions to 'purchase' services in a market.

In terms of employment protection, there seems to have been less to report in this country study. The system of individual dismissals has hardly changed the past decades. The main issue here seems to be the standardisation of the status of salaried employees and manual workers. But this debate seems to be in a gridlock: employers want to lower employment protection of salaried employees to the standard that now prevails for manual workers; and the unions want the opposite. We also found no evidence of a systematic link between employment protection and unemployment protection. Only at the level of the Joint Committees there might be some relationship, but not in the sense of the kind of trade-off between the two, that the project assignment might have been looking for. In the case of collective dismissals, there have been a number of changes that aim to keep people at work rather than parking them in the unemployment support system. An individual right to outplacement for older workers was legislated (sometimes extended to younger workers by industry level collective agreements), and there were new tripartite institutions created, such as the regional reemployment units (RRU), that can form public-private partnerships with outplacement offices.

Active labour market policies in Belgium traditionally consisted of various job creation programmes in the so-called 'social economy'. Recently, one can observe a trend towards establishing more partnerships with the commercial for profit enterprises. The system of PWA and the service voucher scheme in effect tried to offset the 'costs disease problem' of Baumol, by establishing public service companies, and by subsidizing private service providers. The financial sustainability of these costly schemes has been put into question, but one must recognise that they were relatively successful in creating jobs for low-skilled workers in the personal service sector. A debate is raging about the net costs of these schemes (taking into account the reduction in expenditure on social benefits, the extra tax- and social security revenue generated by the new jobs, and discounting the tax credits provided to users).

More recently, Belgium has embarked on more supply side activation programmes. On the one hand, there is a series of career guidance schemes, some of which are based on intensifying the cooperation with the private sector, but again with the public bodies still orchestrating the initiatives and providing the necessary funding. On the other hand, a more repressive system of monitoring the unemployed was established (with the possibility to suspend entitlement to a benefit – something which can be considered quite a novelty in a system in which there was no limit in time on the eligibility to benefits, except for those cohabiting with an earning partner).

Here one can observe an interesting – possibly unintended – outcome of how the distribution of responsibilities evolved into a complex web of institutions. In effect, there is a sort of division of labour: the regional authorities are primarily responsible for helping the unemployed to find a job or to retrain them in order to increase their labour market chances, i.e. the regional authorities offer the ‘carrot’. The federal agencies (and their local branch offices) are more holding the ‘stick’, in that they monitor and sanction the ‘unwilling’ unemployed. The unions, apart from being involved in the parity-based administration at both the federal and the regional level, operate as a kind of ‘brokers’, helping their members to find their way in this myriad of institutions, and making sure that their rights are not infringed upon by eager officials, who want to score in terms of performance, and report their ‘successes’ to the European Union’s bench markers. Because these functionally differentiated institutions are controlled by a governance structure composed of representatives of the very same collective actors, there may be operating a kind of network structure which, in addition to the formal coordination structures that have been set up, allows for an additional exchange of information.

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## APPENDIX

### Example of the CAO details of industry-level extrastatutory unemployment protection

Joint Committee	Supplementary Unemployment Insurance
Manual Workers	
102	<p>Quarries no</p> <p>yes</p> <p>for workers of 56 or older: 50-70% (depending upon tenure) of the difference between the statutory unemployment benefit and the reference wage (gross wage plus some fringe benefits minus taxes and employers share of social security contributions) (CAO 75876 and CAO 75877 of 23.June 2005)</p>
102.02	<p>yes</p> <p>for workers of 55 or older: 50% of the difference between the statutory unemployment benefit and the net reference wage (gross wage plus some fringe benefits minus taxes and employers share of social security contributions) (CAO 76418 of 9.August 2005)</p> <p>or</p> <p>for workers of 58 or older: individually determined (CAO 76418 of 9.August 2005)</p>
102.03	<p>yes</p> <p>for workers of 56 or older: € 180 per month (CAO 75879 of 30 June 2005)</p> <p>or</p> <p>for workers of 58 or older: individually determined (CAO 76418 of 9.August 2005)</p>
102.04	<p>yes</p> <p>for all workers: € 7.19 per day for first 45 days of unemployment (CAO 57370 of 13 March 2001)</p> <p>for workers of 58 or older: individual benefit that has to be at least the benefit of the <i>conventioneel brugpensioen</i> of the CAO No.17 of the NAR (CAO 10204 of 22 August 2005)</p>
102.05	<p>yes</p> <p>for workers of 58 years or older: benefits according to CAO Nr.17 of NAR even in case statutory benefits are lowered (CAO 51795 of 11 February 1999) (CAO 58221 of 15 May 2001) (68906 of 26 June 2003)</p>
102.06	<p>yes</p> <p>for workers of 56 or older: 50% of the difference between the statutory unemployment benefit and the net reference wage (gross wage plus some fringe benefits minus taxes and employers share of social security contributions) plus a supplement of 4.61 € per month for each year of seniority (with a minimum monthly supplement of 24.79 €) (CAO 75365 of 11<sup>th</sup> May 2005) (CAO 75366 of 11<sup>th</sup> May 2005) (CAO 75370 of 11<sup>th</sup> May 2005)</p> <p>for workers of 55: part-time benefit like the benefit of the <i>conventioneel brugpensioen</i> of the CAO No.55 of the NAR (CAO 58905 of 26 June 2001)</p>
102.07	<p>yes</p> <p>for workers of 55: part-time benefit based on CAO No.55 NAR (CAO 74423 of 18 March 2005) (CAO 76789 of 14 December 2005)</p> <p>for workers of 56 or older with employment history of at least 33 years of which 20 years with nightshifts: supplement of statutory unemployment benefits so that total benefit amounts at least 17,740 € per year (indexed as of 2003) (CAO 74422 of 18 March 2005)</p> <p>for workers of 58 with 25 employment history: supplement of statutory unemployment benefits so that total benefit amounts at least 18,400 € per year (indexed as of 2005) (CAO 74422 of 18 March 2005)</p> <p>for workers of 58 with 25 years employment history: part time benefit (CAO 75791 of 13 July 2005): part time benefit</p>
102.08	<p>yes</p> <p>For workers of 58 or older extension of early retirement benefits granted initially granted under industry-wide CAO No.17 (CAO 7708 of 17 October 2005)</p> <p>For all unemployed workers in the industry branch: unemployment benefit supplement of 6.50 € per day, with maximum net replacement rate of combined (i.e. statutory benefit plus supplement) benefit of 90 percent (CAO 7709 of 17 October 2005)</p>
102.09	<p>yes</p> <p>For workers of 58 or older full time early retirement</p> <p>For workers of 56 with 33 years of tenure who worked for 20 years in nightshifts, full time early retirement</p> <p>For workers of 55 with 25 years tenure, part time early retirement</p> <p>Benefits are granted granted under industry-wide CAO No.17 (CAO 75883 of 30 June 2005)</p> <p>For all workers supplementary unemployment benefit of 6.45 € per day for maximum 90 days per year in case of "economic unemployment" (CAO 69908 of 30 June 2003)</p>
102.10	no
102.11	no



## WORKING PAPERS

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- Law
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