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## Youth Unemployment in Belgium: Diagnosis and Key Remedies

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Bart Cockx

July 2013

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Policy Paper No. 66  
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## ABSTRACT

### Youth Unemployment in Belgium: Diagnosis and Key Remedies<sup>1</sup>

In Belgium youth unemployment is structurally higher than the European (EU27) average, in particular for the low educated. In this study we set a diagnosis of the main structural factors and advance key remedies. We analyze the system of employment protection, education and passive and active labor market policies. A high minimum wage, a strict separation between school and work, and a vertically segmented schooling system with high retention rates and too early tracking are identified as main causal factors. Strict employment protection legislation is only concern for high-skilled youth. Reducing labor costs at low wages and a fundamental schooling reform that aims at dismantling the strict barrier between school and work are proposed as key remedies. In addition, youth should be entitled as of the start of unemployment to a low benefit based on the principle of “mutual obligation”. Very intensive and durable guidance is to be targeted to the low educated.

JEL Classification: J24, J38, J68

Keywords: youth unemployment, employment protection, education, active and passive labor market policies, Belgium

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## 1. Introduction

At the end of 2012 the European Commission (EC) rang the alarm bell regarding the evolution of the youth (under 25 years old) unemployment rate since the start of the Great Depression in 2008. The youth unemployment rate in the European Union (EU27) attained a never seen height of 22.8 percent, which is as much as 7.2 percentage points higher than four years earlier and more than twice as high as the prime aged adult (aged between 25 and 54 years) rate.<sup>2</sup> The EC therefore launched in February of this year the Youth Guarantee, a for the period 2014-2020 €6 million worth action to help EU countries get young people into employment, further education or (re)training within four months of leaving school. Is the call for urgency justified and is this action an adequate response?

That the youth unemployment rate is higher and fluctuates more with the business cycle than the adult unemployment rate should be no surprise. First, it is higher because youths are at the start of their career, a period in which they are typically searching for an adequate job match. This search process induces high job turnover, possibly with intervening spells of unemployment. Second, in a downturn employers will be reluctant to lose more experienced workers, since these have more firm-specific skills and greater redundancy costs. So, the burden of adjustment typically falls on low-wage workers, such as the young.

The dramatic rise of the youth unemployment rate since 2008 is therefore in the first place a consequence of the profound economic crisis in the EU. If the EC aims at bringing the youth unemployment rate back down to the 2008 level, it should therefore rather have to follow a less restrictive fiscal policy than investing in a Youth Guarantee. However, in view of the high public debts of many EU member states, a looser fiscal policy may be counterproductive, because it may result in lower private sector growth through the mechanism of expectations regarding the reimbursement of this debt and higher interest rates. Finding a way to counter the current crisis is therefore difficult.

Nevertheless, the fact that youth unemployment is currently high on the political agenda generates a window of opportunity for addressing *structural* problems in a number of countries. Table 1 reports the average youth and prime aged adult unemployment rate over the last ten years (2003-2012) in the EU27 and some selected member states. The average youth unemployment rate varies dramatically between member states: between 7.3% in the Netherlands and 30.7% in Greece. However, this variation may partly reflect different general economic conditions between member states. We have therefore also reported the youth unemployment rate relative to the prime aged adult rate, both in proportional terms and in absolute percentage differences (see column 3 and 4). This, however, does not change the global picture. Some countries (Belgium, France, Greece and Spain) always display *structurally* higher youth unemployment than other.

Some features characterizing the countries reported in Table 1 suggest possible mechanisms explaining this divide. France, Greece and Spain are countries where employment protection is very high, while Denmark, the Netherlands and Austria are countries in which Active Labor Market Policies (ALMP) are known to be very effective. Furthermore, Germany, Denmark and Austria have a well-developed dual apprenticeship system. In this paper we will explore to what extent these elements play a role in explaining the structurally high youth unemployment in Belgium.

In Belgium it is commonly believed that youth unemployment is essentially a problem in Wallonia and Brussels, but not so much in Flanders, the third Belgian region. We do not agree with this view.<sup>3</sup> The youth unemployment rate in Brussels and Wallonia is indeed extremely high reaching a level of

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<sup>2</sup> Source: [http://epp.eurostat.ec.europa.eu/portal/page/portal/employment\\_unemployment\\_ifs/introduction](http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_ifs/introduction).

<sup>3</sup> See also Van der Linden (2007).

respectively 35% and 30%, against only 13% in Flanders. However, no country/region reported in Table 1 displays a higher proportional rate than the one in Flanders. In terms of absolute differences Flanders performs better, but still considerably worse than the aforementioned high performing countries.

**Table 1:** Youth (under 25 years) and Prime Aged Adult (25-54 years) Unemployment Rate in Selected EU Member States: 10 Years Average (2003-2012)

Country	Youth (< 25 years) Unemployment Rate (1)	Prime Aged Adult (25-54 years) Unemployment Rate (2)	Ratio: (1)/(2)	Absolute Difference: (1)-(2)
Greece	30.7%	11.1%	2.8	19.6%
Spain	30.4%	13.2%	2.3	17.2%
France	20.9%	7.7%	2.7	13.2%
<b>Belgium</b>	<b>19.8%</b>	<b>6.8%</b>	<b>2.9</b>	<b>13.0%</b>
Brussels	35.0%	15.8%	2.2	19.1%
Wallonia	29.6%	9.6%	3.1	20.1%
Flanders	13.5%	4.0%	3.3	9.4%
<b>EU27</b>	<b>18.9%</b>	<b>7.9%</b>	<b>2.4</b>	<b>11.0%</b>
Germany	11.4%	7.9%	1.4	6.5%
Denmark	10.4%	4.8%	2.2	5.6%
Austria	9.0%	4.0%	2.2	5.0%
The Netherlands	7.3%	3.4%	2.1	3.9%

**Source:** Eurostat.

The high relative youth unemployment rate in Belgium reflects predominantly a problem of the low-skilled (youth). Below 25 the low educated are over represented in the active population, since the high educated are still studying at young ages while the low educated already entered the labor market. Between 2003 and 2012, In Belgium the average unemployment rate of high educated youth (ISCED97 5-6) was 12.7%, lower than the EU27 average of 14.2%. By contrast, the corresponding average of youth without a secondary school diploma (ISCED97 0-2) was 30.4% in Belgium against 23.8% in the EU27.

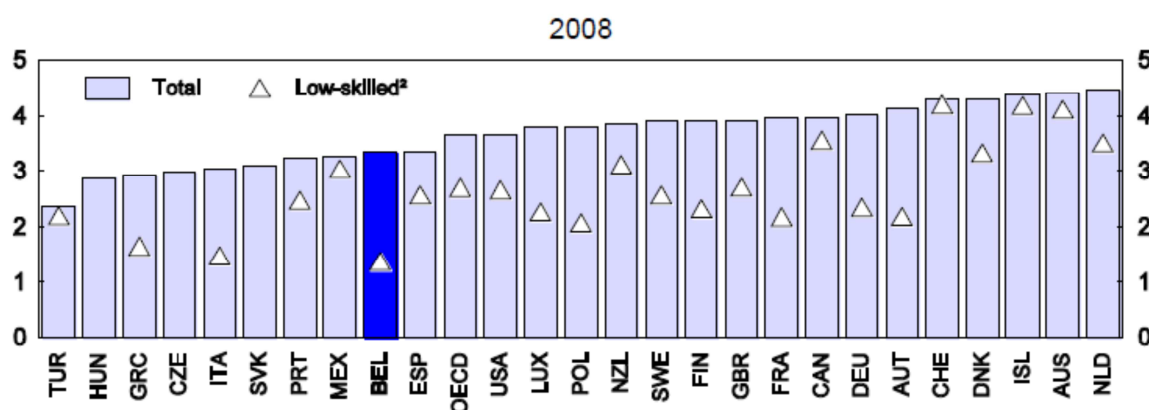
Figure 1 provides further evidence that in Belgium the school-to-work transition is especially problematic for the low educated. In a five year period after graduating Belgian youth is on average only three years employed. This is well below the OECD average of about 3.5 years. However, the low educated are only slightly more than one out of these five years employed. No other country displayed in Figure 1 performs worse.

In Belgium migrant youth is also much more affected than in other European countries. Baert and Cockx (2013) and Baert *et al.* (2013) analyze this problem in detail and show that discrimination is an important explanatory factor. However, for lack of space, we leave do not discuss the specific problems of migrant youth in this contribution.

In this contribution we aim at getting a better understanding of the drivers of structural youth unemployment in Belgium and propose key remedies based on recent academic research. We

discuss in turn the importance of the three aforementioned factors: employment protection, education, and the design of passive and ALMP. A final section concludes.

**Figure 1: Expected number of years spent in employment during the five years after school<sup>1</sup>**



<sup>1</sup> Data refer to 2006 for Australia.

<sup>2</sup> Less than upper secondary education.

Source: Høj (2013, p. 16).

## 2. Employment Protection

In Belgium employees are protected by a minimum wage and by extensive employment protection legislation (EPL). We argue that strict EPL decreases the speed of the school-to-work transition for the high-skilled, but not so much that of the low-skilled. The employment of latter group is more affected by the very high minimum wage level in Belgium.

### *Employment Protection Legislation (EPL) for regular employment*

Scientific studies consistently conclude that overall the impact of EPL on aggregate unemployment rates is weak with an ambiguous sign and that the effect on employment is negative, but modest.<sup>4</sup> The main explanation of this result is that strict EPL has two opposite effects. On the one hand it tends to reduce the separation rate from employment into unemployment and, on the other, it decreases the exit rate from unemployment into work, since firms, anticipating future costs on labor force adjustment, become more cautious about hiring. These effects may, in principle, offset each other. On the other hand, there is ample evidence that stringent EPL tends to worsen the employment prospects of those groups that are most subject to problems of (re-)entry in the labor market, such as young people, women and the long-term unemployed. How strict is EPL in Belgium? Can it partly explain the relatively high youth unemployment rates?

EPL for regular employment contracts is less strict in Belgium than on average in the OECD, and only slightly stricter than in Denmark, known for its relatively flexible system.<sup>5</sup> However, this index conceals considerable heterogeneity in strictness in Belgium, especially according to the type of labor contract. Different from other countries, in Belgium EPL for open-ended contracts differs between blue and white collar workers, and for the latter between those earning more and less than €32,254/year. The notice period for a blue collar worker is for each five years of seniority generally less than one month,<sup>6</sup> while for low(high)-wage white collar workers it is three (five) months. This

<sup>4</sup> For a review see e.g. European Commission (2006).

<sup>5</sup> Measured in 2008. Source: <http://stats.oecd.org/Index.aspx?QueryId=10179>.

<sup>6</sup> This is a proxy.

means that in Belgium EPL for high-wage white collar workers is probably among the strictest in OECD, while the reverse holds for blue collar workers.

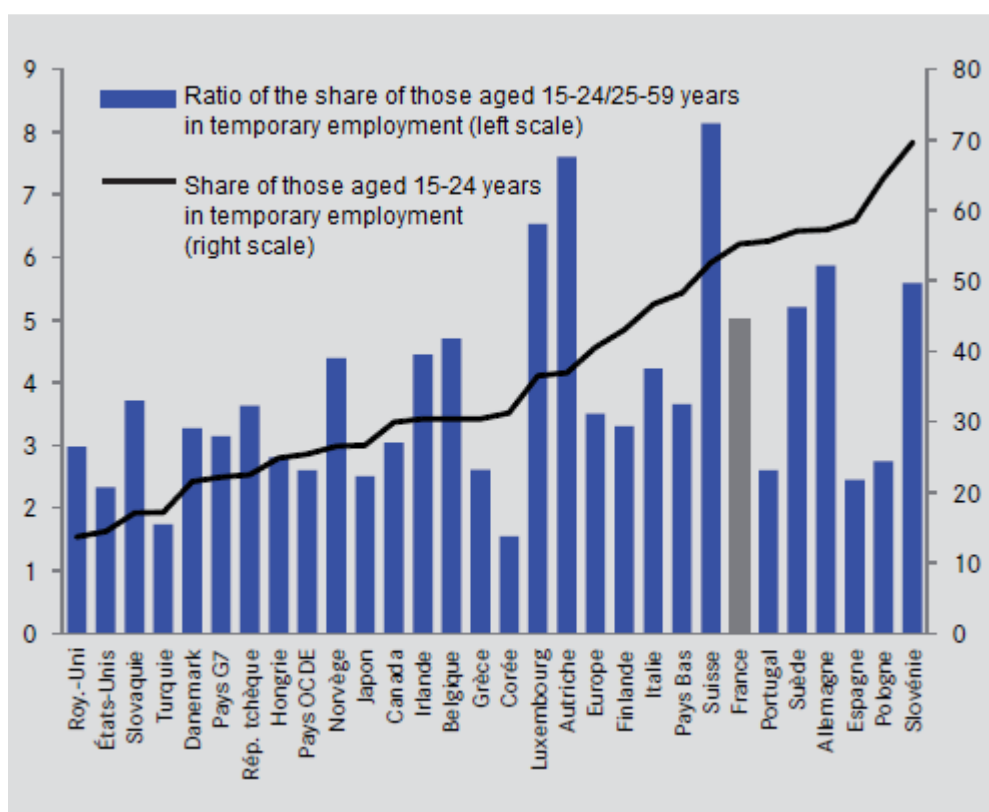
To the extent that white collar workers are more educated than blue collar workers, we conclude that in Belgium the strictness of EPL in regular open-ended contracts is especially a barrier for the insertion of high educated youth. For low educated youth, EPL strictness is less an issue and other factors (discussed below) are more important.

#### *EPL and the relationship to temporary employment*

The stricter is EPL for open-ended contracts, the more employers tend to use temporary contacts as a selection device for the recruitment in open-ended contracts and as to manage fluctuations in product demand. This risks segmenting the labor market in a primary segment of long-term employment and a secondary segment in which workers transit from one short-term dead-end job to another, possibly with some intervening spells of unemployment.

In Belgium temporary contracts seem to be, however, used relatively less than in other European countries (see Figure 2). Only about 30% of the employed youth are employed in temporary contracts. This is considerably lower than the 40% European average. Moreover, this share is in Belgium nearly five times (among the highest in OECD) that of prime aged workers, meaning that in Belgium temporary employment is even less widespread among prime aged workers than among youth.

**Figure 2:** Incidence in 2011 of Temporary Employment (Fixed Term Contract, Temporary Help) in Youth Employment



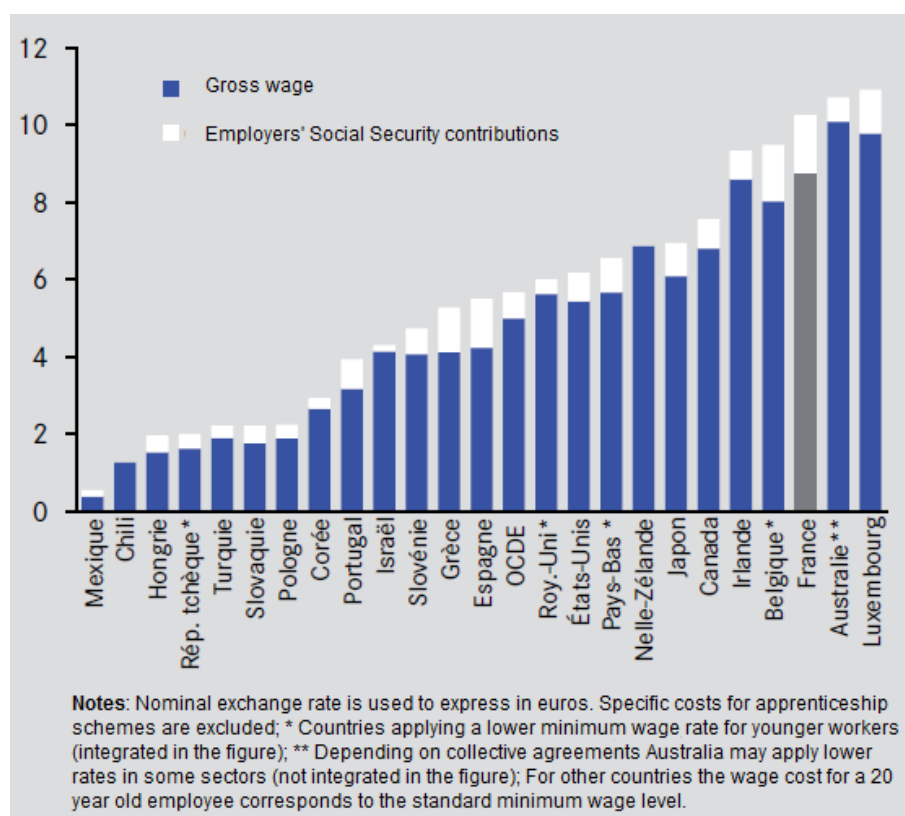
Source: Cahuc *et al.* (2013, p. 10).



The mentioned relatively weak EPL protection in open-ended contracts for blue collar workers together with the very strict EPL in fixed term contracts for all types of workers, explain the relatively limited use of temporary contracts in Belgium. In addition, employers of blue collar workers can make use of the very flexible system of temporary unemployment to manage fluctuations in product demand (Høj, 2013).<sup>7</sup> Nevertheless, these arguments apply less to high-skilled, white collar workers. The risk of getting trapped in temporary jobs is therefore still present for this group.

The findings of Cockx and Picchio (2012) further reinforce this view. Based on a sample of more than 15,000 long-term unemployed school-leavers in Belgium, these researchers find that the majority of short-lived jobs are not dead ends, but stepping stones to long-lasting jobs. By accepting a job that lasts at most one quarter instead of continuing job search for a longer lasting job, the probability of entering a long-lasting job increases within two years by 13.4 percentage points for men and by 9.5 percentage points for women. Nevertheless, this conclusion should be nuanced, since this effect displays substantial heterogeneity. Among those entering short-lived jobs, 40% has actually less chances of entering a long-lasting job. Moreover, in line with expectations, the stepping-stone effect is found to be weaker among the high educated.

**Figure 3:** Hourly Wage Cost (in euro) for a Young 20 Year Old Employee Working at the Minimum Wage in OECD Countries in which a Minimum Wage is in Force - 2010



**Source:** Cahuc *et al.* (2013, p. 9).

### Minimum Wage and Wage Cost

In Figure 1 we illustrated that in Belgium the transition from school-to-work for low-educated youth is extremely troublesome. As just mentioned, strict EPL is not the main driver of this difficult

<sup>7</sup> Between 2009 and 2011 a comparable system for white collar workers was temporarily introduced.

transition. High minimum wages are more to blame. There is increasing agreement among researchers that minimum wages have a very harmful impact on the employment of low-skilled youth (Kramarz and Philippon, 2001; Neumark and Wascher, 2008).

Figure 3 shows that among countries in which a minimum wage is in force, the cost of employing a twenty year old is in Belgium among the highest in the OECD. Moreover, this figure underestimates the genuine level of wage costs, since it is based on the legal minimum wage. In Belgium in most sectors a higher minimum wage is negotiated. Kampelmann and Rycx (2013, Table 3) report that in 2007 the employment weighted average of the minimum wages is 17% higher than the legal minimum wage.

### *Policy Implications*

Since in Belgium EPL is only strict for white collar workers, it may mainly hamper the school-to-work transition of the high educated youth, and not so much of the low educated blue collar workers. This discrimination in EPL against blue collar workers is currently subject of much of controversy and debate. The Constitutional Court has declared that it should disappear by July 8, 2013. Even if at the moment of writing, no agreement was yet concluded on this issue, it is clear that the discrimination must eventually disappear, and that the level of strictness will converge. This may facilitate the school-to-work transition of the high educated, but risks impeding that of the low educated. As to avoid this negative side effect, we argue that the harmonization of EPL should be paired with a more structural reform of EPL that uses available funds transferred in case of redundancy more efficiently, stimulating re-employment rather than inactivity. In a nutshell, we plead to pool the bulk of insurance payments in an insurance fund and to use it partially to finance the activation of redundant workers. We refer the reader to Cockx and Van der Linden (2010, 2013) for more details.

For the labor market integration of low-skilled youth the high minimum wage is a major problem in Belgium, since it raises the wage costs above the productivity, making it thereby unprofitable for employers to hire this group. Moreover, this problem has been exacerbated by the recent agreement of the social partners to abolish by January 1, 2015 the phasing in of the minimum wage by age.<sup>8</sup> This means that the full minimum wage will apply to young employees under 21, dramatically increasing their wage costs. We strongly plead for reconsidering this measure. Moreover, in view of the internationally very high level of the minimum wage in Belgium, this will not be sufficient. Either the minimum wage should be further reduced, or, if this is not socially acceptable, wage costs should be structurally reduced at low wages. Numerous studies have shown that reducing labor costs creates more employment, the more the reduction is targeted on low wages, close to the minimum wage (Cockx *et al.*, 2005, Cahuc *et al.*, 2013). Following Dejemeppe and Van der Linden (2013), and in line with our proposals in Section 5, these targeted wage cost reductions can be financed by abolishing the majority of the targeted *recruitment* subsidies. In addition, rather than reinforcing the across the board reductions in labor costs, as currently commonly proposed in the public debate as remedy against the low employment rates in Belgium, these should be rather reduced and targeted to low wages. This is because it has been amply shown (Ibid) that across the board wage reductions are largely absorbed by higher (bargained) net wages, inducing therefore hardly any employment growth.

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<sup>8</sup> Currently, the reduced rate is 70 percent for those aged less than 17, gradually increasing to 100% at age 21.

### 3. The Educational System

In Belgium the educational system is organized according to the different language Communities, i.e. the Flemish and the French.<sup>9</sup> Nevertheless, the educational systems in these Communities share a number of common features. Compulsory schooling starts at age six and ends at eighteen,<sup>10</sup> later than in most OECD countries.<sup>11</sup> Tracking occurs at the beginning of secondary school, in principle at the age of 12, if pupils did not accumulate any delay. This is relatively early from an international perspective. The median age at which pupils in OECD countries are tracked is 15 years (OECD, 2012, p.56).

Four major tracks can be distinguished: general, technical, vocational, and arts. The general track prepares explicitly for higher education. This can be entered after six years of successful secondary education. The vocational track prepares directly for a profession in the labor market, while the two other tracks have mixed objectives. The tracking system has a very (implicit) hierarchical ordering and contains a large number of sub-tracks. The hierarchical ordering has been labeled the “cascade-system”, since many pupils starting off in the “higher” tracks are gradually forced down the cascade by a system of reorientation at the end of each schooling year. A consequence is that pupils do not end up in technical and vocational tracks as a deliberate choice, but rather as an outcome of a forced reorientation after failure in a “higher” track. Technical and vocational tracks therefore attract more low-ability and discouraged pupils, which is detrimental to its image.

Another important common feature is the use of retention as a policy of remediation. This policy is used much more often than in other countries. In the OECD 13% of 15 year olds are reported to have repeated at least one year, while this figure was 30% for Belgium as a whole (OECD, 2012, p. 49).

Finally, in Belgium combining work with studies is very uncommon. Students in the vocational track can enter part-time education from 16 years onwards, but in 2008 only 3% of youth aged between 15 and 29 combines studies with working, while this share is 12% in the EU-15. In The Netherlands it is even as high as 35% (HRW, 2009, p. 14). Moreover, part-time students have many difficulties in finding employment during this period, since, due to the aforementioned negative image, firms are reluctant in offering employment opportunities to these students.

Both the hierarchical ordering of the tracks and the use of retention is more pronounced in the French than in the Flemish Community (HRW, 2009, p. 80). In 2008, in the fifth year of secondary school as much as 58% of French speaking pupils had accumulated at least one year of schooling delay, compared to 35% for the Flemish. These differences between the Communities and the fact that the French Community comprises a higher fraction of pupils with a migrant background may to some extent explain the different regional average and spread in the PISA tests of educational achievement.<sup>12</sup>

According to the most recent PISA study in 2009 Flanders is a top performer in all three skills that are assessed: reading, mathematics and science. Nevertheless, there is matter for some concern, since the scores are declining and the spread in the scores is higher than the OECD average. Moreover, the educational performance is highly segmented according to social background. Finally, in 2011 still

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<sup>9</sup> We ignore the German Community.

<sup>10</sup> From 15 years onwards only part-time education (alternating with work) is compulsory, but this concerns very few pupils (see below).

<sup>11</sup> In most OECD countries the age of compulsory education is 16 (OECD, 2012, p. 83).

<sup>12</sup> PISA is a study on educational achievement of 15 years olds conducted by OECD: <http://www.oecd.org/pisa/> and De Meyer and Warlop (2010).

one out of ten pupils drops out of secondary education without completing it (National Reform Program Belgium 2013).

The French Community in Belgium performs well below the Flemish, both in terms of level as of spread. In all three fields of assessment the average PISA score is below the OECD average, while in terms of spread and segmentation it is leading OECD countries. Moreover, in 2008 as many as 15% (20%) of the pupils did not complete secondary education in Wallonia (Brussels) (HRW, 2009).

### *Policy Recommendations*

Most scientific evidence indicates that grade repetition significantly worsens performance on various measures of academic achievement compared to similar students who are not retained (Schwerdt and West, 2013). Similarly, even if scientific research is not conclusive regarding the *average* level of achievement, there is firm evidence that early tracking has negative effects on the performance of pupils with disadvantaged family backgrounds (Piopiunik, 2013). Numerous studies have shown that the transition from school-to-work is greatly facilitated by an apprenticeship system that guarantees high quality of work-based learning (Biavaschi *et al.*, 2012). However, international experiences show that schemes can only be implemented successfully if there is significant institutional support and acceptance by major actors. Employers should be fully integrated in the design and actual implementation of such schemes as to guarantee that training curricula are up to date and in phase with future needs. Moreover, a system of certification of competences has to be elaborated, as to ensure that young workers can also value their acquired competence in other firms than the ones in which these competences were acquired.

Since grade repetition, early tracking, and deficiencies in work-based learning are characteristic features of the educational system in both the Flemish and French community, an educational reform should have similar characteristics in both language Communities. We summarize the main ingredients of such schooling reform succinctly.

#### **Key Remedies**

1. Address grade repetition by continuous remediation during the school year and by supporting teachers to teach classes with more diverse attainment levels.
2. Track choices in secondary school should be postponed.
3. Stimulate work-based learning by explicitly integrating the social partners as actors in the labor market in the design of the schooling reform. Elaborate a system of certification of work-placed learning so that skills learnt in one firm can be valued in another.

This list of key remedies is in line with the recent policy advice of OECD (2012, 2013). In Flanders the aforementioned policy recommendations were the basis of school reform prepared in the course of many years. Even if recently (on June 4, 2013) the Flemish government has endorsed this plan, with an official implementation planned for 2016, the persistent opposition by Flanders' major political party has made it uncertain whether and in which form this plan will be eventually enacted. Moreover, in the current version of the plan schools will be allowed to opt out. On the other hand, major actors in the field favor the reform. In addition, schools will be financially rewarded if they follow the guidelines of the reform. Proponents therefore claim that it will be difficult to block this reform. Despite the less favorable performance of the educational system, undertaken reforms in the French Community are more piecemeal than in Flanders. The most notable is the system of certification and employer integration in the design of vocational education.<sup>13</sup> It is urgent to undertake a more global structural reform.

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<sup>13</sup> <http://www.cpu.cfwb.be/>

## 4. Unemployment Benefits and Active Labor Market Policy

### *Unemployment Benefits (UB) and Job Search Requirements*

In contrast to many other countries, in Belgium a school-leaver is entitled to UB even if she has no work experience. However, the entitlement starts only after an “integration period” of one year (since 2012; previously nine months). During this period needy youth is entitled to a means-tested welfare allowance, paid out at the municipal level conditional on signing an “integration contract”. The UB level depends on the age and the household situation. For youth older than 18 the UB monthly level varies currently between €417 and €1,084 for, respectively, cohabitants without and with dependents. Since the most youth still lives at their parents’, the lower level applies in most cases. Before 2012 individuals were entitled to these UB for an indefinite period. Since January 2012, cohabitants are only entitled for a maximum period of three years. For other school-leavers, this time limit of three years starts only to count from the age of 30.

Since 2004 job search of UB recipients is monitored and sanctions apply in case of non-compliance. Benefit sanctions are much harsher than elsewhere, but the frequency of the monitoring is very low according to international standards. For those under (over) 25 job search effort is not evaluated before 15 (21) months of unemployment and if the requirements are satisfied, the next evaluation takes place only 12 or 14 months later. This contrasts starkly with the median monitoring frequency of one month in OECD countries (OECD, 2007). The Belgian program has been rigorously evaluated, and shown to significantly stimulate the transition to work and to be cost effective (Cockx *et al.*, 2011; Cockx and Dejemeppe, 2012).

Since August 2012 the government has intensified the monitoring of job search for school-leavers. As from the start of the entitlement, job search effort is, in principle, monitored every six months. In April 2013, the minister of employment also announced that job search effort of school-leavers starting unemployment in the academic year 2012-2013 will be monitored already in the 7<sup>th</sup> and 11<sup>th</sup> month of the integration period. In case of a negative evaluation, school-leavers will be entitled to UB only six month later if at that moment they satisfy the job search requirements.

### *Active Labor Market Policies (ALMP)*

In Belgium the UB and associated job search monitoring scheme is organized at the National level, while ALMP are competence of the Regional authorities. Part of the ALMP (e.g. the recruitment subsidies) is, however, still in the process of being transferred from the National level.

Following up the recommendations of the EU, in all three Regions (Brussels, Flanders and Wallonia) the Regional Public Employment Service (PES) currently contacts the young unemployed very early in the unemployment spell: youth aged below 25 is contacted as from one month after registration and by the 4<sup>th</sup> month *all* unemployed youth should have been invited to a meeting with a counselor. If the youngster lacks the empowerment to find a job by herself, an action plan is drawn up and training, counseling or job search assistance is tailored to needs.

Since January 2013, a nationally coordinated action plan reinforced at the regional level was launched. This plan targets school drop-outs and graduates with at most a diploma of secondary education, group facing acute difficulties in the school-to-work transition (see Figure 1). It aims at offering more work-place based learning opportunities. Concretely, school-leavers in the aforementioned target group are offered, as from the sixth month of unemployment, full-time apprenticeships of three to six months. Participants are entitled to a daily allowance (€27) paid out by the federal Unemployment Agency (UA). The employer pays a monthly compensation of €200.

Finally, currently the federal government activates the unemployed in the form of targeted recruitment subsidies to employers<sup>14</sup> and of a wage bonus<sup>15</sup> to low wage workers. In the current agreement of the federal government it is stipulated that the budget of these targeted recruitment subsidies is transferred to the regions. This is a window of opportunity for reform.

Part of these recruitment subsidies are currently targeted to youth. The duration of entitlement to and the amount of these subsidies decrease with the level of education (three levels) and increase with the elapsed unemployment duration (thresholds at one year). Firms hiring school drop-outs (and recently also medium educated youth) are entitled to a subsidy as from entry in unemployment. The subsidy level decreases with tenure and is time limited (maximum between 16 and 48 months). This risks stimulating turnover (Cockx *et al.*, 2005).

### *Policy Recommendations*

As mentioned in the introduction, in Belgium youth unemployment is essentially a problem of the labor market integration of low educated school-leavers. We therefore mainly propose reforms that target this group.

#### *1. More intensive guidance for school drop-outs*

First, the recently launched action plan providing apprenticeships at low educated youth is a step in the right direction, but should be reinforced with more intensive guidance. Academic research has shown that only early, enduring and intensive remedial education and guided work experience helps for this target group (Schochet *et al.* 2008). In addition, the counseling by the Regional PES should be more targeted to this group, instead of aiming at attaining *all* youth early in the unemployment spell: Research has shown that specific programs for youth are less effective than those that are not targeted to youth (Card *et al.* 2010), presumably because a major share of youth could find a job without any assistance.

#### *2. Early UB entitlement, more frequent monitoring, lower sanctions*

We propose to pay to school-leavers a relatively low (of the order of €400) flat rate UB *early after the start of their unemployment spell*. For those in need, this flat rate UB can be topped-up by the means-tested welfare allowance. Job search effort would be monitored on the basis of *written* reports to be handed in on a monthly basis. A random sample of these monthly reports is to be thoroughly checked. In case of non-compliance an invitation should follow as to draw up an action plan with clearly defined goals. This action plan should be tailored to the profile and needs of the job seeker. For high-skilled job ready job seekers it would typically consist in clearly defined job search requirements evaluated in an interview after one month. For other job seekers it would consist of participation in some action such as training, counseling and job-search assistance. Compliance to this action plan should be closely followed-up. In case of non-compliance, sanctions should be more moderate than currently, but progressive in case of recidivism. To the extent that job search effort and active participation in actions are closely followed up, benefits need not exhaust. However, entitlement to a higher level of UB requires a minimal employment record.

Entitling UB close to the start of the unemployment spell goes against current policy of lengthening the “integration period”. We justify this as follows. First, paying a non-means tested allowance early

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<sup>14</sup> These subsidies are the sum of the ‘targeted’ reductions in the employer’s SS contributions and a subsidy of the federal UA (“ACTIVA”).

<sup>15</sup> This takes the form of a reduction of employee’s SS contributions.

in the unemployment spell provides incentives for disadvantaged hard to contact youth to register as job seeker. This makes early intervention possible, which is, as mentioned, a crucial condition for success.<sup>16</sup> Second, by upfronting the UB payment and imposing a time limit job search incentives increase with unemployment duration, countering the discouragement of long-term unemployment. By contrast, during the current “integration period”, this discouragement is reinforced, since search incentives *decrease* as one approaches the moment at which UB entitlement starts.

Youngsters must be made aware that the payment of this non-means tested UB imposes costs on society and requires therefore in return effort aimed at minimizing these costs. We therefore propose to sharply intensify job search monitoring. This can be realized with relatively limited means if the first screening is based on written proofs. However, correctly measuring search intensity is difficult. As to compensate for measurement error, the sanction level should be modest and other more easily measurable actions should be involved in the evaluation of the exerted effort.

### *3. Replacement of recruitment subsidies by a low wage subsidy, except for the long-term unemployed*

Currently recruitment subsidies targeted to low-skilled and long-term unemployed youth are granted for a limited time period after recruitment. This time limit is justified by the gradual productivity growth with tenure. This productivity growth is, however, very heterogeneous and it may be very low among the low-skilled (Cockx *et al.*, 2004). It is therefore unlikely that it exactly matches the decreasing profile of the subsidy and risks to induce a waste of resources. The wage evolution should, however, more or less match that of productivity. In a subsidy scheme targeted to low wages, the subsidy tapers off with the wage. The decline will therefore be much closer in line with productivity growth than any recruitment subsidy scheme. We therefore propose to replace the recruitment subsidies targeted to low educated youth by a permanent low wage subsidy (cf. Section 2). Such a scheme also avoids the turnover induced by temporary subsidies, and the possible substitution with older workers, in case the recruitment subsidy is targeted to youth.

For the recruitment of long-term unemployed the temporary nature of the recruitment subsidy may have another justification (Cockx *et al.* 2004). Cockx and Picchio (2013) find evidence that the lower employability of the long-term unemployed is not so much a consequence of human capital depreciation, but more a consequence of the negative signal this duration conveys to recruiters. In this case the subsidy aims at compensating for the additional selection costs borne during the probation period when hiring long-term unemployed workers.

## **5. Conclusion**

In Belgium youth unemployment is structurally higher than in many other European countries. We have identified that the problem is particularly severe for low educated youth. A high minimum wage, a strict separation between school and work, and a vertically segmented schooling system with high retention rates and too early tracking have been identified as key causal factors. Strict employment protection legislation is only a concern for high-skilled youth. Reducing labor costs at low wages and a fundamental schooling reform that aims at dismantling the strict barrier between school and work are proposed as key remedies. In addition, rather than aiming at reaching *all* youth early in the unemployment spell, ALMP should assign much more resources on very intensive remedial education and guided work experience supporting the very low educated youth. Finally, entitling youth to a low UB based on the principle of “mutual obligation” coupled with very intensive

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<sup>16</sup> Recently Cahuc *et al.* (2013) and OECD (2013) plead for similar schemes.



and durable guidance targeted to disadvantaged youth is to be preferred to a strategy in which youth is not (or only late in the unemployment spell) entitled to UB.

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