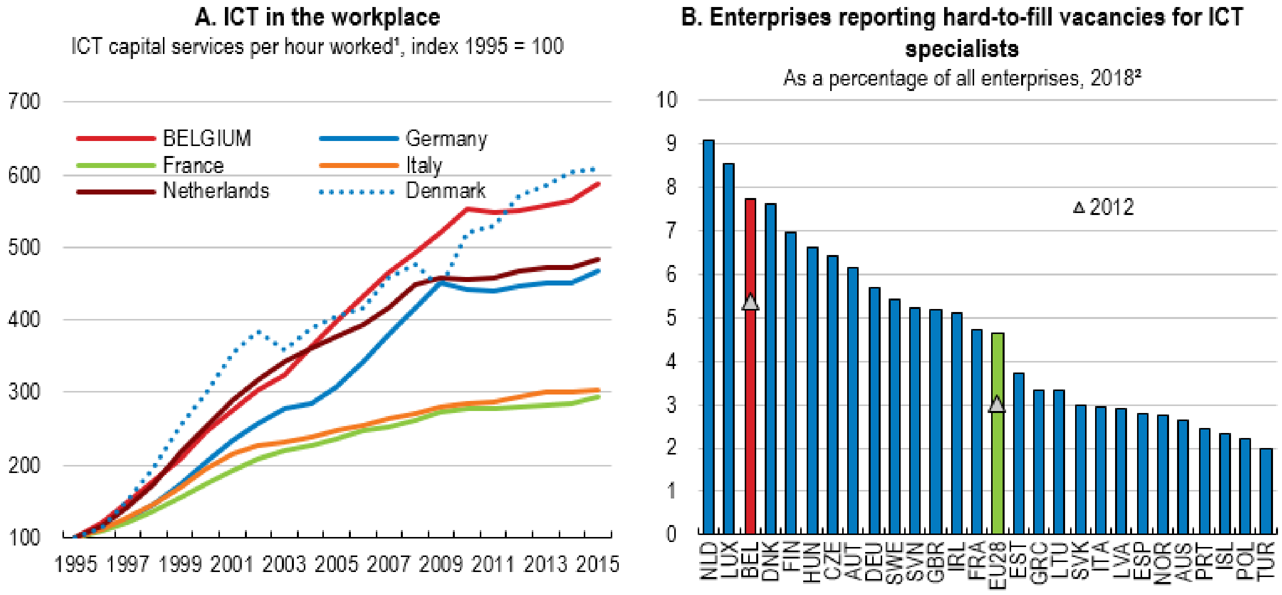
Addressing labour market challenges in Belgium

By Müge Adalet McGowan, Belgium desk, OECD Economics Department

Job creation has lowered the unemployment rate to record low levels at 5.2% in the third quarter of 2019, but the Belgian labour market still faces many challenges, including those related to the changing nature of work. The main ones are low employment, primarily due to high levels of inactivity, and a large employment gap for disadvantaged groups. Low employment rates reflect barriers to finding a job such as low levels of skills and weak work incentives (Hijzen et al., 2020). The [2020 Economic Survey of Belgium] discusses policies that could help to address these challenges and promote a more inclusive labour market.

Rising skill shortages, especially in information and communication technology, signals a need to better align skills with labour market needs and re-skilling (Figure 1). In addition, the success of recent pension reforms will depend on keeping older workers attached to the labour market, which requires more incentives for them to work, but also more willingness of companies to hire them. Participation in lifelong learning is key for that purpose. However, at 8.5% in 2018, it is below the EU average of 11.1% and training requirements, which are at the firm level, do not guarantee that workers that need it the most benefit from it. The 2020 Economic Survey of Belgium recommends the introduction of individual training allowances, with guidance support on training programmes, and targeted support, such as higher training time and/or funding requirements, for disadvantaged workers.

Figure 1. The rapid spread of ICT has contributed to ICT skills shortages



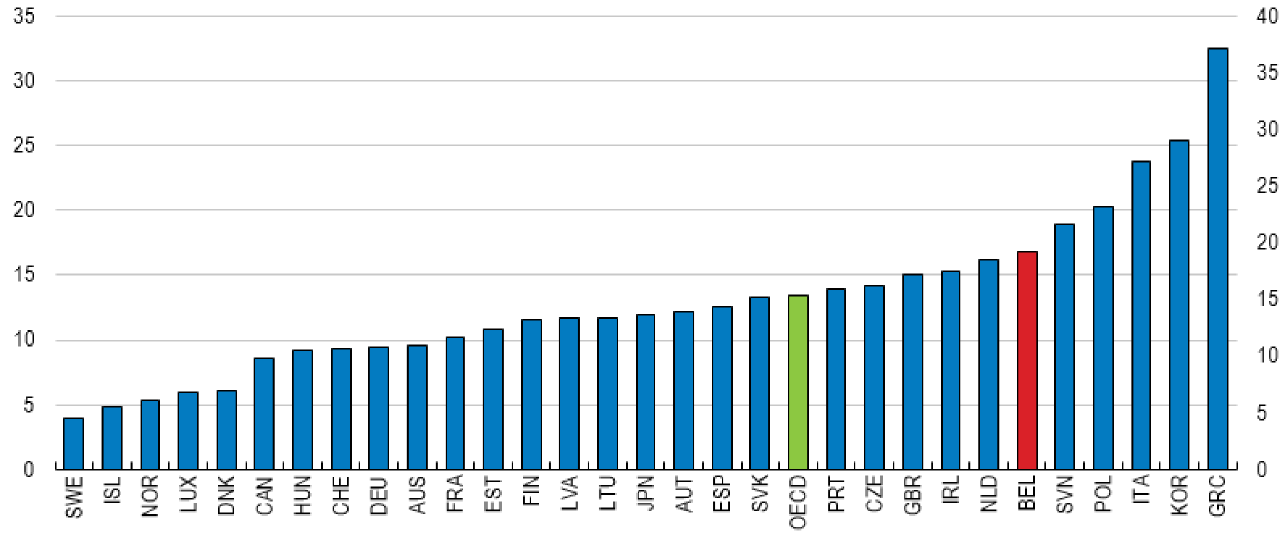
Source: OECD (2019), *OECD Employment Outlook 2019*, OECD Publishing, calculations based on data from EU KLEMS' growth and productivity accounts; OECD (2019), *Measuring the Digital Transformation*, OECD Publishing, Paris.

Self-employment, at around 15% of total employment, is higher in Belgium than a number of peer countries (Figure 2). Non-standard employment can provide greater flexibility for workers and firms, facilitate the emergence of new business models and could provide a stepping stone to standard employment for some. However, they can also raise concerns about job quality and potentially increase disparities, which might require a fundamental change in labour market, skills and social policies. Belgium has already made much progress in this area, but more can be done. The 2020 Economic Survey of Belgium recommends further aligning the pensions system of the self-employed with that of dependent employees, for example through the harmonisation of contribution rates and pension calculations.

Figure 2. Self-employment is relatively high

As a percentage of total employment

2018



Source: OECD (2019), OECD Labour Force Statistics (database).

While the unemployment rate has declined, the long-term unemployment rate remains high at around 50%. Given the significant disparities in labour market outcomes in Belgium, targeting of activation measures could be improved further, and the benefits of public employment services making greater use of statistical profiling tools are likely to be substantial. Extending the use of tools for the profiling of individualised risks can be a good way to identify job-seekers who are more at risk of becoming long-term unemployed and boost their employment.

References:

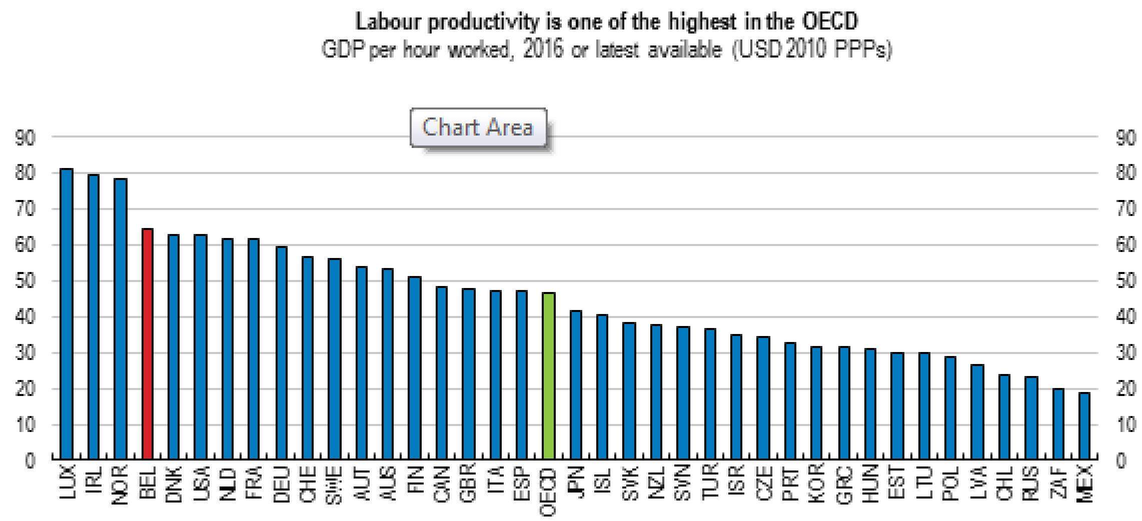
Hijzen et al. (2020), “Lowering employment barriers in Belgium and Norway”, OECD Jobs Strategy Implementation Note, February.

OECD (2020), OECD Economic Surveys: Belgium 2020, OECD Publishing, Paris.

How to make Belgian firms more productive

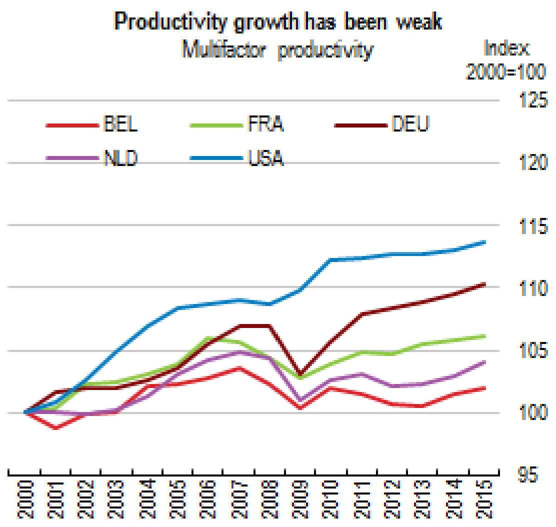
by Manav Frohde, Economist, OECD Economics Department

A combination of market-based policies and a redistributive welfare state have helped Belgium achieved among the highest living standards in the OECD. While the economy remains highly productive, productivity growth has slowed over the past two decades (Figure 1 & 2). Reinvigorating productivity growth will be necessary to sustainably increase economic prosperity over the coming years.



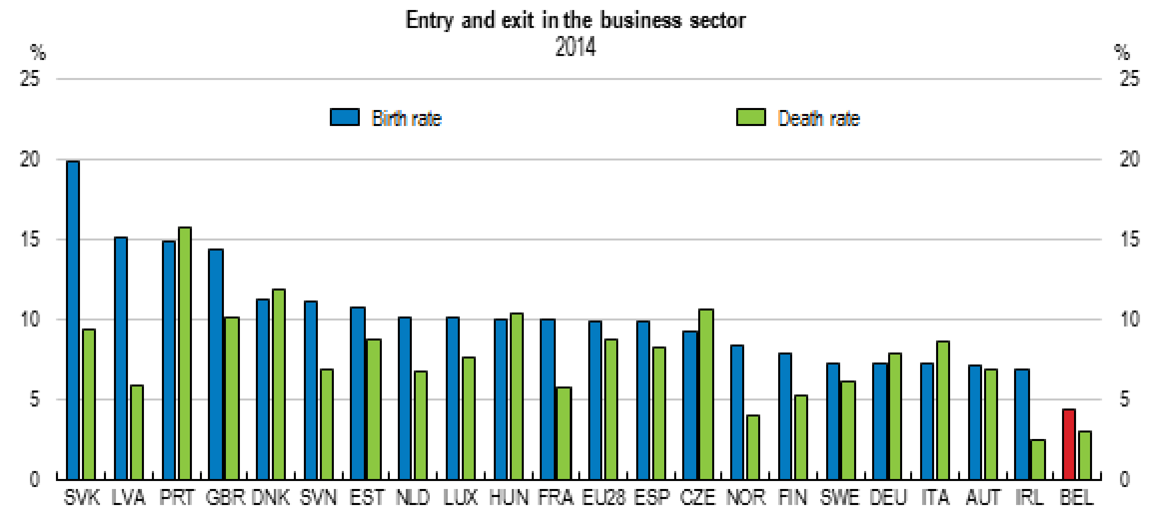
Source: OECD

With a particular focus on the business environment and skills and labour market policies the 2017 [OECD Economic Survey of Belgium] identifies several measures that could help improve long-term productivity growth.



Source: OECD

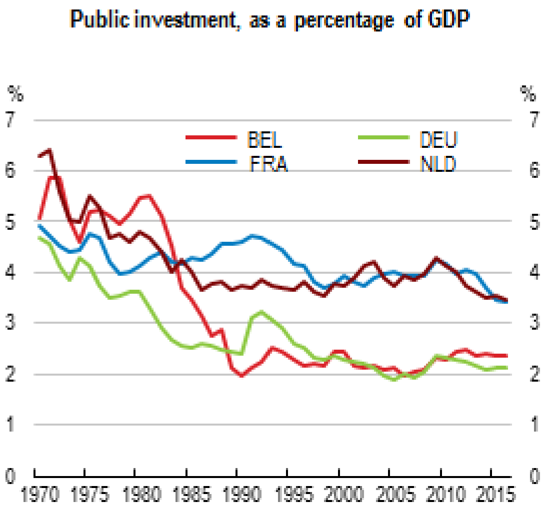
The general framework conditions in Belgium are by and large favourable for private sector activity. Nevertheless business dynamism, as measured by entry and exit rates, is weak (Figure 3). This is important because international evidence suggests that young firms contribute more than proportionately to innovation, productivity growth and job creation. The low rates of entry and exit in the business sector may reflect a dominating presence of large, established firms. Relatively high administrative burdens on start-ups, including the low threshold from which firms are required to register for VAT, and a high minimum capital requirement for establishing a firm also act as barriers to entry. Many young, innovative firms also face financing constraints, particularly in the scale-up phase, suggesting that increased access to venture capital would enhance firm dynamism.



Source: Eurostat

At around 2.5% of GDP Belgium’s spending on research and development (R&D) is above both the EU and OECD averages. However, it falls short of the Lisbon target of 3% of GDP. Moreover, the share of business enterprise R&D in total R&D spend

ing has declined over the past two decades. Public support programmes for R&D and innovation could be streamlined to improve their effectiveness, while the effectiveness of existing tax incentives for private companies should be critically assessed. Public sector entities at the different levels of government could also step up their innovation co-operation, and could do more to foster collaboration between universities and research centres, and private companies.



Source: OECD

Productivity growth has also been held back by low public investment, particularly in transport infrastructure. Public investment declined from close to 6% of GDP in the early 1970s to just above 2% of GDP since the 1990s (Figure 4). Antwerp and Brussels are among Europe's five most congested urban centres. Given limited fiscal space, public investment could be financed through a combination user fees, well-designed public-private partnerships, reductions in inefficient public spending, and higher non-distortionary taxes.

References:

OECD (2017), OECD Economic Surveys: Belgium 2017, OECD Publishing, Paris.