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Youth Unemployment in Belgium: Diagnosis and Key Remedies

In late 2012, the European Commission raised the alarm about the evolution of the youth (under 25 years old) unemployment rate since the start of the Great Recession in 2008. The youth unemployment rate in the European Union (EU27) had attained an unprecedented height of 22.8 per cent, which is 7.2 percentage points higher than four years earlier and more than twice as high as the prime-aged adult (25 to 54 years old) rate.[1] The Commission therefore launched the Youth Guarantee in February of this year, an action worth €6 billion for the period 2014-2020 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?

It should be no surprise that the youth unemployment rate is higher and fluctuates more with the business cycle than the adult unemployment rate. First, it is higher because youths are at the start of their careers, 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 in the youth unemployment rate since 2008 is therefore primarily a consequence of the profound economic crisis in the EU. If the Commission aims at bringing the youth unemployment rate back down to the 2008 level, it should follow a less restrictive fiscal policy rather 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 among member states, ranging from 7.3 per cent in the Netherlands to 30.7 per cent in Greece. However, this variation may partly reflect different general economic conditions among member states. We therefore also report the youth unemployment rate relative to the prime-aged adult rate, both in proportional terms and in absolute percentage differences (see columns 3 and 4). This, however, does not change the global picture. Some countries (Belgium, France, Greece and Spain) always display higher *structural* youth unemployment than others.

Some features characterising 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 labour 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 the extent to which these elements play a role in explaining the high structural 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.[2] The youth unemployment rates in Brussels and Wallonia are indeed extremely high, reaching 35 per cent and 30 per cent respectively, against only 13 per cent in Flanders. However, no country or region in Table 1 displays a higher relative youth unemployment rate than Flanders. In terms of absolute differences, Flanders performs better but still considerably worse than the aforementioned high-performing countries.

The high relative youth unemployment rate in Belgium reflects predominantly a problem among low-skilled youth. Below the age of 25, the low educated are over-represented in the active population, since the highly educated are still studying at young ages, whereas the low educated have already entered the labour market. Between 2003 and 2012, the average unemployment rate of highly educated youth in Belgium was 12.7 per cent, lower than the EU27 average of

* I thank Stijn Baert, Yves Saks and Bruno Van der Linden for comments on a first draft of this paper.

1 See http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/introduction.

2 See also B. Van der Linden: Un regard sur le rapport de l'OCDE: Des emplois pour les jeunes, in: Regards économiques, No. 56, 2007.

Table 1
Youth and prime-aged adult unemployment rates in selected EU countries, 10-year average (2003-2012)

Country/ region	(1) Youth (< 25 years) unemploy-ment rate	(2) Prime-aged adult (25-54 years) unemploy-ment rate	(3) Ratio: (1)/(2)	(4) Absolute difference, in percent-age points: (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
Belgium	19.8%	6.8%	2.9	13.0
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
EU27	18.9%	7.9%	2.4	11.0
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
Netherlands	7.3%	3.4%	2.1	3.9

Source: Eurostat.

14.2 per cent. By contrast, the corresponding rate for youth without a secondary school diploma was 30.4 per cent in Belgium against 23.8 per cent in the EU27.

Figure 1 provides further evidence that the school-to-work transition is especially problematic for the low educated in Belgium. In the first five years after graduating, Belgian youth are on average employed for only three years. This is well below the OECD average of about 3.5 years. However, the low educated are only expected to spend slightly more than one year in employment during their first five years after leaving school. No other country displayed in Figure 1 performs as poorly as Belgium.

In Belgium migrant youths are also much more affected than in other European countries. Baert and Cockx and Baert et al. analyse this problem in detail and show that discrimination is an important explanatory factor.[3] However, for lack of space, we do not discuss the specific problems of migrant youth in this contribution.

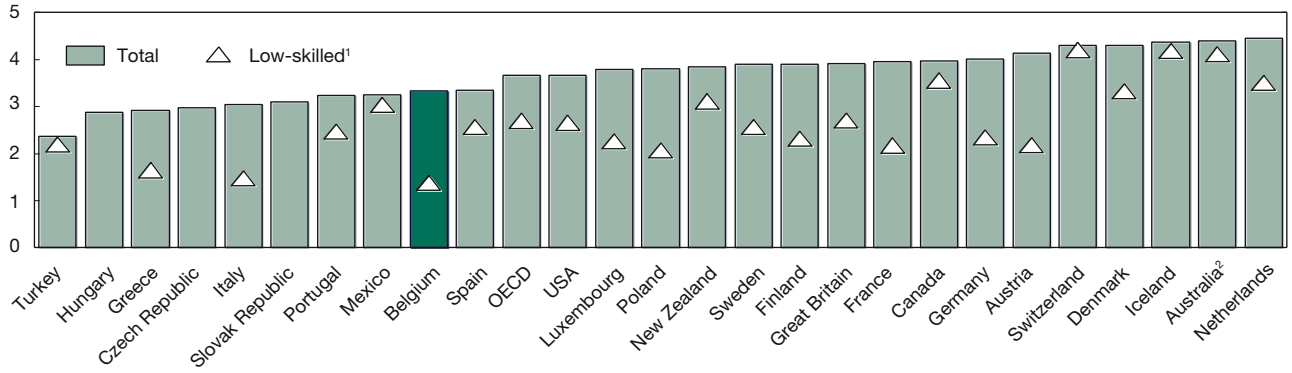
In this contribution, we aim at getting a better understanding of the drivers of structural youth unemployment in Belgium and propose key remedies based on recent academic research. Furthermore, we discuss the importance of the three aforementioned factors: employment protection, education, and the design of passive and active labour market policies.

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

3 S. Baert, B. Cockx: Pure Ethnic Gaps in Educational Attainment and School to Work Transitions. When Do They Arise?, Ghent University Working Paper, No. 2013/832, 2013; and S. Baert, B. Cockx, N. Gheyle, C. Vandamme: Do Employers Discriminate Less if Vacancies are Difficult to Fill? Evidence from a Field Experiment, Ghent University Working Paper, No. 2013/830, 2013.

Figure 1
Expected number of years spent in employment during the five years after school, 2008



1 Less than upper secondary education. 2 Data refer to 2006 for Australia.

Source: J. Høj: Enhancing the Inclusiveness of the Labour Market in Belgium, in: OECD Economics Department Working Papers, No. 1009, 2013, OECD Publishing, p. 16.

so much for the low skilled. The employment of the latter group is more affected by the very high minimum wage in Belgium.

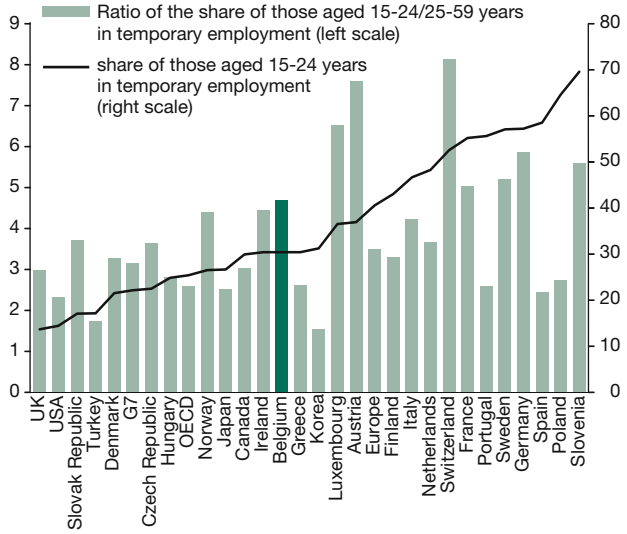
EPL for regular employment

Scientific studies consistently conclude that the overall impact of EPL on aggregate unemployment rates is weak with an ambiguous sign and that the effect on employment is negative but modest.[4] The main explanation for this is that strict EPL has two opposite effects. On the one hand, it tends to reduce the job separation rate, i.e. the rate at which workers transit from employment to unemployment. On the other hand, strict EPL decreases the exit rate from unemployment into work, since firms, anticipating future costs on labour force adjustment, become more cautious about hiring. These effects may, in principle, offset each other. However, 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 into the labour market, such as young people, women and the long-term unemployed.

EPL for regular employment contracts is less strict in Belgium than on average in the OECD and only slightly stricter than in Denmark, which is known for its relatively flexible system.[5] However, the OECD indicator of employment protection conceals considerable heterogeneity in strictness in Belgium, especially according to the type of labour contract. In Belgium EPL for open-ended contracts differs between blue- and white-collar workers. For the latter group, it differs between those earning more than €32,254 a year and those earning less. The notice period for a blue-collar worker is generally less than one month for each five years of seniority, while for low-wage and high-wage white-collar workers it is three and five months respectively. This means that in Belgium EPL for high-wage white-collar workers is probably among the strictest in the 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 highly educated youth. For low-educated youth, EPL strictness is less of an issue and, as discussed below, other factors are more important.

Figure 2
Incidence of temporary employment (fixed-term contract, temporary help) in youth employment, 2011



Source: P. Cahuc, S. Carcillo, K.F. Zimmermann: L'emploi des jeunes peu qualifié en France, in: Les notes du conseil d'analyse économique, No. 4, 2013, pp. 1-12, here p. 10.

EPL for temporary employment

The stricter the EPL is for open-ended contracts, the more employers tend to use temporary contracts as a selection device before making open-ended contracts available and as a way to manage fluctuations in product demand. This risks segmenting the labour market into 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 used less commonly than in other European countries (see Figure 2). Only about 30 per cent of the employed youth are employed in temporary contracts. This is considerably lower than the 40 per cent European average. Moreover, in Belgium this share is nearly five times that of prime-aged workers (among the highest in the OECD), meaning that in Belgium temporary employment is even less widespread among prime-aged workers than among youth.

The aforementioned relatively weak protection for blue-collar workers in open-ended contracts – together with the very strict EPL in fixed-term contracts for all types of workers – explains 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 tem-

4 For a review, see e.g. European Commission: Flexibility and security in the EU labour markets, Employment in Europe 2006, 2006, pp. 75-118.

5 Measured in 2008, see http://stats.oecd.org/Index.aspx?QueryId=10179.

porary unemployment to manage fluctuations in product demand.[6] Nevertheless, these arguments are less applicable 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 further reinforce this view.[7] 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 within two years increases by 13.4 percentage points for men and by 9.5 percentage points for women. Nevertheless, this conclusion should be regarded with caution, since this effect displays substantial heterogeneity. Among those entering short-lived jobs, 40 per cent actually have less chance of entering a long-lasting job. Moreover, in line with expectations, the stepping-stone effect is weaker among the highly educated.

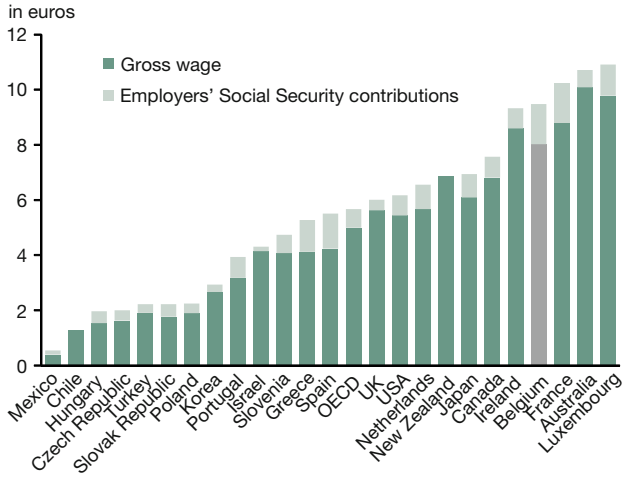
Minimum wage and wage cost

As mentioned above, the transition from school to work for low-educated youth in Belgium is extremely troublesome, but strict EPL is not the main driver of this. 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.[8]

Figure 3 shows that among OECD countries in which a minimum wage is in force, the cost of employing a 20-year-old in Belgium is among the highest. Moreover, this figure underestimates the genuine level of wage costs, since it is based on the legal minimum wage. In Belgium a higher minimum wage is negotiated in most sectors. Kampelmann and Rycx report that in 2007 the employment-weighted average of the minimum wages was 17 per cent higher than the legal minimum wage.[9]

Figure 3

Hourly wage cost of a 20-year-old employee working at the minimum wage in OECD countries in which a minimum wage is in force, 2010



Source: P. Cahuc, S. Carcillo, K.F. Zimmermann: L'emploi des jeunes peu qualifié en France, in: Les notes du conseil d'analyse économique, No. 4, 2013, pp. 1-12, here p. 9.

Policy implications

Since EPL in Belgium is only strict for white-collar workers, it may mainly hamper the school-to-work transitions of highly educated youth. This discrimination in EPL against blue-collar workers is currently the subject of much controversy and debate. 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 for the highly educated but risks impeding that of the low educated. We argue that in order to avoid this negative side effect, the harmonisation of EPL should be paired with a more structural reform of EPL that uses available funds more efficiently, stimulating re-employment rather than inactivity. In a nutshell, we propose pooling the bulk of insurance payments in an insurance fund and using it partially to finance the activation of redundant workers.[10]

For the labour market integration of low-skilled youth, the high minimum wage is a major problem in Belgium, since it raises the wage costs above productivity, making it unprofitable for employers to hire this group. Moreover, this problem has been exacerbated by the recent agreement by the social partners to abolish by 1 January 2015 the phasing

6 J.J. Høj: Enhancing the Inclusiveness of the Labour Market in Belgium, in: OECD Economics Department Working Papers, No. 1009, 2013, OECD Publishing. Between 2009 and 2011, a comparable system for white-collar workers was temporarily introduced.

7 B. Cockx, M. Picchio: Are Short-Lived Jobs Stepping Stones to Long-Lasting Jobs?, in: Oxford Bulletin of Economics and Statistics, Vol. 74, No. 5, 2012, pp. 646-675.

8 See e.g. F. Kramarz, T. Philippon: The Impact of Differential Payroll Tax Subsidies on Minimum Wage Employment, in: Journal of Public Economics, Vol. 82, No. 1, 2001, pp. 115-146; and D. Neumark, W. Wascher: Minimum Wages, Massachusetts 2008, MIT Press.

9 S. Kampelmann, F. Rycx: Who Earns Minimum Wages in Europe? New Evidence Based on Household Surveys, DULBEA Working Paper, No. 13-01.RS, Brussels 2013, Université Libre de Bruxelles, Table 3.

10 For more details, see B. Cockx, B. Van der Linden: Flexicurity in Belgium. A reform proposal based on economic principles, in: International Labour Review, Vol. 149, No. 3, 2010, pp. 361-372; and B. Cockx, Van der Linden: Quelle protection de l'emploi en Belgique?, Regards économiques, Focus, 19 April 2013.

in of the minimum wage by age.[11] 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 high minimum wage level in Belgium, this will not be sufficient. Either the minimum wage should be further reduced or, if this is not socially acceptable, low wages should be structurally reduced. Numerous studies have shown that reducing labour costs creates more employment, even more so when the reduction is targeted at low wages close to the minimum wage.[12] Following Dejemeppe and Van der Linden,[13] these targeted wage cost reductions can be financed by abolishing the majority of the targeted *recruitment* subsidies. In addition, rather than reinforcing across-the-board reductions in labour costs – as is often proposed in the public debate as a remedy for the low employment rates in Belgium – these should rather be targeted at low wages. This is because across-the-board wage reductions are largely absorbed by higher (bargained) net wages,[14] therefore inducing hardly any employment growth.

The educational system

In Belgium the educational system is organised according to the different language Communities, i.e. the Flemish and the French.[15] Nevertheless, the educational systems in these Communities share a number of common features. Compulsory schooling starts at age six and ends at 18,[16] later than in most OECD countries.[17] Streaming occurs at the beginning of secondary school, generally at the age of 12. This is relatively early from an international perspective. The median age at which pupils in OECD countries are streamed is 15 years.[18]

Pupils are divided into four major streams: general, technical, vocational and arts. The general stream prepares explicitly for higher education, the vocational stream prepares directly for a profession and the two other streams have mixed objectives. The streaming system has a very (implicit) hierarchical ordering and contains a large number of sub-streams. The hierarchical ordering has been labelled the "cascade-system", since many pupils starting off in the "higher" streams are gradually forced down the cascade by a system of reorientation at the end of each school year. A consequence is that pupils do not end up in technical and vocational streams as a deliberate choice, but rather as an outcome of a forced reorientation after failure in a "higher" stream. Technical and vocational streams therefore attract more low-ability and discouraged pupils, which is detrimental to their 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 per cent of 15-year-olds have repeated at least one year, while this figure was 30 per cent for Belgium.[19]

Finally, combining work with studies is very uncommon in Belgium. Students in the vocational stream can switch to part-time education from 16 years onwards, but in 2008 only three per cent of youth aged 15-29 combined studies with working, while this share was 12 per cent in the EU15. Moreover, part-time students have many difficulties in finding employment, since firms are reluctant to offer employment to these students due to the aforementioned negative image.

Policy recommendations

Most scientific evidence indicates that grade repetition significantly worsens performance on various measures of academic achievement.[20] Similarly, even if scientific research is inconclusive regarding the *average* level of achievement, there is firm evidence that early streaming has negative effects on the performance of pupils with disadvantaged family backgrounds.[21] Numerous studies have shown that the transition from school to work is greatly facilitated by an apprenticeship system that guarantees high quality work-based learning.[22] However, international experiences show that schemes can only be implemented successfully if there is significant

11 Currently, the reduced rate is 70 per cent for those under 17, gradually increasing to 100 per cent by the age of 21.
12 B. Cockx, H. Sneessens, B. Van der Linden: Evaluation micro et macroéconomique des allégements de la (para)fiscalité en Belgique, Gent 2005, Academia Press. P. Cahuc, S. Carcillo, K.F. Zimmermann: L'emploi des jeunes peu qualifié en France, in: Les notes du conseil d'analyse économique, No. 4, 2013, pp. 1-12.
13 M. Dejemeppe, B. Van der Linden: Les soutiens financiers à la création d'emploi, Etude pour la Maison des Entreprises wallonnes ASBL, IRES, Université catholique de Louvain, Louvain-la-Neuve 2013.
14 Ibid.
15 We ignore the small German Community.
16 From 15 years onwards, only part-time education (alternating with work) is compulsory, but this concerns very few pupils.
17 In most OECD countries compulsory education ends at age 16; see OECD: Equity and Quality in Education. Supporting Disadvantaged Pupils and Schools, Paris 2012, OECD Publishing, p. 83.
18 Ibid, p. 56.
19 Ibid, p. 49.
20 G. Schwerdt, M.R. West: The Effects of Test-based Retention on Student Outcomes over Time: Regression Discontinuity Evidence from Florida, IZA Discussion Paper Series, No. 7314, 2013.
21 M. Piopiunik: The Effects of Early Tracking on Student Performance: Evidence from a School Reform in Bavaria, Ifo Working Paper, No. 153, 2013.
22 C. Biavaschi, W. Eichhorst, C. Guilietti, M.J. Kendzia, A. Muravyev, J. Pieters, N. Rodríguez-Planas, R. Schmidl, K.F. Zimmermann: Youth Unemployment and Vocational Training, IZA Discussion Paper Series, No. 6890, 2012.

institutional support and acceptance by major actors. Employers should be fully integrated in the design and implementation of such schemes to guarantee that training curricula are up to date and in line with future needs. Moreover, a system of certification of competences has to be elaborated to ensure that young workers' competences are also valued in firms other than the one in which these competences were acquired.

Since grade repetition, early streaming and deficiencies in work-based learning are characteristic features of the educational systems in both the Flemish and French Communities, educational reform should have similar characteristics in both of them. We summarise the main ingredients of such schooling reform briefly:

1. Address grade repetition by continuous remediation during the school year and by supporting teachers to teach classes with more diverse attainment levels;

2. Postpone streaming in secondary schools;

3. Stimulate work-based learning by explicitly integrating the social partners as actors in the labour 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 the OECD.[23] In Flanders the aforementioned policy recommendations were the basis of a school reform proposed recently endorsed by the Flemish government, with official implementation planned for 2016. However, the persistent opposition by Flanders' major political party has made it uncertain whether and in which form this plan will be eventually enacted. Moreover, the current version of the plan allows schools to opt out. On the other hand, major actors in the field favour 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 favourable performance of the educational system, reforms undertaken 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.[24] It is urgent to undertake a more global structural reform.

23 See OECD, op. cit.; and OECD: Action Plan for Youth, Paris 2013, OECD Publishing.

24 See http://www.cpu.cfwb.be/.

Unemployment benefits and active labour market policy

Unemployment benefits and job search requirements

In contrast to many other countries, in Belgium school-leavers are entitled to unemployment benefits (UB) even if they have no work experience. However, the entitlement starts only after an "integration period" of one year (as of 2012; it was previously nine months). During this period, needy youth are 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 of the youth. For youth older than 18, the UB monthly level currently varies between €417 and €1,084 for cohabitants without and with dependents respectively. Since young people often continue to live with 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 to UB for a maximum period of three years. For other school-leavers, this time limit of three years begins to apply at the age of 30.

Since 2004 the 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 compared to international standards. For those under (over) 25, job search effort is not evaluated before the 15th (21st) month of unemployment, and if the requirements are satisfied, the next evaluation takes place 12 or 14 months later. This contrasts starkly with the median monitoring frequency of one month in OECD countries.[25] The Belgian programme has been rigorously evaluated and shown to significantly stimulate the transition to work and to be cost effective.[26]

Since August 2012, the government has intensified its monitoring of the job search activity of school-leavers. Beginning with the start of the entitlement, job search effort is monitored every six months. In April 2013, the minister of employment also announced that the job search effort of school-leavers starting unemployment spells in the academic year 2012-2013 will be monitored already in the seventh and 11th months 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.

25 OECD: Activating the Unemployed: What Do Countries Do, in: Employment Outlook, 2007, pp. 207-242.

26 B. Cockx, M. Dejemeppe, B. Van der Linden: Evaluation de l'activation du comportement de recherche d'emploi, Gent 2011, Academia Press; and B. Cockx, M. Dejemeppe: Monitoring job search effort: an evaluation based on a regression discontinuity design, in: Labour Economics, Vol. 19, No. 5, 2012, pp. 729-737.

Active labour market policies

In Belgium UB and the associated job search monitoring scheme are organised at the national level, while ALMP are the competence of 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 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: youths aged below 25 are contacted beginning one month after registration, and by the fourth month *all* unemployed youths should have been invited to a meeting with a counsellor. If they lack the empowerment to find a job by themselves, an action plan is drawn up and training, counselling or job search assistance is tailored to their needs.

In 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 secondary education diploma, groups facing acute difficulties in the school-to-work transition (see Figure 1). It aims at offering more workplace-based learning opportunities. Specifically, these school-leavers are offered full-time apprenticeships of three to six months. Participants are entitled to a daily allowance (€27) paid out by the federal unemployment agency. The employer pays a monthly compensation of €200.

Finally, the federal government activates the unemployed via targeted recruitment subsidies to employers[27] and a wage bonus[28] to low-wage workers. The current agreement stipulates that the budget of the targeted recruitment subsidies be transferred to the regions. This is a window of opportunity for reform.

Policy recommendations

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

More intensive guidance for school drop-outs

First, the recently launched action plan providing apprenticeships for low-educated youth is a step in the right direction, but it should be reinforced with more intensive guidance. Academic research has shown that only early, enduring and intensive remedial education and guided work experience helps this target group.[29] In addition, the counselling by the regional PES should be more targeted at this group instead of aiming at reaching *all* youth early in the unemployment spell.

Early UB entitlement, more frequent monitoring, lower sanctions

We propose to pay to school-leavers 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 could be topped up by a 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 would be thoroughly checked. In case of non-compliance, an invitation should follow 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 seekers, it would typically consist of 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, counselling and job-search assistance. Compliance with this action plan should be closely monitored. In case of non-compliance, sanctions should be more moderate than the current sanctions, but progressive in case of recidivism. To the extent that job search effort and active participation in actions are closely monitored, benefits need not run out. 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 in the unemployment spell provides incentives for disadvantaged youth to register as job seekers. This makes early intervention possible, a crucial condition for success.[30] Second, up-front benefits and a time limit increase the job-search incentives 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.

Youth must be made aware that the payment of this non-means-tested UB imposes costs on society and therefore

27 These subsidies are the sum of the "targeted" reductions in the employer's social security contributions and a subsidy from the federal unemployment agency (ACTIVA).

28 This takes the form of a reduction of the employee's social security contributions.

29 P.Z. Schochet, J. Burghardt, S. McConnell: Does Job Corps Work? Impact Findings from the National Job Corps Study, in: American Economic Review, Vol. 98, No. 5, 2008, pp. 1864-1886.

30 Recently, P. Cahuc et al., op. cit.; and OECD, 2013, op. cit. pleaded for similar schemes.

requires effort aimed at minimising these costs. For that reason, we propose to sharply intensify job search monitoring. This can be realised with relatively limited means if the first screening is based on written proofs. However, correctly measuring search intensity is difficult. 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 effort exerted.

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

Currently, recruitment subsidies targeted at 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.[31] It is therefore unlikely that it exactly matches the decreasing profile of the subsidy and thus risks inducing a waste of resources. The wage evolution should, however, more or less match that of productivity. In a subsidy scheme targeted at low wages, the subsidy tapers off with the wage. The decline will therefore be much more 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. Such a scheme also avoids the turnover induced by temporary subsidies and the possible substitution with older workers if the recruitment subsidy is targeted at youth.

For the recruitment of the long-term unemployed, the temporary nature of the recruitment subsidy may have another justification.[32] Cockx and Picchio 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.[33] In this case, the subsidy aims at compensating for the additional selection costs borne during the probation period when hiring long-term unemployed workers.

Conclusion

In Belgium structural youth unemployment is higher than in many other European countries. 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 streaming have been identified as key causal factors. Strict employment protection legislation focuses only on high-skilled youth. A reduction of the labour costs of low-wage workers 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 more resources to very intensive remedial education and guided work experience supporting very low-educated youth. Finally, entitling youth to low UB based on the principle of "mutual obligation", coupled with very intensive and durable guidance targeted at disadvantaged youth, is to be preferred over a strategy in which youth are not (or only late in the unemployment spell) entitled to UB.

31 B. Cockx, C. Goebel, B. Van der Linden: Politiques d'activation pour des jeunes chômeurs de longue durée sans expérience de travail, Gent 2004, Academia Press.

32 Ibid.

33 B. Cockx, M. Picchio: Scarring effects of remaining unemployed for long-term unemployed school-leavers, in: The Journal of the Royal Statistical Society: Series A (Statistics in Society), forthcoming.

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Spanish Youth Unemployment: Déjà Vu

Up to 2007, youth employment rates in Spain rose steadily for more than a decade, and the Spanish economy appeared to be on its way to bridge a persistent gap with the leading economies of Europe. However, since the onset of the Great Recession, this favourable trend has reversed. The employment rate for the age group 16-24 has dropped by more than 27 percentage points, from a peak of 45.2 per cent in 2007 to a trough of 17.6 per cent in 2013, thereby eliminating all of the gains achieved during the preceding long expansion.

Over the same period, the youth unemployment rate has almost tripled. While this rate bottomed out at about 20 per cent in 2007, it now stands at a record level of 57.2 per cent.

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