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PRESS RELEASE

Socioeconomic transitions on the labour market: a European benchmarking exercise

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What is the reason for fluctuations of a country's unemployment rate? The contraction of activity is reflected in two ways in the level of unemployment. On the one hand, job losses lead to more people becoming unemployed. Also, firms create fewer jobs while occupational mobility also declines: resignations and changes of employer are less frequent in a worsening economic climate. That means fewer job opportunities for those seeking work, and hence longer periods of unemployment.

The article describes the rates of job loss and job finding over the period from 1998 to 2014 for seven countries: Germany, Belgium, Denmark, Spain, France, United Kingdom and Sweden. The rates are estimated on the basis of the harmonised labour force surveys (LFS).

For the seven countries, the job separation rate is a significant factor explaining the variability of the unemployment rate. The outflow rate to work also contributes to it, but does not appear to be the driving force except in France and Spain.

In Belgium, rates of inflow into unemployment are similar in Flanders and Wallonia, but much higher in the Brussels Region. In other words, the characteristics of residents of the Brussels Region and/or the branches or firms where they work or the types of contract used are such that their job security is lower than in the other regions. The transition from unemployment to employment also features very marked differences. It has been systematically higher in Flanders than in the other two regions.

Job separation and job finding rates are then analysed using a multivariate model to estimate the relative importance of the observed characteristics. As had already been established on the basis of the aggregate measures, differences between countries are substantial. In 2014, for the reference individual (male aged between 35 and 39 years, unmarried, semi-skilled) the estimated job separation rate was 3% in Germany, 3.3% in Sweden and the United Kingdom, and 3.5% in Belgium, whereas in Denmark the rate reached 4.2%, in France 5.2% and in Spain 8.7%. That ranking has not always been the same over the years. On average over the period, the job separation rate is lower and more stable in Belgium. In the case of the United Kingdom, France and Belgium there is a moderate upward trend in the instability of employment over the period, and that is much more marked for Spain.

The multivariate model highlights the importance of education for job stability. Age (or seniority) is also a key variable, with high job separation rates for young people and very low rates for older workers. In France, Spain and Belgium, there is a virtually monotonic declining relationship, with a differentiation that continues beyond the age of 40 years, while for the other countries the distinction tends to be between persons under 30 and other workers. Family circumstances likewise play a role: single persons have significantly higher job separation rates than married persons.

The job finding rate also displays wide variations between countries, not explained by the observed characteristics. In 2014, for the reference individual, that rate is over 50% in Denmark and Sweden, but barely 30% in Belgium and Spain. This job finding rate is procyclical because the business cycle is a decisive factor. The model also shows the importance of education for that transition. It is easy for the young to find work again, but that becomes increasingly difficult for the older age groups. In the United Kingdom, Denmark and Sweden the differences between age groups are less marked, except in the case of the 55 to 64 age group where the probability of finding work declines sharply. Various factors account for these difficulties in finding work among older people, including some institutional and political factors which have gradually been corrected in recent years. Conversely, gender and marital status are less important covariate.

Apart from the business cycle and structural factors, a fundamental determinant of the job finding rate is the design of unemployment insurance and how it works in practice. All the empirical studies show a negative dependence between the job finding rate and the duration of unemployment, possibly due to depreciation of

the human capital or a process of selection over time, as unemployment individuals with more favourable characteristics find work more quickly.

For the persons finding work, the LFS data do not provide information on the length of time that those persons were previously unemployed. That has an important implication for the international comparison, because in countries where on average unemployed persons have already been without work for a long time, the outflow rates are lower. The Belgian unemployment insurance system is unusual in that there is no time limit, unless the job seeker is subject to sanctions. The proportion of very long-term unemployed is therefore institutionally greater in Belgium than in all the other countries examined, because those countries have a separate system for persons out of work for a very long time. Since it is not possible to control for elapse unemployment duration the international comparison of rates of transition from unemployment to employment is therefore bound to be unfavourable for Belgium.

To sum up, the European benchmarking shows that job stability is high in Belgium. It also reveals the low job finding rate in Belgium, although that is due partly to a statistical phenomenon. In an increasingly fast-changing world, it is vital to boost that rate. Apart from establishing the conditions for sustainable economic growth, we need to take action on the possible levers, education or the (age-correlated) weight of seniority, notably in decisions on hiring and lay-off (and in remuneration). It is also important to make it easier for benefit recipients to understand the Belgian unemployment insurance system, particularly its incentive aspects (benefits declining over time, etc.), so that the rules are clear and people get back into work faster.