

# Drivers of Labour Force Participation in Belgium

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## Introduction

Belgium is a developed economy where economic growth is based on a relatively small number of highly-productive people. Yet, productivity gains are stagnating while the dependency ratio between the number of persons of non-working age and the working-age population continues to rise.

Raising the activity rate among the working-age population would enable the economy to enhance its growth potential, ease pressure on public finances and thus improve the sustainability of the social security system. And lastly, wider labour market participation is also consistent with the notion of fairness as it ensures better social integration and helps tackle poverty by giving everybody an opportunity to contribute to general well-being, each according to their abilities.

This article is based on the High Council for Employment's 2019 report <sup>1</sup> to which the authors have contributed. The first section gives some stylised facts on the activity rate in Belgium and the Regions. We then concentrate on the 25- to 54-year-old group. The second section examines the drivers of the activity rate using individual data from the labour force surveys <sup>2</sup>. The third part quantifies the labour reserve in Belgium and its Regions. The last part of the article draws some conclusions.

<sup>1</sup> High Council for Employment (2020), *Meer actieven voor een welvarende en inclusieve economie*, Brussels, January.

<sup>2</sup> Results presented in this article are based on microdata from the EU Labour Force Survey. We wish to thank Statbel and Eurostat for the provision of the data.

## 1. Stylised facts on the activity rate in Belgium and the Regions

The activity rate is the share of active people (i.e. those in work or job-seekers) in the population of working age. In all countries surveyed, the changes in the activity rate over the lifecycle display a similar profile: it rises rapidly to begin with, up to the age of 30 years, reaches its peak among people aged between 30 and 50 years, before falling back, with a sharp decline at age 60 or 65.

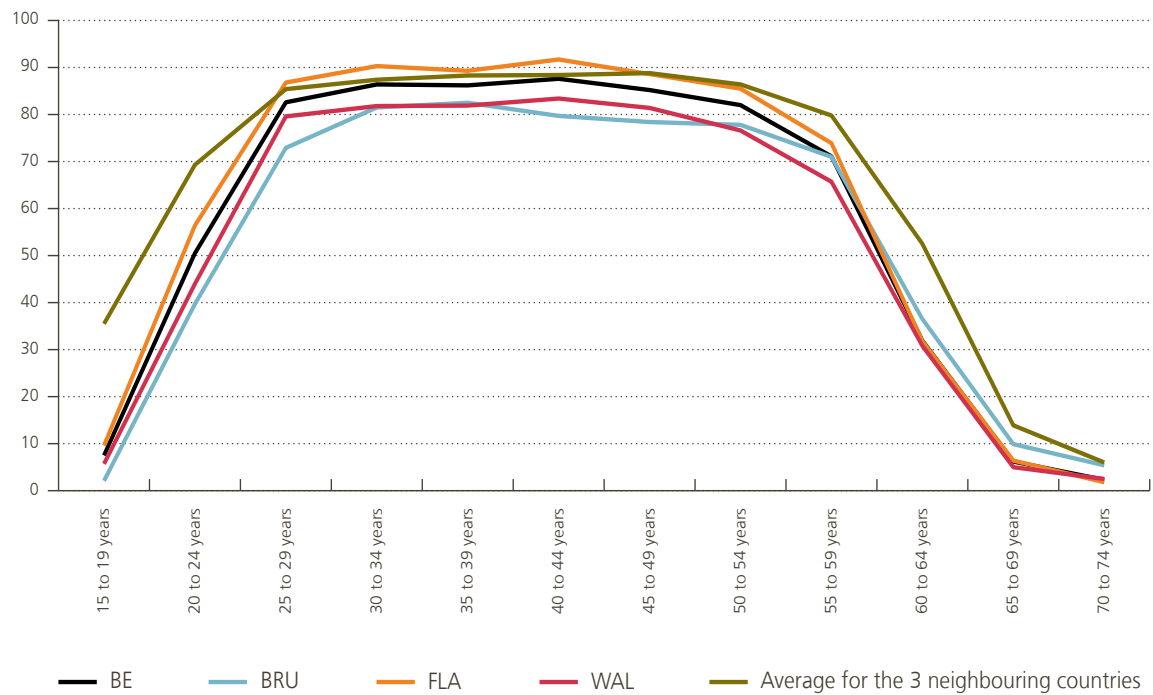
In Belgium, the activity rate for almost all age groups is below the corresponding average rate for the three neighbouring countries or the rates in Denmark and Sweden. The above mentioned profile by age category can be observed in the three Regions as well. The activity rate in Flanders compares favourably to the average for the three neighbouring countries, especially for the population aged 25 to 54 years. However, for these same age categories, Brussels and Wallonia display relatively low activity rates, 5 to 10 percentage points below the averages in neighbouring countries and the rates recorded in Flanders. For example, the gap in labour market participation between Flanders and Brussels is as large as 12 points among the 25 to 29-year-olds.

By contrast, the activity rate in all the Regions is considerably lower than in the neighbouring countries, both for young people (15-24) and for those over 55. The peak in the activity rate is shorter in Belgium: activity starts to tail off from the age of 45 years onwards, earlier than in the neighbouring countries.

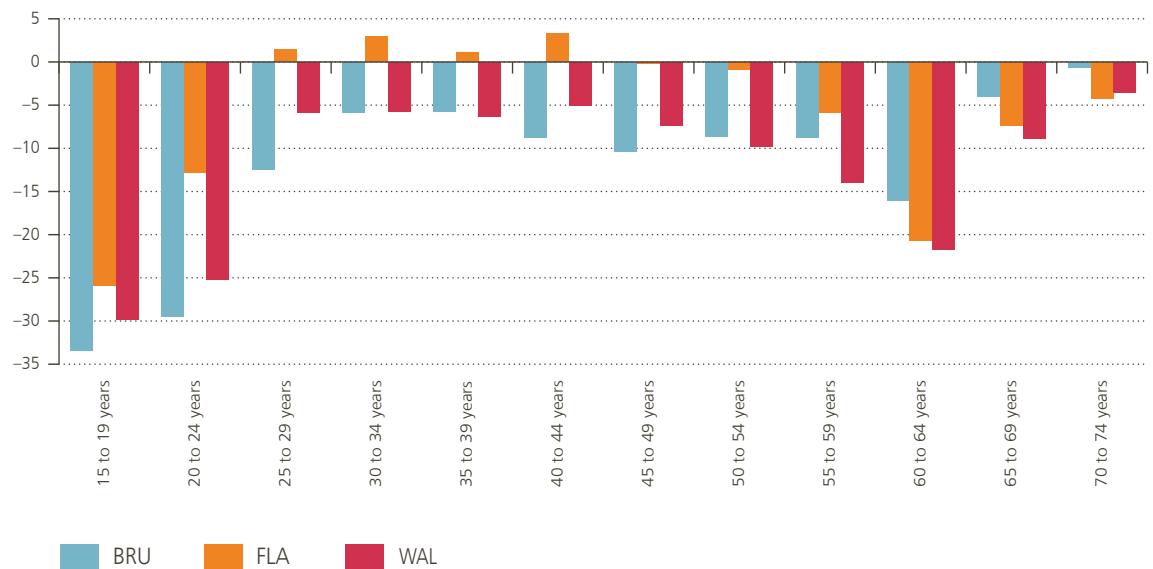
Chart 1

Labour force participation by age and region

(in % of the corresponding age group, 2018)



Deviation from the average for the three neighbouring countries (percentage points)



Sources: Eurostat, Statbel.

Over the last two decades, the activity rate among the population aged 15 to 64 years has risen in almost all the EU15 countries. With an increase of 4 percentage points since 1999, Belgium has followed this upward trend. This has been largely translated into a rise in employment. The gap between the three Regions has nevertheless widened. While the activity rate in Flanders rose by 6.2 percentage points between 1999 and 2018, it has remained virtually unchanged at a low level in the Brussels-Capital Region and has grown only modestly in Wallonia, to the tune of 1.5 percentage points.

The evolution of the activity rate over time differs between age groups. The labour market participation rate among people older than 55 has displayed a sharp increase everywhere, including in Belgium. However, Belgium has always had some catching up to do within this age group. On the other hand, a decline of several percentage points can be observed in the participation rate for young people aged between 15 and 24 years, while the activity rate for the population aged 25 to 54 years only registered a slight increase of 2.5 points between 1999 and 2018.

Given that this article, like most publications, calculates the activity rate as a ratio of the number of people in work or unemployed to the total population in the same age group, it is important to note that the prevalence of part-time work biases any comparison. In fact, its incidence differs from one country to another. Even within the confines of Belgium itself, part-time work is relatively less frequent in Brussels (one in every five workers works part-time there), while in Flanders or Wallonia, the proportion is about one in every four. This finding is only relevant for female employment, as part-time work among men is still fairly marginal in the three Regions.

Large differences in the activity rate between age categories, in conjunction with the working-age population getting older, illustrates just how important it is to raise activity rates. In fact, the demographic peak currently falls within the 50-54 age group at both national level and in Flanders and, to a lesser extent, in Wallonia. Over a 10-year horizon, with no change of policy, the gradual departure of the baby-boomers will tend to push down the average activity rate.

## **2. Determinants of prime-age labour force participation**

The slight decline in labour force participation among young people over the last twenty years can notably be explained by the longer time spent in education nowadays, and this is not specific to Belgium. The differences with countries that have a high activity rate among 15- to 24-year-olds (the Netherlands, Denmark, Sweden, Germany, etc.) are simply due to the fact that the combination of higher education and work is less common in Belgium (High Council for Employment, 2020).

At the other end of the age spectrum, the activity rate among 55- to 64-year-olds has risen significantly, thanks to the regulatory changes tightening the access to end-of-career arrangements (statutory pension, early retirement schemes and similar measures, etc.). The average effective age of retirement in Belgium remains nevertheless one of the lowest among the European countries: in 2018, according to OECD estimates, it was 61.6 years for men and 60.5 years for women.

### **2.1 Drivers of prime-age labour force participation**

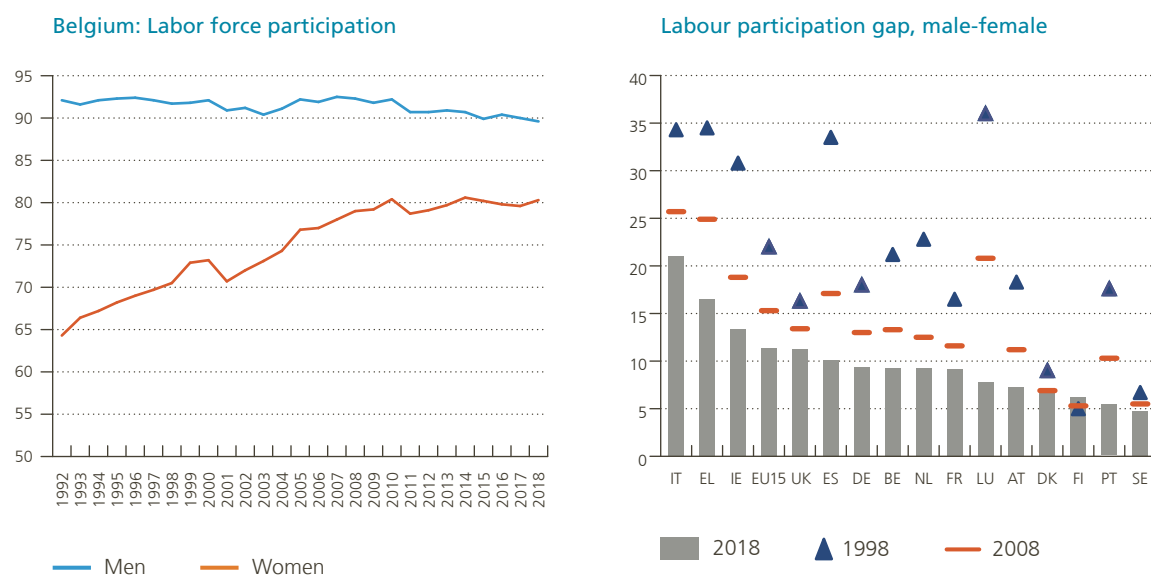
The activity rate is very high among the population aged 25 to 54 years (prime-age group): it reaches almost 90% for men and just over 80% for women. Even within this age segment, however, there are wide discrepancies among individuals. Gender, level of education, household situation, age, etc. all influence the decision to participate in the labour market.

The activity rate for 25- to 54-year-olds has grown almost constantly since the 1990s, but this growth is entirely attributable to the increase in the female labour force participation. Difference in the level of participation between men and women persist, even though the gap has tended to narrow in the last few decades. This observation applies to all European countries.

## Chart 2

### Female labour force participation

(in %, ages 25 to 54, percentage points)



Sources: Eurostat, Statbel.

The decision to join the labour market can be understood by applying the framework on the allocation of time within households, developed by Becker (1965). According to this framework, each partner chooses to work either in the household or on the labour market (see Christiansen et al. (2016)). All factors that have an effect on the expected return of household activities relative to what could be earned in the labour market influence the decision to work. Among these, there are the individual characteristics (age, level of education, marital status, number of children, etc.), job opportunities (business cycle, etc.), and also the economic policies in place such as the taxation of labour income, family policies (family allowances, childcare facilities), (in)activity support systems, etc.

One of the driving forces of the female activity rate is the increase in the average level of education: since the beginning of the 2000s, the share of women with a tertiary education degree has exceeded that of their male counterparts in Belgium (in 2018, among the 25 to 54-year-olds, 46% of all women had a tertiary education degree compared with 36% of men) and this investment in human capital has encouraged them to enter the labour market. Moreover, the wage gap between men and women has also tended to diminish over time. All other things equal, women continue to be paid less than men, but in Belgium this wage gap (6%) is small compared to the European average (16%).

Generally speaking, technological developments, reducing the amount of time devoted to domestic tasks, improved health standards, etc., have also supported higher labour force participation, especially among women. Other factors are related to the structure of the economy and demand for female workers: the expansion of

the services sector, which offers more part-time jobs and numerous activities still largely carried out by women, encourage female labour market participation.

The change in attitudes towards working women also influences their activity rate. Attitudes towards the role of women in society vary over time and between countries and cultures. Under this interpretation, a less conservative gender model would go hand in hand with more female jobs and a more egalitarian vision on the division of tasks within the household. Social standards are not set in stone: if women had a bigger weight in the labour force and/or were better represented in positions of power, gender-related stereotypes could be further eradicated, which would make it easier for more women to work in future generations.

We estimate the probability of an individual aged between 25 and 54 being active based on variables available in the micro-data from the labour force surveys. Here, the focus is on the extensive margin, namely the decision to participate in the labour market or not. We do not model the supply of labour in terms of number of hours. Nor do we take account of certain people who may decide to remain inactive because there is no corresponding demand on the labour market for the number of hours they can offer.

The econometric results are presented in the table below. We use a representative sample of the population aged between 25 and 54 years. This sample has been split into two groups (men and women) and the estimates have been made independently for each gender.

**Table 1**

**Probability of participating in the labour force**

(according to labour force survey data, for 25 to 54-year olds; 2018)

	Men			Women		
	Coefficient	Significance <sup>2</sup>	Probability <sup>3</sup>	Coefficient	Significance <sup>2</sup>	Probability <sup>3</sup>
Reference person <sup>1</sup>	0.5455		89	-1.4529	**	86
Age	0.1229	**		0.1973	***	
Age squared	-0.0017	***		-0.00264	***	
Low-educated	-1.1378	***	73	-0.9343	***	71
High-educated	0.5695	***	94	1.0403	***	95
Brussels	1.1272	***	86	0.2853		77
Wallonia	0.2141		83	-0.0689		79
Partner present in household	1.3994	***	97	0.4036	***	90
Single parent	0.5844		94	0.5232	***	91
Children under 6 years	-0.0535		88	-0.3452	***	76
Children between 6 and 14 years	-0.0379		89	-0.1228	***	83
Children between 15 and 24 years	-0.0663		88	-0.0913	**	84
Non-EU foreign origin	-0.4162	***	85	-0.9637	***	70
Local unemployment rate (Y-1)	-0.1364	***		-0.0818	***	86

Source: Eurostat.

1 Reference: individual age 42 years, medium-educated, living alone, residence in Flanders, born in an EU country (in most cases, in Belgium). The local unemployment rate for the reference is set at 4.4%, for both men and women.

2 \*\*\*, \*\*, and \* indicate statistical significance at 1, 5, and 10%, respectively.

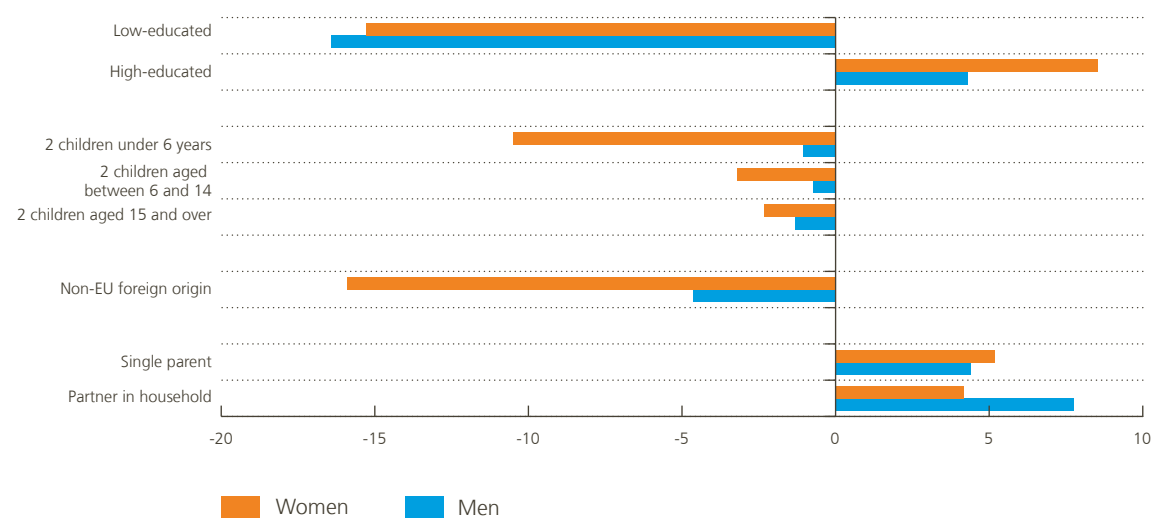
3 Probability of labour force participation in %. For dependant children, the assumptions used in the table are respectively: two children of less than 6 years and no other children; two children aged 6 to 14 years and no other children; two children aged 15 years or more and no other children.

We have modelled the probability of being active on the labour market (that is, being in work or unemployed as defined by the ILO). As we use mainly qualitative variables among our explanatory variables (low/medium/high level of education, Flanders/Wallonia/Brussels, etc.), the constant in the model corresponds to the reference person. Here, the reference is a man (or a woman for the model estimated on the basis of the female sample), medium-educated, living alone, with residence in Flanders, born in an EU country (in most cases, in Belgium). This constant can easily be transformed into a probability of being active. To calculate this probability, we also have to fix the other variables of the model: we set the age of the representative person at 42 and the local unemployment rate at the level recorded in Flanders in 2017 (4.4%). Given these assumptions, the probability of the reference person being active is 89% for men (and 86% for women). The table also gives the probabilities for some other *cases ceteris paribus* compared to the reference person. For example, for people with low education (a lower secondary school qualification, or less) with otherwise the same characteristics, the probability of being active is no more than 73% for a man (71% for a woman). The effect of the different explanatory variables is presented in the graph below.

Chart 3

### Changes in the probability of labour force participation by characteristic

(percentage points compared with the reference<sup>1</sup>, 2018)



Source: Eurostat.

<sup>1</sup> Reference: individual age 42 years, medium-educated, living alone, with residence in Flanders, born in an EU country (in most cases, in Belgium). The local unemployment rate for the reference is set at 4.4%, for both men and women.

### ***Educational level effect***

The educational level is one of the principal determinants of the decision to work. The probability of being active drops by more than 15 percentage points for people with no more than a lower secondary degree (low-educated) compared with those who have obtained an upper secondary degree as their highest degree (medium-educated). The gap between those who have obtained a higher education degree (high-educated) and the medium-educated people is 4 points for men and more than double for women (9 points).

### ***Age effect***

The probability of being active increases with age in our sample population of 25- to 54-year-olds. According to our estimate, the activity rate appears to reach its maximum before the age of 40 years, both for men and women, and to gradually decline after that.

### ***Dependency effect***

Among the significant coefficients, the burden of children displays the largest difference between men and women. For women, having children below 6 years old reduces the probability of labour force participation very significantly. For instance, if the household has two children in this age category, the gap compared to a woman without dependent children is 10 points. As expected, the effect is smaller for children aged between 6 and 14 years (3 points) and even less when the children are older (2 points). All these effects are statistically significant. In the case of men, while the family dependency effect seems to have a slightly negative impact (of around 1 point), none of these effects is statistically different from zero. In other words, the upbringing of children within the household apparently rests much more on women, despite societal change, and more specifically, the availability of childcare facilities in our country.

### ***Household type effect***

According to theory, living with a partner is likely to have a positive effect for men and possibly negative for women. With the 2018 survey data for Belgium and the specification used, the presence of a partner in the household has a positive effect on the decision to be active on the labour market both for men and women, with a stronger effect for men.

The single-parent category is also associated here with a higher activity rate compared to an individual living alone. This effect is only significant for women. Intuitively, one would actually expect a negative influence from such a family set-up on the decision to work, if the person can benefit from financial support other than labour income.

### ***Non-European foreign origin effect***

The survey covers the person's country of birth. This dummy variable is equal to 1 when the country of birth was outside the EU28. The foreign origin effect is significantly negative for the decision to participate in the labour market. This effect is very pronounced among women, on the same scale as being low educated. Because we use an additive model, the estimated effects are independent of each other. Low-educated women of foreign origin with family responsibilities cumulate disadvantages and consequently have a much lower probability of being active.

### ***Household income and region of residence effect***

The labour force survey does not contain any information on non-labour household income. We have therefore used the local unemployment rate as a proxy to take it into account indirectly. This variable gives some idea of job (non-) opportunities, which is an important variable affecting the decision to participate in the labour market. To mitigate endogeneity problems, this variable is lagged by one year (in other words, we use the local unemployment rate of 2017, while the rest of our data refer to the situation in 2018).



The local unemployment rate is a gauge of the difficulty in finding job opportunities at the local level and has a very significant effect. The higher the local unemployment rate, the less people are inclined to enter the labour market. Here, the region of residence effect is conditional on this local unemployment rate, as the specification controls for both effects. Since Wallonia and Brussels suffer from higher unemployment than Flanders, a large chunk of the region effects is picked up by this “local unemployment rate” variable. According to the estimates, the coefficients for Brussels and for Wallonia are not significantly different from that for Flanders (which is the reference Region).

In an alternative specification where the local unemployment rate is not included, the age, education level, family status, child dependency and country of birth effects are still quite close to the findings in the baseline presented here. The regional dummies for Brussels and Wallonia become negative and significant.

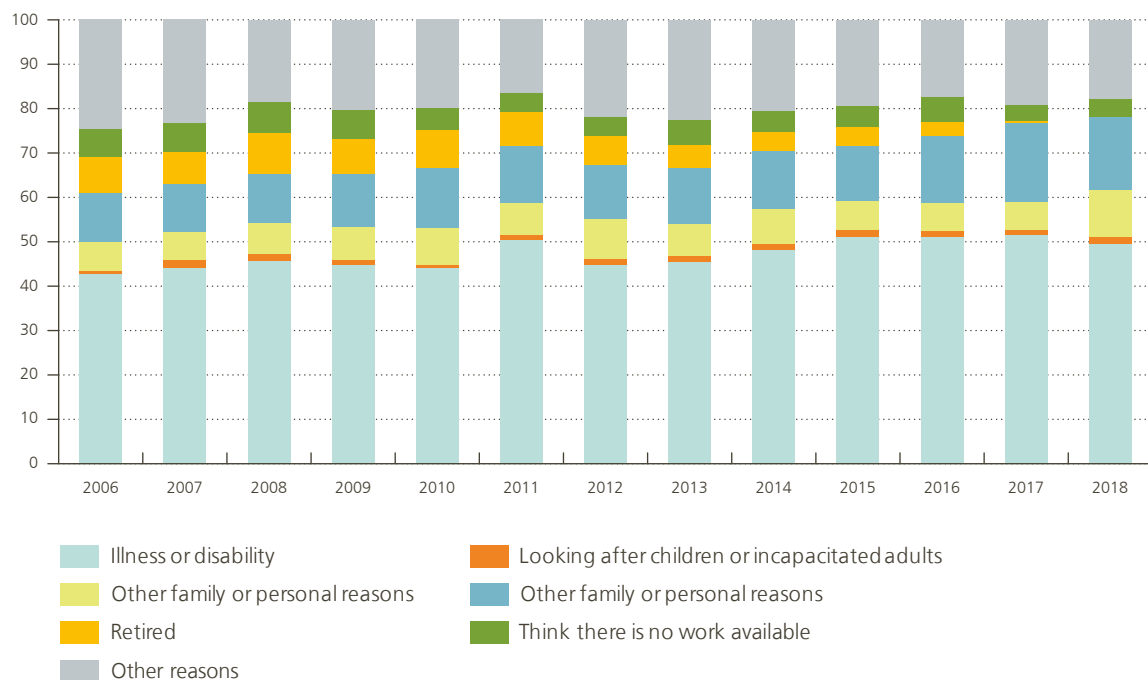
## 2.2 Reasons prime-aged people do not participate in the labour force

People who do not enter the labour market often have different grounds for remaining inactive. In the labour force surveys, people are notably questioned about the reasons why they are not looking for a job. The reasons given are quite different according to gender and age group. For the group of people aged 25 to 54 who declare they are not looking for work, almost one in every two men and two in every three women cite illness or a handicap as a reason for inactivity. This may be due to primary incapacity (short-term sick leave), long-term illness or disability. Family responsibilities are the motivation for one in every five women, while such grounds account for roughly 2 % of the replies for men. Women not looking for a job also often cite family or personal reasons (more than 20 %), compared with 10 % of men.

Chart 4

### Changes over time of the reasons given for not seeking employment

(inactive population aged between 25 and 54: men)



Source: Eurostat.

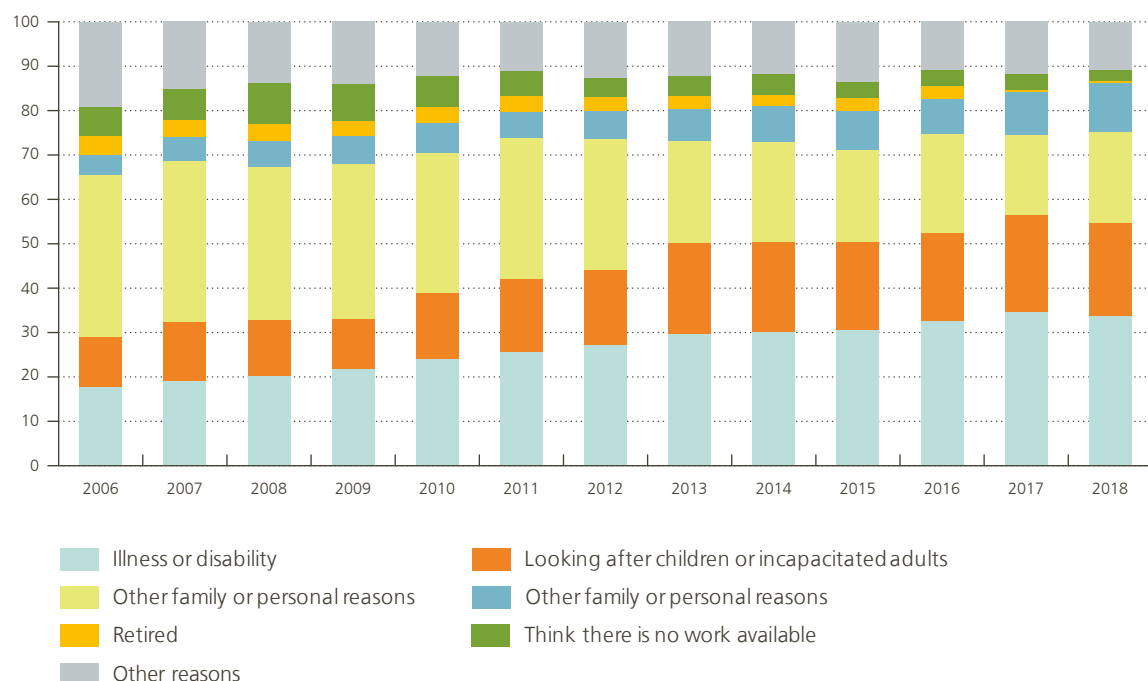
For men aged between 25 and 54 who declare they are not looking for a job, there is a drop in the relative shares of retirement (–6.9 points between 2006 and 2018) and other reasons (which include early retirement). The fraction of men who feel there is no suitable work available for them (discouraged workers) is slightly down. The fluctuations in this category are partly explained by the economic cycle (a net increase from the great recession of 2008, decline from 2012 on).

The share of men aged 25 to 54 years who are not looking for a job because they are in higher education or training has grown (+ 5 points), as have family responsibilities and other family or personal grounds (+ 4.9 points for the two categories together). A rise in the number of people citing illness or disability as a reason has also been observed (up by almost 7 points between 2006 and 2018).

Chart 5

### Changes over time of the reasons given for not seeking employment

(inactive population aged between 25 and 54: women)



Source: Eurostat.

For the group of women in the same age bracket who say they are not looking for a job, there is also a decline in the share of retirement (–4 points between 2006 and 2018) and other reasons (including early retirement). The sum of the reasons related to looking after children or adults and other family or personal reasons also declines in relative importance (–6.3 points for the two categories together, other family or personal reasons have fallen, while impediments due to care for children or incapacitated adults have grown). The number of discouraged job-seekers among these women is also down, by 4.2 points.

On the other hand, a steady rise in the number of inactive women participating in higher education or training can be observed (+ 5 points), as well as a very sharp increase in “illness or disability” grounds (+ 16 points between 2006 and 2018).

### 3. How big is the labour reserve in Belgium and the three Regions?

The unemployment rate is traditionally the most widely used yardstick for measuring the under-utilisation of labour. But the growing variety of forms of employment, on the one hand, and the strict definition of unemployment on the other hand imply that an indicator of the available labour reserve can also be constructed on the basis of the labour force survey (LFS). The labour reserve is a wider concept than unemployment: alongside the unemployed, it comprises part-time workers who want to work more hours than they do at the moment, as well as non-active persons who are either willing to work but not immediately available or not actively seeking a job. Such an analysis is primarily relevant at a time when the unemployment rate is at an all-time low, but there is still some margin for raising the activity rate, even among the 25- to 54-year-olds. In the following paragraphs, additional indicators to unemployment are calculated for Belgium and the three Regions in 2018.

#### 3.1 Part-time work and under-employment in this group

According to the definition of employment in the LFS, a person is considered as working when he or she has worked at least one hour in paid employment during the reference week. However, employment does not imply that the labour potential among working people is fully utilised, as it is possible that some part-time or full-time workers in the reference week have worked fewer hours than they are prepared to work. From the perspective of high-quality work, the definition focuses on under-employment among part-time workers who would willingly work more hours in their current job or in another job.

In the last few decades, part-time work has gained importance in many countries, including Belgium. Since 2011, this trend has somewhat levelled off in Belgium and the EU15. In 2018, this work arrangement was a little more common in Belgium than on average in the EU15, (25 % compared with 22.5 % in 2018) or France (18 %), but less widespread than in Germany (27 %) and especially the Netherlands (50 %) which is an outlier for this indicator.

Moreover, the Flemish and the Walloons are more often likely to work part-time than Brussels-based people (26 % and 24 % against 21 %). The possibility of part-time work gives the worker advantages, such as a better work-family-life balance, a lower entry barrier to the labour market for some groups at risk, and more flexibility to better spread the number of hours worked over a longer career. In Belgium, there are also various schemes that encourage part-time work – time credit, career breaks and reduced working hours for particular circumstances – and these schemes are highly popular among employees who are approaching the end of their career and especially among women (Nautet and Piton, 2019).

In line with the increase in part-time work, the variety in part-time work arrangements is also growing, ranging from small jobs (10 or fewer hours in paid work per week) to the more conventional 50 %, 60 %, 80 % and 95 % arrangements (Eurofound, 2017). Companies, notably in the services sector, are demanding wider diversity in working times. Moreover, greater flexibility to adjust the volume of labour through working hours may also be useful for firms operating in cyclically sensitive sectors. However, greater flexibility also poses a risk in that a growing number of part-time workers need to do with fewer working hours per week than they would prefer. This is a case of under-employment.

The LFS makes it possible to estimate the scale of under-employment. All those who declare they work part-time and want to work more hours, regardless of the way in which they would like to achieve this<sup>1</sup>, are regarded as under-employed part-time workers. This concept differs from involuntary part-time employment seeing that not every part-timer who wants to do more hours declares that they are willing to work full-time.

<sup>1</sup> Possible ways in which to work more hours are more hours in the current job, an extra job, another post with more hours or no specific preference.

In 2018, 132 000 part-time workers aged between 25 and 54 years old replied that they would like to work more hours. This corresponds to 3.6% of employment in the age category in question, lower than in the Netherlands (4%), the average for EU15 countries (4.1%) and France (5.2%) but higher than in Germany (3.1%). The corresponding under-employment rates for the three Regions are 2.8%, 4.5% and 6.4% in respectively Flanders, Wallonia and Brussels. It is worth noting that the Region where part-time work is most common, namely Flanders, is also the Region with the lowest under-employment among part-time workers, and vice versa for Brussels.

Furthermore, in 2018, around two-thirds of part-time workers who wanted to do more hours were female. For about half of the women in this group, the most important reason is that they cannot find a full-time job or that the job they want to do is only offered on a part-time basis. Working part-time and shorter hours are actually the norm in a few services sectors with primarily “female” jobs, such as domestic services, catering, the arts, and administrative and support services. It is a fact that in the 25-54 age category, more than four out of every five part-time workers are women. Lastly, one in every four under-employed part-time workers have a temporary contract while this is the case for less than one in fifteen other part-time workers.

It is also interesting to know how many extra hours under-employed part-time workers want to work and how this effort would translate into extra jobs with average working time. The LFS makes it possible to calculate the usual number of hours worked per week, as well as the number of extra hours a surveyed person says they would like to work. A few studies (Eurofound, 2017; Bell and Blanchflower, 2018) have already done this calculation for EU Member States. We apply the same methodology to Belgium and the three Regions, for the year 2018 and for the 25- to 54-year-old age category. The usual number of hours per week<sup>1</sup> that the average Belgian employee works is 37. For the group of 132 000 Belgians who work part-time and would be happy to work more, the average usual working week counts 22.7 hours, compared with a desired average working week<sup>2</sup> of 35.4 hours. This implies that, on average, they want to work an extra 12.7 hours a week, which is around one-third of the average working time of a Belgian employee in a normal week. The labour supply corresponding to this under-utilisation of labour is equivalent to 45 000 jobs.

The same estimate can also be established for each of the three Regions. The average number of extra hours sought by under-employed part-time worker is the highest in Brussels (14.4 hours a week), followed by Wallonia (12.7 hours a week), and the lowest in Flanders (11.8 hours a week). These differences between the three Regions are largely attributable to other preferences for the number of target hours<sup>3</sup>. The usual average working time in the three Regions is close to the national average of 37 hours a week. As a result, labour supply in Brussels, Flanders and Wallonia may be enhanced with the equivalent of respectively 9 000, 19 000 and 16 000 jobs when all part-time workers are optimally employed (see table 2).

### 3.2 Inactive people who are willing to work, and either seeking work or available

Besides the group of unemployed and part-time workers who want to work more, there is also limited potential for mobilising people among the inactive for the labour market. A small minority of them declare that they are willing to work, even though they are not part of the unemployed. The definition of unemployment used in the LFS is in fact fairly strict. To be classified as unemployed, a person has to meet various criteria, namely: have had no work during the reference week, be available for a job within the next two weeks and have been actively seeking work over the last four weeks. People who meet only one or two of the listed criteria are considered as

1 Answer to the question how many hours are normally worked. This figure was capped at 60 in the calculation of the average (= maximum among employees) and no account was taken of zero values.

2 Answer to the question how many hours a person would preferably like to work. The question is only asked when a person declares he/she wants to work more. The number of hours preferred was capped at 40 in the calculation, the equivalent of a full-time job.

3 The number of hours preferred per under-employed part-time worker comes to respectively 37, 34.5 and 35.5 in Brussels, Flanders and Wallonia. The number of hours preferred was once again capped at 40 in the calculation.

inactive, even if some show similarities with the unemployed. They are included in the wider definition of the labour reserve. Eurostat distinguishes two categories here.

The first category is made up of job-seekers who are not immediately available for work. The main reasons for not being able to start work immediately (within the next two weeks) are personal and family circumstances (including maternity leave), illness and the completion of studies. Also included in this group are people who already found work but will start their job at a later time. These are mostly people who are on long-term leave (more than three months) from work because they are taking a career break or leave on time credit. Lastly, there are also those who say they are actively seeking work but have taken no further initiatives in the reference month. All in all, this group is small (46 000 people) and is characterised by a strong connection with the labour market and fairly easy transition to employment (or unemployment) once available (Eurostat, 2018).

The second category consists of inactive people who declare that they are prepared to work and available but are not actively seeking work. This is a bigger group (69 000 people) than the former, but the connection with the labour market is weaker here, as 30 % of the people in this group have absolutely no work experience. Furthermore, this group shares several background characteristics with the long-term unemployed and other inactive people, such as low-skilled, foreign-origin, women looking after children or incapacitated adults (Vansteenkiste et al., 2019). Lastly, illness and disability are the most common reasons for inactivity among those aged 45 and over (around 40 % of all cases). For this age group, inactivity appears to be very persistent. In the case of salaried employees who become ill, there have been new administrative measures since 2017 to facilitate their re-integration trajectory.

Both groups together make up the potential labour force reserve among the inactive, accounting for 17 % of the total inactive population aged between 25 and 54, compared with an average of 21.7 % in the EU15. By contrast, the share of the inactive workforce in this age category in Belgium closely reflects the EU15 average (15 % compared with 14.1 %). The lower willingness to work among Belgian inactive people of prime age is attributable to the existence of potentially high entry barriers to the labour market. These entry barriers may take the form of insufficient preparation for the labour market, limited availability, weak financial incentives or a combination of these. The lack of relevant labour market skills as a result of short schooling in combination with little or no work experience is a key factor in Belgium (OECD, 2019). This entry barrier is possibly combined with limited availability for health reasons or a shortage of affordable childcare facilities, and weak financial incentives when an inactive person has access to a replacement income or other sources of income.

### 3.3 The labour force reserve in Belgium and the three Regions in 2018

As explained in the preceding paragraphs, the potential labour supply is not limited to the unemployed, but also lies in a reserve of employable workforces among the employed and the inactive. This additional labour reserve – defined as the sum of under-employed part-time workers (expressed in equivalents of jobs with average working hours) and inactive people willing to work who are either looking for a job but not immediately available, or are available for work but not actively seeking– amount to respectively 32 000, 68 000, 59 000 and 160 000 people in Brussels, Flanders, Wallonia and Belgium.

Table 2

**Unemployment and the additional labour reserve in Belgium and the three Regions**

(in thousands of people, population aged between 25 and 54; 2018)

	Brussels	Flanders	Wallonia	Belgium
Unemployed	54	62	89	205
Additional labour reserve	32	68	59	160
of which:				
Under-employed part-time workers <sup>1</sup>	9	19	16	45
Available, not actively seeking work	13	31	25	69
Job-seekers, not available	10	18	18	46
<b>Total labour reserve</b>	<b>86</b>	<b>130</b>	<b>148</b>	<b>366</b>
<i>p.m. Number of working persons</i>	<i>376</i>	<i>2 204</i>	<i>1 053</i>	<i>3 632</i>
<i>Number of inactive persons</i>	<i>116</i>	<i>291</i>	<i>273</i>	<i>680</i>
<i>Population aged between 25 and 54</i>	<i>546</i>	<i>2 557</i>	<i>1 415</i>	<i>4 517</i>

Source: Statbel.

1 Expressed in equivalents of jobs with average working hours.

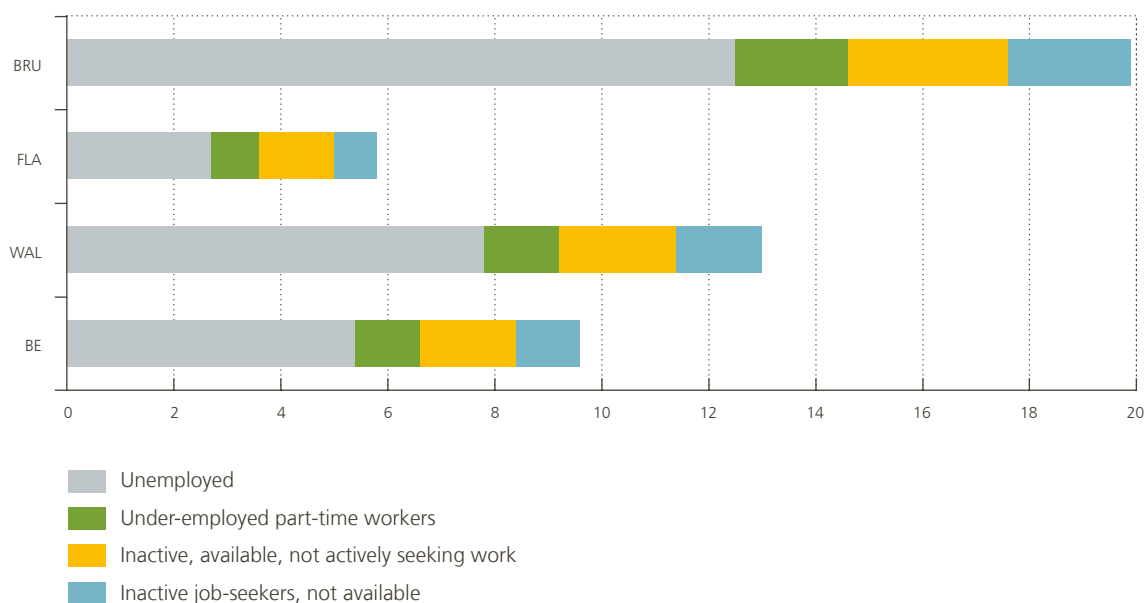
Only in Flanders does the number of people in the additional labour reserve exceed the number of unemployed. In the recent period of strong job creation, workers have in the first place been recruited from the pool of unemployed and only after that from the group of inactive people further removed from the labour market who are no longer looking for a job but are actually available for work.

If all components of the labour reserve are expressed in proportion to the corresponding active population, we obtain the labour reserve rate for Belgium and the three Regions. This labour reserve rate should be interpreted as a wider concept than the unemployment rate and gives a more nuanced perspective on the extent of the labour market tightness.

## Chart 6

### Labour reserve rate in Belgium and the Regions

(population aged between 25 and 54, in % of the active population, 2018)



Sources: Statbel, calculations by Statbel.

Using the labour reserve rate instead of the unemployment rate accentuates the differences between the three regional labour markets even further. The labour reserve rate varies between 5.8% in Flanders and 20% in Brussels with a middle-of-the-road value of 13% in Wallonia, compared with an unemployment rate of respectively 2.7%, 12.5% and 7.8%. In fact, a higher unemployment rate goes hand in hand with a higher value for each of the three additional indicators for unemployment.

In recent years, the Flemish labour market has become increasingly tighter. In early 2020 just before the outbreak of COVID-19, unemployment was running at an all-time low. Moreover, in the coming decade, population ageing will lead to a big outflow of workers who are currently over the age of 50. Policy makers are therefore facing a major challenge. In the first place, the additional labour reserve among the 25- to 54-year-olds can be used. This indicator is probably an underestimation of the full labour potential among inactive people as no account is taken of those people who could be employed in the future provided that the necessary support and incentives are put in place (students, people on an integration income, those with a disability, young (low-educated) housewives, often of foreign origin). Also, Flanders could draw on the much bigger labour reserves from Brussels and Wallonia, although, here too, practical experience has shown that the previously mentioned entry barriers in combination with insufficient language skills and interregional-mobility-related costs are not to be underestimated (Nautet, 2018). Finally, the young category (15-24-year-olds) and an extension of the careers among those over 55 can also provide a way out.

## 4. Conclusions

This article has shown that there is scope for raising the activity rate in Belgium and in each of the three Regions. For almost all age groups, the activity rate in Belgium is below the average for the three neighbouring countries. The widest gaps are found in the group aged 15 to 24 years and that aged 55 to 64. Flanders is the only Region where the activity rate of the population aged 25 to 54 years bears comparison with the three neighbouring countries. Lower activity rates in the younger age group in Belgium than in the reference countries is due to the fact that the combination of work and studies is less common. For the group aged 55 to 64, the situation has improved over the last twenty years, largely thanks to a rationalisation of end-of-career working arrangements and the adaptation of labour laws to the fact that people are coming on the labour market later on average, while life expectancy has risen continually. However, the average effective age of retirement in Belgium in 2018 was still one of the lowest among the European countries.

The determinants of the decision to participate in the labour market among 25- to 54-year-olds have been examined separately for men and for women. In both groups, the educational level is the main driving force. The probability of being active drops by more than 15 percentage points for people with no more than a lower secondary qualification (the low-educated) compared with those who have obtained an upper secondary school degree. The difference between people who have obtained a higher education diploma and the medium-educated is 4 points for men and reaches more than double for women (9 points). In the vast majority of cases, parenting duties are still borne by women. For these women, having children below 6 years reduces their probability of participating in the labour market dramatically. This effect tails off as the age of the children increases, but stays significantly negative for all ages. For men, on the other hand, effects related to family responsibilities are very limited. For them, the decision to join the labour market is not statistically affected by the presence of children in the household, not even young children. Lastly, being born in a country outside the EU contributes to reducing the activity rate. The negative impact is 5 percentage points for men and more than 15 points for women. Low-educated women, of non-EU foreign origin with dependants in the family consequently run a much higher risk of non-participation in the labour market. The ability to be active also depends on job opportunities at the local level. Both for men and women, the probability of being active declines when the regional unemployment rate is high.

The labour reserve is a concept that covers not just the unemployed, but also inactive people with a profile similar to job-seekers, namely inactive people who are looking for a job but not immediately available for the labour market and people who are willing to work and available, but not actively looking for a job. It also includes people with a part-time job, wishing to work more hours. The labour reserve is a particularly relevant concept when the unemployment rate is low, to get a better picture of the labour force that can be mobilised.

Among the 25- to 54-year-olds, there are 46 000 inactive people who are actively looking for a job (10 000 of which in Brussels and 18 000 in Flanders and in Wallonia apiece) and 69.000 available inactive workers who are not looking for a job (or respectively 13 000, 31 000 and 25 000 people in each of the three Regions). This latter group probably has a weaker link with the labour market, notably because they are older, have had short schooling, are ill or have a disability (Vansteenkiste et al., 2019). Lastly, 3.6 % of people working part-time say they want to work about 13 extra hours per week. The unused labour supply of these under-employed people aged 25 to 54 years corresponds to 9 000, 19 000 and 16 000 jobs respectively in Brussels, in Flanders and in Wallonia; that is, 45 000 extra jobs for the whole country. The gap in unemployment rates observed between the Regions is not reduced when looking at the broader concept of the labour reserve: the pools of unemployed, employable inactive people and part-time workers wanting to work more are all relatively more numerous in Brussels and in Wallonia than in Flanders. It therefore seems important for the Regions that Flanders can dip into the reserves of the others, even though the entry barriers (linguistic skills, mobility-related costs) should not be under-estimated.



The econometric results presented in the paper show that the decision to participate in the labour force also depends on local employment opportunities. For both men and women, the probability of being in the labour force decreases if the unemployment rate in the region is high. Measures taken to avoid an increase in unemployment, even in the context of a severe temporary shock like the Corona crisis, should also prevent a reduction in participation and thus limit long-term damages to the labour market.

Given the importance of education in explaining labour market participation, in 2020, the High Council for Employment will be focusing on job opportunities for the low-skilled.

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