



# **Mass Joblessness, the Bismarckian Model and the Limits to Gradual Adaptation: The Case of Belgium**

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## **Abstract**

The paper shows that gradual but fundamental changes to Belgium's Bismarckian income protection system have helped to contain the poverty consequences of mass unemployment. Belgium's social insurance system has effectively been transformed into a minimum income protection system; benefits have become more a function of assumed need than past contributions. While gradual reform has helped to contain poverty, the ad hoc adjustments of the past two decades have come at a cost. The legitimacy of the system is under threat and poverty is increasing among the most needy. It appears that the limits to gradual adaptation have been reached.



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## 1. Introduction

This article looks at the poverty and social policy consequences of chronic labour market exclusion in Belgium, a country which seems to epitomize just about everything that is wrong with continental European labour markets. For over more than two decades now, Belgium has been confronted with persistent high unemployment and holds the dubious honour of having one of the highest long-term unemployment rates in Europe. Still, Belgium has maintained a comparatively low relative poverty rate, also among the unemployed. This may come as surprise to those who have argued that mass structural unemployment has led to “new poverty” in the Bismarckian income protection systems in continental Europe.

This article seeks to shed light on Belgium’s apparent success in containing poverty under conditions of mass structural unemployment. It will be shown that gradual but fundamental changes to the by origin Bismarckian income protection system have helped to keep poverty levels down. Belgium’s social insurance based benefit system has effectively been transformed into a minimum income protection system, in which benefits are a function of assumed need rather than past contributions. However, these changes have come at a cost, especially in terms of the fairness and legitimacy of the system. It will be argued that although reforms of the past decades have gone a long way in countering the potential poverty consequences of chronic unemployment, there appear to be limits to what further progress can be achieved through gradual adaptation. These limits are in part economic in nature, in part political.

## 2. The new poverty thesis

It is a familiar claim that Europe’s chronic mass unemployment problem has given rise to ‘new poverty’ (see e.g. Lawson and Wilson, 1995; Funken and Wilson, 1995). The argument runs roughly as follows. In Europe, where the Bismarckian model prevails, income protection is principally provided through social insurance. In a social insurance system, the level of support given to an unemployed person is generally dependent on past contributions, previous wages

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and work history. This has several implications. First, new labour market entrants are, at least in principle, not entitled to unemployment insurance benefits. As we know, Europe's unemployment problem, as it has emerged over the past few decades, is in effect to a large extent a problem of new labour market entrants failing to gain access to the labour market. Youth unemployment rates have, for the past two decades, and depending on the state of the business cycle, run well into 20 or 30 per cent in many European countries. Similarly, female unemployment rates have been particularly high in many European countries. Many unemployed women are new entrants or re-entrants after a period of voluntary withdrawal from the labour market. It is reasonable to assume, therefore, that many of these new labour market entrants or re-entrants with no or insufficient contribution records are not entitled to unemployment benefits and that they therefore lack adequate income protection. Furthermore, in a social insurance system, even a person with a good contribution record will eventually deplete his or her entitlement if a spell of unemployment lasts a long time. Again, it is a well-established fact that unemployment in much of Europe is long-term in nature. In the EU as a whole, about 30 per cent of the unemployed at any given point in time have been out of work for more than a year.

This considered, it seems quite plausible indeed that many of Europe's unemployed are inadequately protected within the framework of Europe's social insurance based social protection systems. It is certainly the case that over the course of the past few decades' social assistance dependence among the working age population has surged in most European countries, not in the least among the unemployed (Gough et al., 1997). The surge in social assistance dependence is often presented as evidence that the social insurance based social protection model fails to deal with rising need among the working age population. Many also take the rise in social assistance dependence as evidence that poverty has risen. Proponents of the new poverty thesis argue that levels of income support provided under social assistance tend to fall well short of widely used poverty thresholds, a claim that is supported by some studies (Andries, 1996; Gough et al., 1997). In short, it is quite reasonable to suspect that the Bismarckian social protection



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model, which remains dominant throughout much of Europe, fails to deal with the poverty consequences of chronic mass unemployment.

### 3. Unemployment and poverty in Belgium

#### 3.1 Unemployment

Belgium, as most other European countries, experienced a dramatic increase in unemployment after 1973. The actual extent of the increase depends heavily on the measure of unemployment used. The most widely used measure for cross-country and cross-temporal comparisons are the standardized unemployment rate, as defined by the ILO and calculated on the basis of labour force survey data.

By this measure (as by any commonly used measure), Belgian unemployment soared dramatically after the energy price shocks of the early 1970s. The rise in Belgium followed much the same pattern as the rises elsewhere in Europe. Indeed, during much of the 1980s and 1990s, Belgium's standardized unemployment rate hovered around the EU average rate. In 1997 - the year to which the latest available poverty data refer - Belgium's ILO unemployment rate stood at 7 per cent (OECD, 1998).

Table 1. Labour market performance of Belgium in a European perspective, 1997

	ILO unemployment rate	Long-term unemployment share	Labour slack*	Non-employment
Belgium	7.1	60.5	14	32.9
Denmark	4.6	27.2	8.8	18.7
France	14.2	41.2	15	33.3
Germany	9	47.8*	9.9	26.7
Ireland	10.6	57	14.5	32.4
Italy	9.8	66.3	17.3	35
Netherlands	4.4	49.1	9.5	22.1
Portugal	6.2	55.6	7.3	28.1
Spain	16.2	55.5	23.6	36.3
UK	8.2	38.6	10.3	22.6
OECD Europe	8.9	47.6	-	29.4

Sources: OECD Employment Outlook 1998; \* Standing, 1999, figures for 1996

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However, Belgium stands out in that unemployment has been exceptionally persistent in nature for the past few decades (table 1). Throughout the 1980s and 1990s, Belgium had just about the highest long-term unemployment share in the OECD area, with more than 65 to 70 per cent of the unemployed out of work for more than one year, depending on the stage in the business cycle. At around the late 1990s, the share of the long-term unemployed in total unemployment had dropped somewhat but was still above 60 per cent. Hence, although Belgium's standardized unemployment rate is not particularly high compared to the European average, a comparatively large share of the Belgian work force is structurally excluded from the labour market.

Moreover, unemployment (including long-term unemployment) is particularly high among the categories that are widely perceived as being inadequately protected under social insurance: youngsters and women - many of whom are new entrants without contribution records. In 1997, Belgium's youth unemployment rate stood at well over 20 per cent and its female unemployment rate at almost 12 per cent.

The standardized unemployment rate, while arguably one of the more appropriate measures for international and cross-temporal comparisons, is also a strict measure of involuntary labour market exclusion. It is based on the number of people who report that they are unemployed, available for work and actively making efforts to find a job. For instance, discouraged workers - jobless persons who want a job but are no longer actively looking for it - are not counted as unemployed under the ILO definition.

One alternative albeit equally if not more imperfect measure is the official unemployment rate (table 2). This includes all those who are officially registered as full-time unemployed and entitled to unemployment benefits. The official unemployment rate in Belgium has tended to be higher than the standardized rate because it includes people who are officially registered as unemployed but not actively looking for work. Hence, this measure also includes to a certain extent what one might label 'discouraged workers', provided, of course, that they are (still) entitled to unemployment insurance benefits. (The fact that the number of

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people receiving unemployment benefits is higher than the number of the ILO unemployed already hints to the peculiar nature of Belgium's 'social insurance' system. See below.) For much of the 1990s, the official unemployment rate hovered between 10 and 12 per cent, while the ILO unemployment rate was in the 7 to 9 per cent interval. It is important to emphasize, once again, that the vast majority of the officially unemployed are long term unemployed. In 1999, more than 60 per cent had been registered as full-time unemployed for over a year, and 40 per cent for over 2 years (RVA, 2000).

Table 2. Evolution of the number of people entitled to unemployment insurance benefits for full-time unemployment, Belgium 1970-2000.

Year	Number of full-time unemployed	Full-time unemployment as a percentage of the labour force
1970	70,753	1.9
1975	174,48	4.4
1980	322,310	7.9
1985	505,944	12.3
1990	364,696	8.7
1995	555,252	12.9
2000	439,149	10.1

Source: Deleeck (2001)

An even broader measure of unemployment is the broad unemployment rate as calculated by the OECD (1997). This measure includes not only people claiming benefits for full-time unemployment, but also those claiming benefits for part-time and temporary unemployment. It also includes people who are in the main early retirement scheme (officially an unemployment scheme) and people in special employment programmes. According to the OECD, broad unemployment as a percentage of the broad labour force was around 25 per cent for much of the 1990s. The OECD broad unemployment estimate for Belgium arguably overstates the extent of unemployment in some respects. For instance, people who receive career interruption benefits are counted as unemployed. (Excluding this category would reduce the broad unemployment rate only by about a percentage point or so.) Similarly, those in direct job creation programmes as unemployed, which is appropriate since most of these job schemes do not offer permanent employment and participants have to accept a suitable regular job if they are offered one. The OECD broad unemployment rate even understates the true extent of involuntary labour market exclusion in some respects. For instance, people on social

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assistance are not included. Neither, of course, are people who want a job but who are not entitled to unemployment benefits or who have lost or depleted their rights. So even the OECD broad unemployment rate excludes to a large extent discouraged workers - a group that ought to be included in any proper measure of involuntary labour market exclusion.

Another alternative measure of unemployment is Standing's (1999) index of labour market slack. This index, calculated on the basis of labour force data, does include discouraged workers, i.e. it includes those who say that they want work and are available for work but are not or no longer actively looking for employment. Standing's measure of labour market slack also includes involuntary part-time workers, employed persons who are on lay-off or not working for economic reasons, and people on 'short time', that is, people working actual hours shorter than their normal or contractual hours for economic reasons beyond their immediate control. Standing's measure of labour market slack almost doubles Belgium's ILO unemployment rate for 1997 to around 14 per cent (table 1). It is striking that the difference between Belgium's standardized rate and its 'adjusted' rate is substantially bigger than for most of the other OECD countries included in Standing's analysis.

Perhaps the broadest indicator of labour market exclusion - though not necessarily involuntary exclusion - is the non-employment rate, the share of the working-age population not in work. It is in this respect that Belgium is the true outlier in the Northern European context (table 1). Belgium's non-employment rate (33 per cent in 1997) exceeds the EU average (30 per cent) and certainly the OECD average (24 per cent). The gap between Belgium's non-employment rate and the OECD average has also widened over the past few decades. Belgium's exceptionally high non-employment rate reinforces, I think, my point that chronic labour market exclusion is a far bigger problem than suggested by the conventional ILO unemployment rate.

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### 3.2 Poverty

What are the poverty consequences of mass joblessness in Belgium? In keeping with common practice in current poverty research, I use a relative poverty threshold. Analyses on the basis of the Luxembourg Income Study datasets have consistently shown Belgium to have one of the lowest relative poverty rates in the OECD area (Atkinson, 1997; Gottschalk and Smeeding, 1997). This is certainly the case for the working age population. Poverty estimates on the basis of the European Community Household Panel present a somewhat different picture: ECHP poverty rates for Belgium tend to be higher than the LIS-based estimates (Eurostat, 2001). This discrepancy exists for many OECD countries, and country rankings on the basis of LIS and ECHP are quite similar, but it is bigger for Belgium than for most the other countries. The reasons remain rather unclear, but all the available evidence points to the relatively small but apparently significant differences in measurement methodology (Cantillon et al., 2002).

Table 3. Relative poverty among the unemployed, 1994, on the basis of the ECHP

	Percentage below 50 per cent of mean equivalent household income
Belgium	22.7
Denmark	8.1
France	28.1
Germany	26.8
Greece	25.7
Ireland	31.3
Italy	37.2
Netherlands	25.1
Portugal	29.6
Spain	33.2
United Kingdom	48.5

Source: Gallie et al. (2000)

Table 4. Poverty incidence by labour market status, Belgium 1985-1997

Labour Market Status	Relative poverty incidence			Share in working age population		
	1985	1992	1997	1985	1992	1997
Non-employed	6.4	9	11.2	44.5	40.6	41.2
Unemployed	10.4	13.4	22.2	7.6	7.4	8.7
-with UE benefit	10.0	12.2	19.3	6.6	6.6	6.6
-no UE benefit	13.3	22.6	31.4	0.9	0.8	2.1
Working age population	3.9	4.4	5.1	100.0 (n=6,598)	100.0	100.0
					(n=3,528)	(n=4,228)

Source: Own calculations on the basis of the Belgian Socio-Economic Panel

We are, however, most interested in the poverty exposure of the unemployed. Gallie et al. (2000) have estimated that in 1994 about 22 per cent of Belgium's unemployed lived in relative financial poverty, a proportion that is the second lowest among the 11 European Union countries included in their study (table 3). Their estimate is based on ECHP data and is roughly consistent with the figure we find using data from our main data source, the Belgian Socio-Economic Household Survey for 1997 (table 4). It is important to point out that in both instances the poverty estimates are for the self-reported unemployed, i.e. people who say that their labour market status is 'unemployed'. This is in Belgium commonly understood as being jobless and looking for work, though not necessarily very actively. It is also useful to point out that in the Belgian Socio-Economic Panel, the poverty status is measured on the basis of income received during the month prior to the interview. Hence, it is quite reasonable to assume that the reported labour force status at the time of the interview is representative for the labour force status during the reference month for the income measures. In the ECHP, by contrast, an individual's poverty status is measured on the basis of income received during the year prior to the interview, while his or her measured labour market status is reflective of the status of the time of the interview.

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## **4. Belgium's low poverty rate among the unemployed explained**

I now want to shed light on the relatively weak relationship between unemployment and poverty in Belgium. First, I focus on the composition of the unemployed population. It will be demonstrated that unemployment in Belgium is only to a limited extent a breadwinner phenomenon. This basically accounts for the weak link between unemployment and poverty. However, the fact that unemployment is not a breadwinner phenomenon in Belgium is not accidental; labour market policy in the past has put overwhelming emphasis on maintaining “full employment” in the traditional sense and hence on safeguarding the Bismarckian model. Then I will focus on benefit policies that directly affect the living standards of the unemployed. Here I will argue that gradual but quite fundamental changes to the by origin Bismarckian social insurance system have helped to keep down poverty among the unemployed.

### **4.1 The robust labour market position of the male breadwinner**

The most important explanation for the limited overlap between unemployment and poverty lies in the fact that unemployment in Belgium is only to a relatively limited extent a breadwinner problem. Unemployment rates for men, particularly for prime-age men - those still most likely to be the principal breadwinner - have remained quite low, even for men with low educational attainment. In 1997, 7 per cent of the male workforce and 6 per cent of prime-aged male work force was registered as ILO unemployed (table 5). The European Union averages were 9 and 8 per cent respectively. And employment rates have remained high. In 1997, over 86 per cent of Belgian prime-aged men had a job. The EU average stood slightly lower at 85 per cent.

Table 5. Labour market position of prime-aged men in a European perspective, 1997

	Unemployment rate	Employment rate	Low pay incidence*
Belgium	6.2	86.4	3.9
Denmark	4.1	88.7	-
France	12.9	86.3	10.6
Germany	8	85.1	7.6
Ireland	9.7	81.7	-
Italy	7.5	83	9.3
Netherlands	3.6	90.1	8.1
Portugal	5	88	-
Spain	13.6	79.9	-
UK	6.7	85.4	12.8
OECD Europe	7.4	85.2	

Source: OECD Employment Outlook 1995 and 1998; \* figures for mid 1990s

The vast majority of prime-aged men have a job and usually a stable one. OECD data on job tenure indicate comparatively high job stability in Belgium: average job tenure among Belgian workers is among the highest in the OECD area (OECD, 1997a). Furthermore, few work for a low wage. OECD data also show that low wage work is less prevalent among Belgian men than in most other OECD countries (OECD, 1995). The last column of table 5 shows the share of the male workforce working for a wage that is below 66 per cent of the median gross wage. About 4 per cent of men in full-time employment work for a low wage, compared to around 10 per cent in Germany and France and 13 per cent in the United Kingdom. This fact is highly relevant to Belgium's comparatively low poverty rate. Recent research has established a strong cross-country correlation between the incidence of low pay (which is reflective of both minimum wage levels and minimum benefit levels - since these set effective wage floors), and the incidence of relative poverty at working age (Marx and Verbist, 2000).

The fact that the labour market position of male breadwinner has remained so robust in Belgium is in many respects remarkable. After all, Belgium, an early industrializer (see Cassiers, De Villé and Solar, 1996), was hit by massive job losses in manufacturing industry during the 1970s and 1980s. The Belgian industrial sector, being rather old and energy intensive, was particularly hard hit



by the oil shocks and the economic downturns of the 1970s and 1980s. The share of industrial employment (including mining and construction) in total employment, which was still around 40 per cent in 1975, fell rapidly in the years thereafter, reflecting major structural adjustments in steel, coal and textile industries. During the 1980s, Belgium recorded the fourth largest percentage of job loss in manufacturing in the OECD area. By 1992, employment in industry represented less than 28 per cent of total employment (OECD, 1997b).

As most continental European countries, Belgium resorted to an expansion of early retirement schemes to help alleviate the social consequences of structural economic adjustment and massive job shedding in industry. Kohli et al. (1993) and Esping-Andersen (1996; 1999) have even argued that in Continental Europe early retirement policies “became the main -if not exclusive- means to facilitate industrial restructuring” (Esping-Andersen, 1999:130). Whether this is true or not remains questionable, but it is certainly the case that Belgium went further than any other Continental European country in the expansion of early retirement. Labour force participation among men over the age of 55 dropped rapidly and massively during the late 1970s and 1980s. At 37 per cent, and is now at one of the lowest levels in the OECD area (table 6). To put this figure into context: the OECD average is 65 per cent and the EU average is 53 per cent.

Table 6. Labour market position of older men (55-64) in a European perspective, 1997

	Unemployment rate	Employment rate
Belgium	4.8	32.2
Denmark	4.4	61
France	8.5	38.9
Germany	13.4	47.3
Ireland	6.4	57.8
Italy	4.6	41.5
Netherlands	3.2	43
Portugal	6.4	58.2
Spain	10.8	50.5
UK	7.8	58.6
OECD Europe	7.8	48.4

Source: OECD Employment Outlook, 1998

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The main early retirement scheme consists of a social security benefit, which formally has the status of an unemployment benefit because it is paid out by the unemployment insurance administration, which is topped up by a “pension” paid out by the industry fund of the previous employer. In many cases, early-retired workers also receive an additional benefit from their old firm. Many of the early retired accumulate a net income that is only marginally below their last wage.

The massive expansion of early retirement arguably had two major effects as far as unemployment and poverty is concerned.

Firstly, it seems reasonable to suspect that it avoided a serious rise “real” unemployment among older workers. As I indicated, job loss in Belgium’s industrial sector was massive after the oil shocks of the 1970s and 1980s. Many of the workers who lost their jobs were sole breadwinners with few formal qualifications or with very specific technical skills. Many of them lived in regions strongly dependent on industrial employment. It seems quite likely that many would have found it very hard to find gainful employment elsewhere. There can be little doubt that the poverty consequences of high unemployment among traditional breadwinners would have been extremely grave. As we will see, ‘real’ unemployment benefits for sole breadwinners tend to be quite insufficient to keep households out of poverty.

It is of course difficult to ascertain to what extent early retirement effectively prevented a rise of real unemployment among older men. It is a fact that the unemployment rate for men between the age of 55 and 64 has remained comparatively low in Belgium (table 6). During much of the 1990s it was well below 5 per cent versus a EU average of about 8 to 9 per cent. However, this is not to suggest that all those who went into early retirement would have ended up in unemployment had early retirement not existed. It is fair to say that job shedding was actually induced by the availability of financially attractive early retirement schemes, which, I remind, are co-funded by government and employers (at the industry level and often also at the firm level). The co-funded nature of early retirement allows employers to externalize a substantial part of the cost of laying-off redundant older workers. They typically encounter little resistance from

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trade unions and workers because laid-off workers tend to suffer minimal income loss. Quite on the contrary, many workers have developed a strong preference for early retirement (Schokkaert et al., 2000). The fact that early retirement remains rampant even in today's vastly improved economic context is almost wholly due to the fact that trade unions have made continuation of early retirement one of their main demands. So far, they have been highly successful, despite growing resistance from employers, who increasingly complain of labour shortages. The government too has proclaimed its intention to scale back early retirement but has, weary of trade union reaction and public opinion, taken few concrete steps so far.

Second, it seems reasonable to suspect that the labour supply reduction effect of mass early retirement has also helped to support the robust labour market position of prime-age men and others, specifically by reducing competition for less skilled jobs. In fact, the original reason why government footed a major part of the early retirement bill was that it helped to combat youth unemployment. Indeed, employers were and in theory still are required to hire a young person to replace the person taking early retirement. In practice, however, the replacement rule has never been adhered to.

#### **4.2 Adapting the Bismarckian system: departure from the equivalence principle**

Belgium's unemployment insurance system is Bismarckian in that the level of support given to an unemployed person is related to previous wages and work history. It seems odd, therefore, that despite the high levels of unemployment, especially among youngsters and women, who tend to be new labour market entrants or re-entrants without contribution records, poverty is not exactly rampant among the unemployed in Belgium. Moreover, in a social insurance system, even a person with a good contribution record will eventually deplete his or her entitlement. Again, despite the fact that Belgium has one of the highest long-term unemployment rates in Europe, poverty among the unemployed is relatively low. So too is social assistance dependence, one of the most readily available indicators of social insurance failure. The share of the working age population receiving means-tested income support has risen only moderately over

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the past 25 years, relative, that is, to the rises recorded in many other European countries. The proportion of the non-elderly population received means-tested income support has never exceeded 1 per cent of the population, which is a much lower share than in most other European countries (Gough et al., 1997).

As I will show now, the explanation is that Belgium's social insurance model has in effect evolved into something approaching a basic protection model (see also Andries, 1996b). Benefit generosity has over the past decades become much more a function of assumed need than of previous earnings and contributions. This is evident in two important respects.

First, the time duration of unemployment benefits is now more a function of assumed need rather than of work history and past contributions, as is theoretically the case in Bismarckian systems. Unlike in most other countries, unemployment insurance benefits are not time limited in Belgium. However, in the early 1980s, a period during which the number of benefit claimants was rising fast, a distinction was introduced between three categories of claimants: heads of households (those providing for dependent persons: children or non-working spouses), single persons and so-called 'cohabitants'. The latter category consists of unemployed persons who live together with a person who has an income above a certain threshold (possibly another unemployed person). Only they are liable to have their benefit terminated after an 'abnormally' long spell of unemployment, and only if the total household income exceeds a certain threshold. This threshold is far above the social assistance level.

Until 1993, the general rule was that benefit termination proceedings had to be initiated if a cohabitant's spell of unemployment came to exceed twice the average spell of unemployment in the region of residence, taking also into account the sex and age of the person. After 1993, this period was shortened to 1,5 times the average spell. In practice this means that benefit termination proceedings are not initiated until a spell of unemployment exceeds 3 or 4 years. In regions with unfavourable labour market conditions, this period can be as long as 8 or more years. But even then benefit termination is still not automatic. Officials at local unemployment agencies have considerable discretion in granting exemptions. For

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example, they can judge that a claimant has made ‘extra-ordinary’ efforts to find work. Yet, since the early 1990s, the local agencies have become considerably less lenient in granting exemptions for this reason. But even despite a tightening of rules concerning benefit termination, the Belgian system remains highly atypical in terms of the average benefit duration. This helps to explain why only a quite small proportion of the unemployed ever end up in social assistance. Single persons, head of households and cohabitants are only liable to have their unemployment benefit suspended in case of proven fraud. This is the main reason why at least some of the unemployed need to resort to social assistance, at least for the duration of the suspension, which is usually temporary.

Not only the time duration of benefits has become a function of assumed need, benefits levels have too. Belgium’s unemployment benefit system, as it exists today, is characterized by a particularly strong emphasis on minimum income protection. In theory, in a social insurance system, benefits are a function of past contributions and earnings. In Belgium, however, this equivalence principle has been gradually weakened, if not all but abandoned over the past two decades. The inflation-adjusted value of maximum benefit levels has been allowed to erode. The real value of guaranteed minimum benefit levels, by contrast, increased substantially during the 1970s and also during the early 1980s and the early 1990s. As a result, only a very small wedge remains between maximum and minimum benefits. To illustrate this: in 1975 the difference between the minimum and maximum benefit amount for an unemployed head of household amounted to almost 25 per cent, by 1995 this had shrunk to less than 13 per cent.

Moreover, unemployment benefits are frequently in excess of what people would be entitled to if the equivalence principle were strictly applied - the period during which an unemployed person was in full time education counts as time worked. Of the unemployed in the category ‘head of household’ almost half receive the guaranteed minimum benefit (RVA, 2000).

The level of the (minimum) benefit to which claimants are entitled is more a function of assumed need than of past contributions. Again, the distinction

between ‘heads of household’, ‘single persons’ and ‘cohabitants’ - introduced in 1982 - applies. Benefits are highest for the first two categories of claimants, because they are assumed to be most needy. Heads of household are, in addition, entitled to supplementary child benefits if they have dependent children. For cohabitants, benefits are still linked to previous wages during the first period of unemployment, be it within fairly narrow margins. However, after roughly the first year and a half of unemployment (depending on their work history) they all receive a relatively low flat-rate amount.

Table 7. Minimum benefit amounts for the main benefit categories in unemployment insurance, 1970-2000, in BEF prices of 2000

	1970	1975	1980	1985	1990	1995	2000
Head	20,709	29,413	30,301	31,017	30,244	32,483	31,130
Single	19,039	22,610	23,282	22,176	21,631	23,243	22,277
Cohabitant	19,039	22,610	23,282	14,520	13,600	13,831	13,530

Source: Cantillon et al. (2001)

Table 8. Distribution across benefit categories in unemployment insurance, Belgium 2000

Head of household	36.4
- Men	17.5
- Women	18.8
Single persons	18.0
- Men	10.9
- Women	7.1
Cohabitants	45.4
- Men	13.8
- Women	31.7
Others	0.2
	100.0

Source: RVA (2000)

Policy during the past two decades was not only guided by a concern to improve minimum protection for the most needy among the unemployed. Cost containment was also a major concern. The introduction of the relatively cheap ‘cohabitant’ category in the early 1980s helped to contain the cost of the system dramatically. Despite the immense increase in the number of claimants, especially between the mid 1970s and mid 1980s (see again table 2), the cost of the unemployment insurance system in GDP terms actually remained stable.

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## 5. Deficiencies, inequities and the limits to gradual reform

Contrary to what is often argued or implied in the international literature, there is, at least in the case of Belgium, not much evidence that mass unemployment has given rise to large-scale ‘new poverty’. Labour supply reduction policies (early retirement) and gradual adaptations to the Bismarckian social protection model have helped to mitigate the poverty consequences of job shedding and mass unemployment. But as I will now demonstrate, the relatively favourable picture from the poverty perspective obscures some serious problems and fundamental inequities. Moreover, there are clear signs that the limits of gradual adaptation have been reached.

### 5.1 Inadequate minimum income protection for unemployed breadwinners

Poverty rates for the unemployed are low in Belgium basically because many of the unemployed live in a household with at least one wage earner. As can be read from table 9, almost 8 out of ten households who get an unemployment benefit have other financial means of existence. For them the unemployment benefit is only one component in their household income package and frequently not even the principal one. As a consequence, the majority of the unemployed would not be poor even if they did not receive their unemployment benefit, as is evident in one looks at the pre-transfer poverty rate for households with an unemployment benefit in table 9.

Table 9. Profile of households receiving unemployment benefits (UEB), Belgium 1997

	Households with UEB	Households that have to make ends meet on UEB	Households receiving UEB and other income
Share in the population of households receiving UEB	100.0	22.9	77.1
Share in the total population	13.0	3.0	10.0
% Pre-transfer poor	55.7	0.0	72.3
% Lifted from poverty thanks to UEB	29.1	42.1	25.2
% Poor despite UEB	15.2	57.9	2.5

Source: Cantillon et al. (1999)

However, the fact that the majority of the unemployed do not live in poverty obscures a problem of severe hardship among the minority of households who actually have to make ends meet solely on their unemployment benefit. In 1997, an astonishing 60 per cent of households who had to make ends meet solely on their unemployment benefit (plus possible child benefits) lived below the poverty threshold (table 10). Note also that poverty rates for this category have dramatically increased since the mid 1980s. (The rise in poverty among the unemployed in general is due to this and also to the rise in the proportion of household heads in the unemployed population. The composition component is to a large extent related to the wave of benefit suspensions following the tightening of rules and practises regarding benefit duration for the unemployed in the cohabitant category.)

Table 10. Poverty rates for households with unemployment benefits (UEB), Belgium 1985-1997

	1985	1988	1992	1997
Households with UE benefit	8.6	9.7	8.9	15.2
Households that have to make ends meet on UEB	30	38.7	46	57.8
Households receiving UEB and other income	2.2	2.5	2.7	2.5

Source: Cantillon et al. (1999)

The reason for the high poverty incidence among unemployed breadwinners is that the benefit package for sole providers is often well below the relative poverty threshold. This is especially the case for households with dependent children and for single persons. For example: the maximum unemployment benefit for an unemployed head amounted in 1997 to 36,400 BEF and the minimum amount to almost 32.000 BEF. At that time, the relative poverty threshold for a couple with one child stood at 42.500 BEF and the threshold for a two-adult household with two dependent children at 49.600 BEF. Universal child benefits and supplementary child benefits for unemployed heads would have helped to close the poverty gap substantially, but not enough to lift such households out of poverty.

Moreover, the value of unemployment benefits relative to the average living standard and hence the relative poverty threshold deteriorated substantially during the 1980s and 1990s. The inflation-adjusted value of unemployment benefits



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remained more or less stable (see again table 7), but the gap unemployment benefits and the average living standard increased (Cantillon et al., 2001).

Why, then, one might ask, are unemployment benefits for sole providers not higher and why have they dropped relative to general living standards? Their inadequacy seems manifestly at odds with my assertion that minimum income protection has been a prime policy concern.

The major obstacle is the wedge between benefits and minimum wages. De Lathouwer (2001) has been calculated that an unemployed person with a non-working spouse and with two dependent children who gets the maximum unemployment benefit, gains only 9 per cent from making the move from unemployment to a minimum wage job. A single parent with two children, including one below the age of 3, would actually suffer a net income loss of 6 per cent, taking into account the additional cost of child care.

As Cantillon (1994) has argued, the fundamental problem seems to be that both minimum wages and benefits have become increasingly inadequate to provide a decent standard of living to a single income household. After all, we have come to live in an era in which the average living standard and hence the relative poverty standard is set by the double income household. Minimum wages, too, have not followed the rise in real living standards as, in fact, have real wages in general. The reason is that the rise in the average standard of living has essentially been driven by the proliferation of double earnership, not by wage growth.

Now, in theory, there is no reason why social insurance benefits should not exceed (net) minimum wages. But in reality there is of course the concern about dependency traps. This concern is particularly pertinent in the Belgian context, where unemployment benefits for heads and single persons are for all practical purposes unlimited in time.

Increasing maximum benefits substantially enough to have a real impact on poverty among unemployed breadwinners would almost necessarily require a simultaneous increase in the minimum wage. The perceived obstacle is however

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that even higher minimum wages would lead to even higher unemployment levels. Belgian minimum wages, some point out, are already among the highest in the OECD area (OECD, 1998; Dolado et al., 1996).

The validity of this line of thinking depends, of course, on the question of whether a higher minimum wage would in effect induce higher unemployment. Effective wage floors are in reality already much higher than the national minimum wage. In reality, very few jobs actually pay the national minimum wage. Collective wage agreements at the industry level (where most of the wage setting occurs) tend to set minimum wages that are substantially higher than the nationally agreed minimum.

Moreover, recent research has shown the link between minimum wages and employment outcomes to be all but linear (Dolado et al., 1996; OECD, 1998). Quite a large number of recent empirical studies have rejected the conventional wisdom that there is a simple and inescapable trade-off between low wages and unemployment. Even the OECD (1998) has come to the conclusion that ‘there is considerably more flexibility across OECD countries than is often recognized in the setting of minimum wages and, hence, they can be tailored to limit some of their negative features.’ (OECD, 1998: 57).

But it is the principle that seems to matter most in current policy discourse. The current consensus is that a clear wedge between net minimum wages and unemployment benefits should remain, and that if anything it ought to be increased, and there is no scope for substantially increasing the minimum wage.

There is, however, a way out of the dilemma of benefit inadequacy and the (perceived) limits to minimum wage increases. That way out is to increase take-home pay for low-wage workers by reducing social security contributions on low wages. This too would create substantial scope for increasing maximum unemployment benefits, while maintaining a gap with in-work income. The gross minimum wage is, after all, still substantially higher than for example the maximum unemployment benefit package for a head of household. What makes the gap between a benefit package and net in-work income so narrow are the social security contributions and personal income taxes that a wage earner has to

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pay. Recently, measures have been taken to reduce the social security burden on the lowest wages. Employer social security contributions on the lowest wages have been substantially reduced, though without compensating reductions in benefits.

But the route of shifting social security and fiscal contributions from the low-paid, who are most prone to fall into dependency traps, to the better paid, seems to have its limits too. One perceived obstacle to reducing payroll taxes on the lowest paid and shifting more of the social security bill towards the better paid is that the social security system is already perceived as being disadvantageous to the better paid (Schokkaert and Sweeney, 1999). As I already pointed out, the real value of maximum unemployment benefits has eroded substantially over the past two decades and hardly a wedge remains between maximum and minimum benefits. Now, it used to be the case that one only paid contributions up to a certain maximum amount, which seemed a logical compensation for the fact that benefits were also constrained. These contribution ceilings were however abolished around the mid 1980s to help fill the deficits in the social security budget which had developed as a consequence of the massive rises in benefit dependency. So, while maximum benefit levels declined, the better paid have been made to contribute more towards the system. In addition, the better paid already face marginal income taxes rates that are among the highest in the OECD area. There is, therefore, a reluctance to shift even more of the social security and tax burden on to the higher paid. It is argued, especially from the right, that enough ‘solidarity’ has been asked from the higher income groups.

To what extent these economic and political obstacles to improving benefit adequacy are real or perceived remains open to debate. Nevertheless, it is certainly the case that a marked policy shift has occurred during the 1990s away from income protection towards activation. During much of the 1990s, the real value of unemployment insurance compensation did not keep up with living standards and the time generosity of unemployment benefits declined too (though Belgium’s unemployment insurance system remains atypical in terms of time generosity). To what extent this has actually helped to increase employment and labour participation is difficult to ascertain. The fact remains, however, that

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unemployment has remained high in Belgium despite the de facto cuts in benefit generosity. It is also an established fact that poverty among the unemployed has increased.

## 5.2 Unequal treatment

As we have seen, the unemployed population is not a homogenous group. There is considerable inequality between those who have to make ends meet on an unemployment benefit and those for whom the unemployment benefit is in effect a supplementary household income. In fact, many of the people claiming unemployment benefits - and they can do so for many years - enjoy a comparatively high standard of living. This is illustrated in table 11, which shows the distribution of unemployment benefits across income deciles in 1997. Almost 40 per cent of the unemployment benefit mass flows to the top half of the income distribution.

Table 11. Distribution of unemployment insurance benefits across household income deciles, Belgium 1997

Decile	Unemployment benefits
1	11.4
2	16.4
3	10.3
4	11.9
5	11.6
6	9.9
7	8.5
8	6.8
9	7.6
10	5.6
Total	100.0

Source: Cantillon et al. (1999)

The issue here is fairness. In a social insurance system, it is normal that benefits flow to the higher income groups. But the present distribution of unemployment benefits is neither consistent with the Bismarckian insurance rationale of the system nor with its basic income protection rationale. As I pointed

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out earlier, people claim unemployment benefits for comparatively long periods of time in Belgium. However, contrary to what the Bismarckian logic would dictate there is no link between the time duration of benefits and the contribution record.

There are no duration limits for unemployed 'heads' and single persons. This, one might argue, is consistent with the basic income protection rationale of the system. There are also effective time limits for unemployed 'cohabitants' - benefit claimants who live together with a person who has an income above a certain limit. They are liable to have their benefit suspended after an 'unusually' long period of unemployment and only if total household income is below a relatively high threshold. This used to mean twice the average unemployment duration in the region where the claimant resided, taking into account his or her age and sex. After 1993, it was shortened to one and a half times the average spell. In practise, this still means that in most regions unemployed cohabitants are left alone for a minimum of three years. In some regions there are even left alone for five years or more.

The fairness problem here is that especially among those in the cohabitant category, job search intensity is low. This explains in major part why the official unemployment rate, which is based on the number of benefit claimants, is much higher than the standardized unemployment rate, which is based on the number of people who are not employed, available for work and actively looking for a job. In addition, reports from local employment agencies suggest that job offers are often declined and that this is especially prevalent among unemployed women with a working partner. Benefit claimants have the right to refuse a job offer if it does not match their educational qualifications, and this within quite narrow limits. A recent interview-based survey of the long-term unemployed has also brought to light low search intensity and a limited willingness to accept low-paid jobs (De Lathouwer en Bogaerts, 2000). Low search intensity is especially prevalent among women with children, especially those with young children.

The effective availability for the labour market is low among a considerable proportion of benefit claimants. The vast majority of the unemployed in the

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cohabitant category are women, who stay more or less voluntary at home, often to take care of the children. This situation is clearly unfair *vis-a-vis* those who do the same but are not entitled to a social income. It is true, of course, that in order to become entitled one typically needs to have a contribution record. But a short work career can entitle a person to an unemployment benefit for a period of time far exceeding the length of time during which that person worked. This in itself is perhaps not unfair. But it arguably is if the spell of unemployment, after becoming entitled to a benefit, is to some extent voluntary. All indications are that this is frequently the case.

This is not only a fairness issue. Many of the non-employed not receiving a social income could clearly use either an earned or a social income. Non-employment rates in Belgium are especially high for women with low levels of formal education. As a consequence, single earnership remains comparatively widespread. Single earner households without an unemployment benefit in their household income package often have a substantially lower living standard than households with. In fact, poverty at working age, to the extent that it is a problem in Belgium, is to large extent concentrated among such single earner households (Cantillon, 1994; Marx and Verbist, 1998).

Moreover, it seems that many of the unemployed who are entitled to unemployment benefits probably have better employment chances than many of the non-employed who are not officially unemployed. After all, in order to gain entitlement to an unemployment benefit a person generally needs to accumulate a sufficient contribution record. There is some anecdotal evidence of strategic behaviour in this respect, i.e. of unemployed persons (mostly women) who have lost their entitlement re-entering the labour market for just long enough to become eligible again.

The inequity between women staying more or less voluntary at home who do have an unemployment benefit and those who have not is a subject of some debate. There are those who advocate a time-limited benefit for all those who stay voluntary at home to take care of children or other needy persons, regardless of their past or present labour market attachment. Non-employed persons would, in

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other words, be entitled too. Such a system could come in the form of an extension of the present system of career interruption that provides a flat-rate benefit to workers who withdraw from their jobs for up to 5 years, be it at the discretion of their employer.

But all kinds of objections are raised against such an extension of the career-interruption scheme. There are those who object on ideological grounds. They argue, quite plausibly, that such a scheme would mean a setback in the economic emancipation of women and that it would amount to a subsidy for the traditional breadwinner household. Others argue that Belgium already has one of the highest benefit dependency rates in the OECD area. They doubt whether the present high levels of chronic benefit dependency are sustainable in the first place, let alone whether there is scope to provide benefits to even wider sections of the working age population. The high taxes and social security contributions that are needed to finance present social spending are already seen to inhibit job growth and to cause unemployment. In short, since the present 'model' is already regarded as self-reinforcing, there is little willingness to make access to social income any easier.

## **6. Beyond gradual adaptation: the paradigm shift towards the active welfare state**

In Belgium, the by origin and design Bismarckian unemployment insurance system has been transformed into a basic income protection system. The link between previous wages, work history and benefits has been all but abandoned. Benefit generosity has become largely a function of assumed need, rather than of an unemployed person's contribution record. This gradual transformation from a social insurance system to a basic protection system has helped to contain poverty under conditions of mass unemployment. It has also helped to contain the budgetary cost of mass dependency.

But the limits of gradual adaptation appear to have been reached. At least, this has become the dominant perception. First, there is the problem of high and rising poverty among the unemployed having to make ends meet solely on their benefit. It is widely recognized that benefit increases could and would help to lift unemployed sole breadwinners out of poverty but the perception is that this would

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come at the cost of further eroding work incentives and reinforcing the present situation of 'welfare without work'. Secondly, there is the problem that working age poverty is to a considerable extent associated with (female) non-employment rather than registered unemployment. Here, too, the current consensus is that further increasing benefit generosity - giving even more people access to benefits - is not the way to proceed.

In policy discourse, emphasis is now put on the need to move towards a new paradigm referred to as the 'active welfare state', where low poverty is maintained through high levels of (if necessary partially subsidized) employment rather than through generous benefits. Specifically, the consensus is that the female employment rate, which remains among the lowest in Northern Europe, should be boosted. This, it is argued, would help to reduce poverty among households with an unemployed breadwinner. It would also help to improve living standards of single earner households and reduce dependence on unemployment benefits as secondary household income.

However, Esping-Andersen (1996) has claimed that the labour market position of women, particularly less educated women, seems destined to remain peripheral as long as high minimum wages and high non-wage costs continue to make less-skilled work expensive and as long as tax/benefit policies effectively discourage second earner participation. He claims that continental Europe is caught in deadlock because of the inherent difficulties in pushing through reforms. Trade unions forcefully defend the existing rights of insiders - high wages, job security, early retirement - because many families depend on the male breadwinner's wage. The dilemma, it seems, is that welfare of families depends to a great extent on precisely those elements of the model which harm the employment prospects of less educated women and youngsters.

Belgium certainly seems a case in point. Early retirement - originally instituted as a measure to combat youth unemployment - proves very difficult to scale back, even now economic conditions have improved and employers complain of labour shortages. Initiatives to intentionally reduce benefit generosity, especially to reduce the duration of unemployment benefits, have



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encountered ardent and altogether effective opposition from trade unions and from the left. Despite the recent waves of benefit terminations, Belgium's unemployment insurance system remains atypically generous in terms of time generosity. The erosion of the real value of unemployment benefits and the rise in poverty among the unemployed, documented in this article, recently became a political issue. The government reacted to widespread criticism of social policy failure by increasing minimum unemployment benefits; thereby effectively departing from the 'active welfare state' line adopted when it took office. Measures to enhance labour market and wage flexibility prove not difficult to implement but even to discuss. For example, proposals to make wages less rigid, which were seriously discussed and to some measure implemented in the Netherlands, have never even reached the negotiating table in Belgium. It is, of course, questionable whether greater labour market flexibility; benefit cuts etc. would effectively boost employment growth and reduce benefit dependence. But my point here is that reform proposals generally encounter extraordinary resistance. This certainly suggests that any paradigmatic shift that might offer a way out of the present dilemmas may well prove quite difficult to bring about.



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