

**The Career Break (Time Credit) Scheme in Belgium
and the Incentive Premiums by the Flemish Government**
Statements and Comments

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1. Introduction

The proposed policy aims to improve the balance between work, family and personal life by introducing a comprehensive system of career breaks with compensatory allowances paid by the government. The policy in general is in accordance with the aims and priorities set out in the National Employment Plan of Latvia. Although the policy has a potential to address an important social need, the argument in this paper is that at present full transfer of the policy with reasonable compensation levels is likely to be too costly in pure budgetary terms. Moreover, at the moment it is rather difficult to quantify the net benefits of such a policy. Nonetheless, implementation of such policy is likely to be more realistic as Latvia's income level rises to that of Western European countries and there is more evidence on the benefits of the proposed policy. Already at present, it is probably worthwhile considering transferring some specific elements of the policy, such as child-care leave.

This paper is organized as follows. Section 2 provides the background to family friendly options available in Latvia and the extent to which they are used by employees. Section 3 puts the proposed policy in the context of existing and planned employment policies in the peer country. Section 4 discusses relevance and transferability of the proposed policy to Latvia. Finally, section 5 highlights the important questions and issues from the Latvian viewpoint.

2. Background to family-friendly working arrangements in Latvia

Latvian labour law can be seen as rather flexible in terms of regulating relations between employees and employers. There are some minimum guarantees with regard to leave from work and changes in work arrangements due to family reasons but much is left to negotiation between employees and employers. In terms of paid leave the law guarantees a minimum of four weeks per year as well as much shorter leaves for special reasons, e.g. training. An employee may request an unpaid leave but an employer is not obliged to provide it. An important exception is if an employee requests unpaid leave to care for a child that is less than 8 years old. In that case the employer must grant unpaid leave for at least one and a half years and preserve the workplace. The law also provides for unpaid maternity and paternity leaves. Beneficiaries receive a modest allowance from the government. There are also provisions for changes in work arrangements for family reasons. Thus, an employee has the right to a reduced workload to care for a child who is less than 14 years old. Although an employee may also ask to work shorter hours due to some other reasons, the employer may grant it only if "there is a possibility to do so".¹

To sum up, existing legislation ensures a minimal set of family friendly arrangements, mostly in terms of unpaid leave and reduced working hours to take care of children. In most cases

¹ More detailed information about legislative framework is contained in Annex 2.
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employees are not paid any allowances.² The law does not provide for a medical leave (to care for ill family members), palliative leave, or a career break. However, employees and employers may agree on such arrangements by individual negotiations.

I now turn to the data to evaluate the extent of career breaks due to family reasons. The employed population involves all persons who at least for an hour conducted some kind of a job during the survey week, as well as persons who due to different reasons (leave, sickness, shift work, studies, maternity leave) did not work, though they had a job. According to results of the Labour Force Survey 989 000 persons were employed in the country in total in 2002 (54.4 % of the total population aged 15 to 74 years). 22 500 had a job but were temporarily absent from it for personal or family reasons (80 percent of them were classified as employed). According to Table 1, the two largest groups in this category are women in child-bearing age on maternity or childcare leave and persons on sick leave. The number of employees on leave for other personal or family reasons was very small (2 608 people). This is probably the closest estimate of the extent of 'ordinary career breaks' in Latvia. One interpretation of this low figure is that career breaks are not demanded. Another possible explanation is that employers are not flexible and the choice employees are facing is really between being either employed or unemployed. Data presented in Table 2 shed some light on this issue.³ According to the labour force survey, 17.6 percent of all non-employed⁴ quit their previous jobs because of inability to reconcile work with family and personal life.

Table 1: Persons absent from the job for personal or family reasons, percent of all population

Age	Total		Education, training		Own illness, injury or temporary disability		Pregnancy/ maternity leave		Child-care leave		Other personal or family reasons	
	Male	Fem.	Male	Fem.	Male	Fem.	Male	Fem.	Male	Fem.	Male	Fem.
15-19	0.00	0.34	0.00	0.10	0.00	0.00	0.00	0.16	0.00	0.00	0.00	0.07
20-24	0.86	3.64	0.14	0.15	0.72	0.42	0.00	1.73	0.00	1.41	0.00	0.23
25-54	0.84	2.33	0.09	0.01	0.67	0.56	0.00	0.31	0.03	1.30	0.06	0.15
55-59	0.73	0.98	0.00	0.00	0.56	0.79	0.00	0.00	0.00	0.00	0.17	0.19
60-64	0.50	0.39	0.00	0.00	0.50	0.39	0.00	0.00	0.00	0.00	0.00	0.00
65-74	0.57	0.36	0.00	0.00	0.43	0.36	0.00	0.00	0.00	0.00	0.14	0.00
15-74	0.69	1.20	0.06	0.03	0.55	0.47	0.00	0.32	0.02	0.79	0.06	0.12

Source: Latvian Labour Force Survey 2002

² Paternity and maternity benefits are very modest.

³ Breakdown by age groups is in Table 8 in Annex 1.

⁴ Excluding those who left their last job more than 8 years ago.

Table 2: Reasons for leaving last job (percent of non-employed population^a)

Reason	Men	Women	Total
1 Dismissed from job	28.6	21.6	24.6
2 Job of limited duration had ended	10.6	7.0	8.6
3 Gestation or maternity leave	0.0	9.1	5.2
4 Child-care leave	0.4	5.5	3.3
5 Incapacitated adult care	0.1	0.7	0.5
6 Other personal responsibilities	6.7	10.1	8.6
7 Own illness or disability	9.5	7.8	8.6
8 Early retirement for economic reasons	1.0	1.7	1.4
9 Old-age retirement	25.0	26.0	25.5
10 Compulsory military service	1.6	0.0	0.7
11 Other reason	16.6	10.6	13.1
Total	100	100	100

^a Excluding those who left their last job more than 8 years ago. Source: Latvian LFS 2002.

Taking a career break in the form of shorter working hours seems to be less of a problem in Latvia as compared with full suspension. According to Table 3, 7.5 percent of all employed men and 12.2 percent of all employed women worked part-time in 2002. Almost 40 percent of them chose part-time work due to family or personal reasons.⁵ Further, only 7 percent of all jobseekers were looking for a part-time job in 2002.⁶ According to LFS 2001, just 3 percent of all employees in Latvia would like to work shorter hours if their earnings are adjusted accordingly. This is in marked contrast with the EU-15 and Norway where this figure is, on average, 49 percent (European Foundation for the Improvement of Living and Working Conditions, 2003).

Table 3: Part-time employment, percent of total employment

	Latvia, 1997	Latvia, 2002	EU-15, 2002
Men	12.5	7.5	6.6
Women	14.1	12.2	33.5

Source: Central Statistical Bureau of Latvia and Eurostat

⁵ See Table 9 in Annex 1.

⁶ See Table 6 in Annex 1.

3. Background to family-friendly policies in Latvia

One of the main policy priorities identified in the National Employment Plan for the year 2003 is to promote flexibility between employers and employees. This includes several sub policies. First of all, modernization of the existing work organization, e.g. introducing flexible working hours for young people, for employees close to the retirement age and for mothers with small children. The other one is introduction of flexible job contracts that will define the employer policies regarding life long education perspectives, shorter working hours and specific career break possibilities. In order to achieve these goals, the government together with Free Trade Union Confederation of Latvia and Latvian Employers' Confederation started the EU Phare project "Promotion of the bilateral social dialogue in Latvia" (2002-2004). The reconciliation between work and family life is identified in the National Employment Plan as a separate sub policy with the main point considered to be re-entering in the labour market after specific career breaks (for example child care leave).

A Joint Inclusion Memorandum prepared by the Latvian Government and the European Commission among several medium- and long-term actions states the development of services to assist the reconciliation of work and family life (care for sick and elderly persons, subsidies for kindergartens for families with low incomes); promotion of a change in employers' attitudes towards parents on childcare leave or taking leave to look after a sick child, insurance of significant discounts or to exempt from taxes the money entrepreneurs spend on the education of their employees.

The Secretariat of the Special Tasks Minister on the Issues of Children and Families developed the "Concept of benefits for families with children", a policy spanning the next 10-20 years. The aim of this policy is to build a healthy and favourable social and economic environment for family development with special attention paid to new families and families with children. The main identified actions is to stimulate both parents to take leave after childbirth, to make appropriate conditions for part-time employment during periods of child care, and to facilitate re-entering the labour market after maternity leave. In this context, at the beginning of this year (2004), the Welfare Ministry started to develop a draft on policy "Concept of social benefit enlargement for families after childbirth" identifying possible options for the enlargement of social benefits.

4. Relevance and Transferability

The proposed policy is in accordance with the policy priorities of the Latvian government, as laid out in the National Employment Plan, such as reconciliation of work and family and achieving a more flexible organization of work. There is also evidence that a large proportion of the working age population is not employed due to not being able to reconcile work and personal/family life. Thus, the proposed policy may address an important social need. In addition, according to the data of Central Statistical Bureau about 44% of all unemployed in Latvia are long-term (i.e. unemployed for more than one year). In the light of this, the policy of replacing a worker by a fully unemployed person is especially interesting.

However, the real test for whether a policy is relevant is the cost-benefit analysis. The question is whether the social benefits of the career break exceed the social costs (i.e. net present value is positive) and whether this surplus is the largest possible compared to alternative policies pursuing the same goal (i.e. whether the policy is efficient).

The policy of career breaks reduces the opportunity cost of 'leisure' and, therefore, induces some individuals to choose to work less, i.e. take a career break.⁷ The policy thus has the following costs. The first is the cost of taxing and administrating the transfer (compensatory allowance).⁸ Another cost is domestic product forgone due to reduction in employment of one of the factors of production (labour).⁹ Some other costs of the policy could be due to distortions in the labour market. For example, it is easier to take a career break in a large enterprise. Thus, other things being equal, smaller companies will have to offer higher salaries in order to compensate for this. That will increase the labour costs of small firms. Another possible distortion is that employers may, other things being equal, prefer hiring employees who have already taken their career breaks. Thus, employees who have not yet taken their breaks may be discriminated against.

There are of course also benefits to the policy. Employees who choose career breaks derive consumption benefits of improved work-family balance. It is possible that improved work-family balance will result in increased productivity in the future. However, the benefits are likely to be hard to measure.

Time and resources do not allow a proper cost benefit analysis of the policy, so I will attempt to use the (very limited) data available to produce a tentative judgment. Unfortunately there is virtually no solid evidence on the extent to which present working arrangements are a 'problem' for the personal lives and families of the workers. In the (perhaps predictable) viewpoint of the representative of Latvian Employers' Confederation employees and employers successfully reconcile those matters through individual negotiations.¹⁰ Analyzing the effect of career break on national income is difficult as Latvian unemployment rates are considerable higher compared to those in Europe (see Table 4 in Annex 1). To the extent that unemployment is involuntary, employers may be able to replace those on career breaks with the unemployed, also creating labour redistribution effect. On the other hand, unemployment is likely to be structural, reflecting mismatch of skills. In that case reduction in labour's employment may slow down Latvia's growth rates, which are quite high, compared to the EU average.¹¹ Such a development would be undesirable because economic growth may alleviate many of Latvia's pressing social problems.¹²

I will now make some rough estimates of the policy's possible costs if it were fully transferred to Latvia. Suppose that as a result of the policy 5% of Latvian employees take a year long career break.¹³ Assume they are also paid a monthly compensatory allowance equal to official monthly subsistence minimum of LVL 93.54 (about €139).¹⁴ The annual cost to the budget would then be about 55 million lats. To put things into perspective, that is almost half of the total budget of the Ministry of Welfare and more than six times the budget for active labour market programmes in

⁷ Here I talk about the typical work-leisure model in economics. Yet leisure in this context may also mean time to care for other family members.

⁸ As a transfer, allowance appears on both sides of cost-benefit equation and are thus, cancelled out. However, the administrative costs of tax collection and administration of transfers remain and must be viewed as costs of the policy.

⁹ Note that measuring this cost is not straightforward. In an economy with involuntary unemployment output may be unaffected by career breaks.

¹⁰ Unfortunately, representatives of Latvian Trade Unions' Association could not find time to comment on this issue.

¹¹ According to Central Statistical Bureau the real growth rate of Latvian GDP in 2003 was 4.5%. In comparison, growth rate of Belgium's GDP is estimated at 0.6%.

¹² Another consideration here is that such changes in the Labour Law will make Latvia less attractive to foreign investors, which may also slow down economic growth.

¹³ According to Discussion Paper, almost 5% of the total working Flemish population were on a career break in 2002.

¹⁴ The Belgian federal government's compensatory allowance is about half the size of minimum wage. In Latvia subsistence minimum is actually higher than the minimum wage, which is 80 Ls per month. It would be hypocritical to pay anything less than a subsistence minimum, hence the assumption of the size of allowance.

2003! If one makes a further assumption that there is full employment (i.e. the employees on career break are not replaced) and that incomes of the factors of production equal the values of their marginal product it becomes possible to estimate the costs in terms of forgone national income. Based on the above assumption this cost would be about 151 million lats or about 3% of GDP in 2002.¹⁵ The above calculations are based on rather heroic assumptions but they do demonstrate that at the present stage of development the policy's costs for Latvia are not trivial. That same point was also made by the representative of the Ministry of Welfare.

Given the high costs and uncertain benefits it is rather doubtful that the policy can be transferred to Latvia as a whole. Besides huge costs to the budget employers would be greatly opposed to additional regulation of this sphere of employee-employer relations. However, it is probably worthwhile considering the transfer of some elements of the policy, such as *thematic breaks*, especially parental leave. Based on the findings of labour force survey, about 7,753 men and women were employed but on child-care leave in 2002. Assuming that number of employees is paid a subsistence minimum for three months, one can estimate the cost to the budget of about 2 million lats.

Some elements of the policy probably cannot be transferred to Latvia for reasons of their own. Thus, the option of taking reduced workload (and receiving allowance) is likely to be abused. Evidence from various sources suggests that the incidence of the so called 'envelope wages' in Latvian labour market is very high. That is the situation when employees are paid most of their wages in 'envelopes' for reasons of tax evasion. Therefore it is very hard to monitor whether an employee is paid for a part-time job or not. Everyone receiving wages in an envelope would have an incentive to take a working time reduction and collect both his full unofficial salary and compensatory allowance.¹⁶

5. Questions and Issues

The following questions and issues were identified after working on that paper, discussions with my colleagues, representatives of various interest groups, and also participation in the Peer Review Meeting in Brussels.

I believe that doing a comprehensive cost-benefit analysis for the program would be very helpful to gain more understanding of whether the policy is transferable to other countries (Latvia in particular). It is especially interesting to know if there is solid evidence that career breaks result in increased long-term productivity of the employees and longer working lives.

One important lesson learnt during the Peer Review meeting was the policy's ambiguous effect on small companies. It seems that career breaks may make small companies a less attractive place to work, therefore hurting their competitiveness vis-à-vis large companies. The questions therefore is whether the adverse effects on small firms can somehow be mitigated.

¹⁵ Average gross wage of employees in October of 2003 was 194 lats. As on top of that employers must pay social payroll tax of 24%, an average employee's cost to the employer is 255 lats per month.

¹⁶ The incidence of such problem, however, is likely to be smaller in larger enterprises as those are often reluctant to pay wages in envelopes.

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- Concept of Social Benefit Enlargement for Families after Childbirth

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Annex 1

Table 4: Key Labour Market Indicators: Latvia vs. the EU (age 15-64)

Indicator	Latvia	EU average		Latvia	Latvia		Latvia	
	2001	2001	2002	2002	2002 Q1	2003 Q1	2002 Q2	2003 Q2
Activity rate, men	72.8	78.4	78.4	73.9	72.1	74.0	74.8	73.7
Activity rate, women	62.1	60.3	61.0	64.1	61.9	63.3	65.2	64.9
Employment rate, men	61.8	73.3	72.9	64.3	62.2	65.8	63.4	65.8
Employment rate, women	56.1	55.1	55.6	57.0	54.2	56.7	57.6	57.8
Unemployment rate, men	14.7	6.5	7.1	13.1	13.7	11.1	15.1	10.8
Unemployment rate, women	12.1	8.6	8.9	11.0	12.4	10.4	11.7	10.9

Source: Central Statistical Bureau of Latvia and OECD.

Table 5: Activity and employment rates by gender and age: Latvia and EU-15, 2002

	Activity rates		Employment rates	
	Latvia	EU-15	Latvia	EU-15
Men, 15-19	18.8	30.9	13.6	26.1
Women, 15-19	11.5	25.9	6.5	21.7
Men, 20-24	73.2	68.9	61.8	59.1
Women, 20-24	58.8	59.1	47.2	50.3
Men, 25-34	92.1	91.6	81.6	84.6
Women, 25-34	77.2	74.8	69.1	67.3
Men, 35-44	89.0	94.6	76.6	89.4
Women, 35-44	85.2	74.9	76.3	67.3
Men, 45-54	86.2	90.4	76.2	85.7
Women, 45-54	84.3	69.2	77.4	64.7
Men, 55-64	57.2	54.1	50.8	50.8
Women, 55-64	38.7	33.4	35.6	31.2

Source: Calculation based on LFS data for Latvia; OECD for EU-15.

Table 6: Jobseekers looking for a job as employees by age and preferred type of job (fulltime or part-time) in 2002.

Age	15-19	20-24	25-54	55-59	60-64	65+	Total
Preferred job	Per cent of all jobseekers						
Fulltime	43	54	63	57	29	31	59
Part-time	28	15	4	6	15	20	7
Not specified	30	31	33	37	57	49	34

Source: Calculation based on LFS

Table 7: Planned duration of absence and salary receipt for persons temporary absent from the job for family and personal reasons (per cent within each reason)

Reason	Planned duration of absence		Salary received during absence		
	Up to 3 months	More than 3 months	Not at all	Less than 50%	At least 50%
Education, training	54.02	45.98	42.25	0.00	57.75
Own illness, injury	81.18	18.82	78.78	0.00	21.22
Pregnancy/maternity					
Child-care leave	1.29	98.71	93.62	5.85	0.52
Other	87.12	12.88	100	0.00	0.00
Total	48.81	51.19	89.27	4.49	6.25

Source: Calculation based on LFS 2002.

Table 8: Reasons for leaving last job^a by age (in percent)

	Reason	15-19	20-24	25-54	55-59	60-64	65-74	Total
1	Dismissed from job	9.75	15.32	34.50	25.09	12.92	11.41	24.61
2	Job of limited duration had ended	23.12	16.50	12.02	2.15	2.82	2.01	8.56
3	Gestation or maternity leave	2.27	15.88	7.94	0.00	0.00	0.00	5.20
4	Child-care leave	0.00	6.55	5.59	0.33	0.00	0.20	3.31
5	Incapacitated adult care	0.00	0.00	0.35	0.89	0.35	1.08	0.46
6	Other personal responsibilities	32.62	20.34	10.59	4.19	1.75	4.03	8.60
7	Own illness or disability	1.36	3.43	10.16	13.5	6.57	5.31	8.55
8	Early retirement for economic reasons	0.00	0.00	0.067	7.31	2.62	0.63	1.38
9	Old-age retirement (incl. retired earlier)	0.00	0.00	1.10	32.29	68.46	70.59	25.52
10	Compulsory military service	0.00	6.92	0.19	0.00	0.00	0.00	0.67
11	Other reason (for ex. entrepreneurship cessation)	30.88	15.06	17.48	14.25	4.51	4.74	13.14
Total		100	100	100	100	100	100	100

Notes: ^a Persons not working more than 8 years excluded. Source: Calculation based on LFS

Table 9: Reasons for part-time employment

	Part-time employment by reason, %		
	Men	Women	Total
Education, training	9.6	8.1	8.7
Own illness, injury or temporary disability	7.2	5.7	6.3
Could not find a full-time job	44.1	34.6	38.6
Did not want a full-time job	11.1	17.4	14.7
Looking after your own children	0.3	9.0	5.3
Looking after incapacitated adults	0.4	0.9	0.7
Other personal or family reasons	8.0	11.6	10.1
Other	19.3	12.8	15.5

Source: Calculation based on LFS

Annex 2: Summary of relevant legislation

Private sector

Paid leaves:

1. Health leave benefits:

- 1.1. Sickness leave. Benefit: 80 percent of average earnings. Payable from the 15th day of incapacity for work until recovery or, if declared permanently disabled, up to 52 weeks from day of incapacity for work or 78 weeks within a 3-year period if the incapacity for work reoccurs. Employer pays for 2nd to 14th day of incapacity. State pays for 15th to 364th day of incapacity. The benefit is payable from the first day if caring for a child under age 14.

2. Family care leaves benefits (paid by state):

- 2.1. Maternity leave. Benefit: 100 percent of average earnings. Payable by state for 112 calendar days (56 days before and 56 days after the expected date of childbirth). Payable by state for 14 additional calendar days for complications during pregnancy, delivery, or post-delivery period, as well as for multiple births and in cases in which medical care associated with pregnancy has been started at a medical institution and continued before the 12th week of pregnancy.
- 2.2. Paternity leave. Benefit: 80 percent of average earnings. Payable by state for 10 calendar days after delivery within 2 months. Payable till child is 70 days old if mother died within 42 days after delivery.
- 2.3. Childcare benefit. 30 Ls for each child younger than 1.5 year. 7.50 Ls for each kid older than 1.5 year but younger than 2 years. Payable if person is working less than 20 hours per week or do not work. Paid by state.
- 2.4. Family state benefit. Paying by state for children younger than 15 years (for children older than 15 years but younger than 20 years if they are currently studying). 6.00Ls for the first child, 7.20Ls for the second child 9.6 Ls for the third child 10.8Ls for the 4th.

3. **Educational leave. Benefit:** 100 percent of earnings. Worker gets paid by employer at least 20 days if worker is currently studying (without career interruption) but need break to path examinations or for diploma defence.

4. **Annual leaves (paid by the employer)**

4.1. Annual leave. Benefit: 100 percent of earnings. Worker gets paid at least four week per year.

4.2. Additional leave. Benefit: 100 percent of earnings (Only for workers who have more than three children younger than 16 years or if worker is doing dangerous work). Worker gets paid by employer within 3 days.

Unpaid leaves:

1. **Child care leave:** Available for each worker who has children (younger than 8 years old) for 1.5 year period

State sector

Paid leaves:

1. **Leaves for health reasons:**

1.1. Injury leave. Benefit: 100 of earnings. Payable if worker can't work because of injury.

2. **Family care leaves:**

2.1. Maternity/Paternity leave. Benefit: Benefit is equal to 6-month wage. Just one parent can get this benefit if both parents are working in a state sector. Maternity leave: 112 calendar days (56 days before and 56 days after the expected date of childbirth). Additional leave 14 additional calendar days for complications during pregnancy, delivery, or post-delivery period, as well as for multiple births and in cases in which medical care associated with pregnancy has been started at a medical institution and continued before the 12th week of pregnancy. Paternity leave: 10 calendar days after delivery within 2 months. Additional leave: till child is 70 days old if mother died within 42 days after delivery.

3. **Educational leave. Benefit:** 100 of earnings. Payable within 10 days to path examinations or within 20 days for diploma defence.

Annual leaves:

4.1. Annual paid leave. Benefit 100 of average earnings. Worker gets paid four weeks per year.

4.2. Additional paid leave: Regulated by the Cabinet of Ministers.