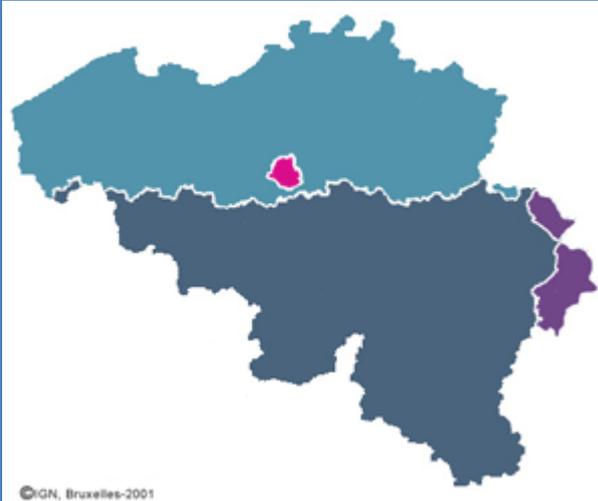




# Economic Aspects of Constitutional Change The case of Belgium

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### Regions:

- Flanders in light blue
- Brussels in red
- Wallonia in dark blue and in purple

### Communities:

- Flemish in light blue and red
- French-speaking in dark blue and red
- German-speaking in purple

# Is there risk of secession in Belgium?

- Recently a leading Belgian French-speaking weekly magazine headlined that Belgium will not split. Why?
- We investigate the trajectory of Belgian Federalism
  - Needs a look at Belgian history,
  - A short presentation of the six reforms of the state between 1970 and 2013, and
  - An economic translation of that evolutionary federalism

# 1. Belgian history in a nutshell

- A hodgepodge from marriages, conquests and treaties => indivisibility (1519)
- The Invincible Armada fiasco
- Spanish, Austrian low countries
- France comes... Liège joins
- A bourgeois kingdom cemented by French culture => aggregation to the elite, Brussels become Frenchspeaking

# The Flemish movement

- Some Flemish graduates however, and among them many clerics, undertook a revival of the Flemish language and attempted to mobilize the Flemish people around their cultural heritage. With the progressive extension of the voting right, that mobilization became successful and Flemish gained over French in the northern part of the country
- Role of “Romantism” => the battle of Golden Spurs

# Table 1 – Votes in Flanders° and the progressive generalisation of the voting right

Year	Electoral rule	Votes in Flanders	Votes Kingdom	Flanders % Kingdom
1848	Tax voting*	22,365	44,311	50.4728
1870		36,040	72,873	49.4559
1892		46,015	104,728	43.9376
1894	Plural voting**	777,670	1,802,980	43.1325
1912		1,114,508	2,621,771	42.5097
1919	One male one vote	785,872	1,761,141	44.6229
1946		1,154,750	2,365,638	48.8135
1949	One person one vote	2,465,572	5,030,883	49.0087
1971		2,746,884	5,281,631	52.0083
1991		3,476,296	6,162,160	56.4136
2010		3,687,813	6,527,367	56.4977

# The Flemish movement obtained

- “language legislation,” using Flemish
  - in the justice system in 1873,
  - in the administration in 1878,
  - in education in 1883,
  - in the universities in 1932,

⇒ Demand for “cultural autonomy.”

- Otherwise people in Flanders rather poor and in agriculture.
- The Belgium issue is primarily social and cultural on the Flemish side, and the Flemish movement to more autonomy is relatively more right-wing oriented.

# The Walloon movement

- In the southern or Walloon part,
  - industry developed across the 19<sup>th</sup> century making that area one of the most prosperous in the world next to England;
  - but also one with the hardest social tensions between a working class living in cities like Charleroi and Mons, and a ruling class agglomerated in Brussels.
  - ⇒ Thus in the southern part the issue was also primarily social, but in a different, more usual, way.
  - ⇒ As a consequence, the Walloon movement to autonomy is traditionally left-wing oriented.
- Transfers then operated from richer Wallonia to poorer Flanders; but their size was smaller than today

# The distribution of GDP per capita dramatically changed after WW II

GDP/cap	Belgium	Brussels	Flanders	Wallonia
1958	51.7	75.2	45.2	50.8
1966	83.3	121.2	76.7	75.4

# A growth champion of the sixties and early seventies

Growth	Belg	NL	Fra	Ger	UK	West E
<b>GDP</b>						
<b>50-60</b>	<b>3.00</b>	<b>4.61</b>	<b>4.57</b>	<b>8.17</b>	<b>2.67</b>	<b>4.70</b>
<b>60-73</b>	<b>4.93</b>	<b>4.83</b>	<b>5.38</b>	<b>4.34</b>	<b>3.18</b>	<b>4.33</b>
<b>GDP/ho</b>						
<b>50-60</b>	<b>3.15</b>	<b>4.16</b>	<b>4.58</b>	<b>7.08</b>	<b>2.11</b>	<b>4.19</b>
<b>60-73</b>	<b>5.30</b>	<b>5.25</b>	<b>5.25</b>	<b>5.16</b>	<b>3.90</b>	<b>4.81</b>

# The Walloon movement

- Started and requested for a larger autonomy in economic matters – *structural reforms* –, convinced that big private holding companies were moving investment from south to north one, and that Walloon public authorities had to offset the failure of the private sector; in the early sixties, Keynesian ideas were flourishing.
- In the meantime the Flemish movement continued to claim for cultural autonomy but with Flanders being richer and richer started claiming for autonomy in general, and possibly for independence.

# The ethno-regional parties emerged

- The Rassemblement Wallon RW
- The Front of Brussels French-speaking FDF
- The Flemish parties
  - Before WWII
  - The Volksunie VU: first seat in 1958; peaked up to 22 seats (on 212) in 1974, with more than 10% of the popular votes.
  - The Nieuw Vlaamse Alliantie NV-A; 27 out of 150
  - The Vlaams Belang VB; down from 17 to 12

- In addition, over the period 1999-2009,
  - gross wage increased 35.3% and taxable income per inhabitant increased by 45.6% in Belgium,
  - but for wages – a proxy for value added given the capital and service mission of Brussels –, figures are larger for Brussels (39.2%) than for Flanders (35.7%) and Wallonia (31.8%)
  - while for taxable income they are smaller for Brussels (31.2%) against Wallonia (48.7%) and Flanders (46.4%).
  - ⇒ Brussels creates wealth which benefits other two regions, spill over effect; 234,000 Flemish and 123,000 Walloon work in Brussels against 337,000 Brussels residents => a large amount of money generated in Brussels is consumed and pays tax outside the region of the capital city, and a relative decrease in Brussels wealth.
  - ⇒ recent catch up in Wallonia: income increasing more rapidly in Wallonia than in Flanders.

# Estimations of interregional transfers

Authors	Data for year	Flanders	Brussels	Wallonia
National Bank of Belgium (2008)	2005	3.4	0.4	-8.2
Meunier, Mignolet and Mulquin (2007)	2005	3.2	1.0	-8.7
Van Gompel and Van Craeynest (2004)	2003	4.2	-2.3	-8.4
Cattoir and de Callataÿ (2001)	2001	2.6	2.6	-8.4

## **2. Evolutionary Belgium: six reforms of the state**

- **2.1. The first reform (1970)**
  - Led to the recognition of three cultural communities (FLE, FRE, GER) with competences
  - Covered fine arts, libraries, tourism and sport
  - Means = grants from the central authority
  - Three regions (on paper) (BRU, FLA, WAL)
  - Alarm bell and parity at gov.

- **2.2. The second reform (1980)**

- cultural communities were renamed communities, were now run by an executive (government); and received additional competencies related to persons: welfare policy and health
- two regions actually created, Flanders and Wallonia, but the creation of Brussels region postponed;
- competencies related to territory like environment, rural renovation, nature preservation, economy, energy, employment, public works and housing.
- executives but like for communities, regional councils were still not elected directly.
- Flemish communities and Flanders decided to merge setting up a Flemish executive and a Flemish council.
- Court of Arbitrage, now the Constitutional Court

- Regions and communities permitted to levy taxes but central authority can limit that capacity
- *Non bis in idem* principle with the exception of personal income tax which became a joint tax.
- A new special financial law was passed which organized a new mechanism for financing regions and communities; applied since 1982.
- Regions and communities had five sources of income: own tax and non-tax revenues, grants from national authorities, transfers from part of the revenue of some taxes and levies, and loans.

- Regarding grants, the national budget for transferred competencies in 1980 is turned into a grant to communities and a grant to regions, of respectively 966.8 and 1,165.1 million euros.
  - The former is shared between the Flemish and French communities according to a 55-45% key.
  - The latter is shared between Flanders and Wallonia based on a key with three equally weighted components: population, surface and revenue from personal income tax (PIT).
- Transfers of part of the revenue include 41% of radio-tv duties, 100% of the withholding tax on the rental income of immovable property, 9% of the tax on the transmission of immovable property and 100% of the inheritance tax revenue.

- **2.3. The third reform (1988-1989)**

- competencies of the communities and regions expanded, with education, from nursing school to universities, to the communities.
- framework for cooperation agreements between the concerned entities is set up and cooperation is made compulsory in some areas of competencies
- Brussels Capital region created with same competencies but within the limits of the 19 municipalities of the Brussels agglomeration. Within Brussels region institutions special community commissions are created to manage person related competencies

- New special financial law progressively implemented between 1990 and 2000.
- Communities receive two new grants:
  - the budget of education turned into a claim on VAT revenue, adapted to a price index and to the evolution of the less than 18y population, and then distributed 57.55 – 42.45 between the two main communities – specific rules apply to the financing of the German-speaking community.
  - budget for non-education competencies transferred to communities replaced by a claim on Personal Income Tax revenue and distributed in line with PIT revenue paid by each community = *fair return* principle
  - similarly the regions also receive a similar claim on PIT revenue.
- Equalisation formula

- an equalisation formula is implemented => vertical transfers, initially at the expenses of the claim on PIT revenue of the regions but since 2000 charged to the federal level. The region will benefit from an equalisation transfer if its average PIT revenue per inhabitant is smaller than the same average revenue at federal level.
- **2.4. The fourth reform (1993)**
  - Belgium is a federal country consisting of communities and regions
  - agreement between French-speaking institutions: the French-speaking community transfer some of its competencies to the Walloon region and the Brussels French-speaking community commission, but not all the corresponding means

- **2.5. The fifth reform (2001):** From a financial point of view, two dimensions, the refinancing of communities and the enlargement of tax autonomy.
  - an additional grant is provided to communities and the VAT claim is indexed to 91% of GDP growth. Moreover the VAT claim related to the less than 18y population is now distributed between the two communities in line with the population between 6 and 17y.; in the future, extra means, will be distributed according to the distribution of PIT revenue; other grant available to communities = distributed in line with the distribution of PIT revenue, thus based on the fair return principle.
  - Regarding tax autonomy, regions have now full power on regional taxes: regions may levy positive or negative surcharges on the personal income tax within a limit of 6.75% of the PIT they have obtained.

2010	Federal level	Social Security	Communities and Regions	Local entities (provinces, municipalities)
Tax revenue and contr. to soc. sec.	87.1	50.4	8.1	8.2
Transfers from the federal level		24.1	34.3	3.3
Transfers from the comm. and regions				8.2
Other revenue	7.0	0.1	8.4	5.2
-transfers to other levels of power	-61.7	-0.2	-8.4	-0.2
Net revenue	32.4	75.0	42.3	24.5
Expenditures	43.7	75.1	44.7	24.6

	Revenue	Final primary expenditures			
Year	All levels	Federal	Social security	Comm. and Reg.	Local
1970	38.1	20.0	11.7		5.1
1975	43.4	22.1	16.3		6.4
1980	45.5	22.6	18.5		7.4
1985	48.3	22.1	19.6		6.2
1990	45.5	9.1	17.6	8.4	5.6
1995	47.6	8.4	18.4	10.3	6.1
2000	49.0	8.3	17.6	10.3	6.3
2005	49.3	10.4	19.3	11.5	6.5
2010	48.8	9.0	21.2	12.3	6.8

- **2.6. The sixth reform (2011-2013)**

- The first element is the resolution of an old issue regarding the Brussels area. Despite the French-speaking will to expand the territory of the Brussels region, limits have been confirmed and the hope of French-speaking people living in municipalities close to Brussels to become inhabitants of Brussels is definitely over. In exchange Brussels has obtained 61 million euros and the setting of a metropolitan area, whose role is still to be defined (but we can imagine a coordination with neighbouring Flanders on issues of economic interest and on the management of infrastructures).

- Second, what was so far a taboo for the French-speaking, i.e. the split of a nation-wide social security, has been partly decentralised: children allowance will leave competencies of the federal level = around 6 billion euro transfer of competencies. Competencies for 4 billion euros in employment policy and of another 4 billion euros in health policies, including policy with respect to elderly people, mental health and first front medicine, are also transferred to regions and communities respectively, as well as other less important competencies including in the judicial system. All in all transferred competencies will amount to 20 billion euros.

- Third, larger tax autonomy for the regions: own means go up from 45 to 65 billion euros, a + increase of 40% and tax autonomy accounts for 12 billion euros of this amount; regional competencies in terms of Personal Income Tax (PIT) are greatly expanded for around 11 billion euros corresponding to the financing of the new competencies of the regions and for the existing competencies, replacing the grant computed as a fraction of PIT revenue; practically regions will not only have the right to add positive or negative surcharges to federal PIT but those surcharges will no longer be limited to 6.75 percent of their PIT revenue as it was the case since 2004.

# 3. 2014, a year of all dangers?

- 2014 might be the year of all dangers in Belgium. Indeed in May 2014 an election day will take place when for the first time voters will simultaneously elect Belgian representatives to the European parliament, members of the Belgian federal parliament and those of the regional parliaments (those of Brussels, Flanders and Wallonia)

- The federal government has majority among the French-speaking MP but not in the Flemish section of the House, where it is only supported by traditional parties which do not represent majority of that linguistic group.
- Two scenarios at least are possible, depending on the outcome of the Flemish popular votes;
  - Flemish traditional parties are rewarded for a successful sixth reform of the state, increase their share of the votes, and no further step in the decentralisation occurs;
  - the Flemish Nationalist Party N-VA, still increases its share, reinforces its leadership in Flanders, and a new reform of the state, the seventh one, is called for; its content however is hard to depict at this moment.

# 3.1. Independence within Belgium and the Brussels node

- Means turning the federal level into an empty set, as empty as possible; indeed, even that option is limited, mainly by the Brussels node.
  - Brussels is the capital city of Belgium but also of both the French-speaking Community and of Flanders; and of course of the European Union. Therefore neither the French-speaking nor the Flemish-speaking people are ready to give up that city to the other community. “It is our Jerusalem”, Philippe van Parijs (2013), an Oxford-Louvain social philosopher, says.

- a separate Flemish social security, with more generous benefits, will cause a dilemma for Flanders; either it doesn't cover Brussels and that means Flanders giving up Flemish living in Brussels; or its coverage includes Brussels and is accessible to French-speaking too, “citizens of another state” in the extreme secessionist scenario, at least to those who decide to behave opportunistically.
- Therefore Brussels forces Belgium to keep going. How? That is another issue: Flanders regularly sets forth a co-governance of Brussels by the two linguistic communities, a vision that the far larger in size French-speaking community of Brussels forcefully rejects.

– Brussels is not only a French language dominated multicultural city located in Flemish territory. It is also one of the main economic poles of the country: Brussels area, a much larger entity than the sole political or administrative one, produces 30 per cent of GDP while covering a much smaller portion of the territory. As stated above, numerous commuters contribute to the creation of that wealth but they reside and spend outside Brussels, so that important economic transfers occur with income flowing out from the capital city and its area. Therefore both communities need Brussels as their economic centre.

- In its role of keeping Belgium on track, Brussels has an ally, the public debt. That debt amounts to 100 per cent of Belgian GDP. In case of independence of Flanders, that debt should be distributed between the successors of Belgium and it is likely that Wallonia will not be in capacity to support its part of the burden. That sole expectation will downgrade the Belgian papers pushing up interest rates and the cost of the debt, including for Flanders.
- Other allies are the trade union leaders, who north and south seem to be attached to interpersonal solidarity and a large portion of the Flemish people as well, including many artists, not ready to embark in the uncertain vessel of separation

## 3.2. Republic within a Kingdom

- Although N-VA leaders are clearly republican and a fraction of the Flemish community set forth that the King's family is currently too much a French-speaking body – with the exception of the new heir princess –, the majority of the Flemish voters, including of the N-VA party do not seem ready to exchange the King for a President: the question would arise of the linguistic community of the president and the prime minister.
- Different however is the issue of the evolution of the role of the King. In current Belgium he plays an active role in the formation of the federal government but not in those of the communities and regions.

- Therefore it will not be a surprise if the role of the King evolves towards
  - less implication in the political process of designation of the Prime minister, thus becoming a more representative figure as in other modern kingdoms, and at least no longer being a member of the executive.
  - less concerned by the functioning of the federal government, he could be more in phase with the communities and regions, becoming a “federal king” to be understood as a “federative king”. This is called for namely by the Flemish side; and, going in that direction, on the first day of his reign, new King Philippe received all the members of the governments of communities and regions together.

# 4. Economic analysis vs. handiwork

- **4.1. Institutional lumbering vs. theoretically founded design**
  - a dynamic game where one actor, the North, pursues an objective of larger autonomy, motivated by two key drivers, the protection of its culture on the one hand, the mastering of its own wealth on the other hand. Within that actor another game develops: traditional parties are pushed to demand more and more autonomy by a sub-group of politicians and opinion makers, eventually motivated by the creation of an independent Flemish republic. That sub-group permanently threatens traditional Flemish political parties which step by step mimic their radical positions: being at least as nationalist as your competitor is a paying strategy in an ideological vacuum. This explains that after each reform, demand for another one occurs. We say that the North has an offensive dynamic strategy.

# 4. Economic analysis vs. handiwork

- **4.1. Institutional lumbering vs. theoretically founded design**

- In front, the South, i.e. the French-speaking people from Wallonia and Brussels, has adopted a defensive strategy (except on the equality of treatment between Brussels and the other regions) since the early seventies and the creation of the Walloon Region. The rationality of their behaviour is to protect implicit and explicit transfers from the North that they need to keep their welfare level surviving.

- Each of the successive tentative equilibriums of the game => an amount of competencies and financial means transferred
- Additionally the decentralisation process at work since the early seventies and even before increases the heterogeneity between players which know less and less about each other; and that movement towards co-existence of separate communities is reinforced by the absence of federal parties.
- Could another approach be feasible? Why not ...provided that French-speaking's give up their defensive strategy and the Flemish credibly commit to respect the outcome of the new one-shot game; probably demanding too much
- Pelkmans test and article 35 of the Belgian constitution

# Article 35 of the Belgian constitution

- « The federal government has jurisdiction only in matters that are formally attributed to him by the Constitution and laws enacted under the Constitution itself. Communities or regions, each for its part, are responsible for other matters in the terms and conditions established by law. This law must be adopted by the majority... stip »
- A transitional provision: « The law referred to in paragraph 2 shall determine the date on which this section comes into force. This date cannot be earlier than the date of entry into force of new items (...) determining the exclusive powers of the federal authority. »

# Pelkmans' test

- The functional subsidiarity test relates lessons of fiscal federalism and the economic concept of subsidiarity – no competency can be transferred to a higher level of power – to a level of power operated on a larger geographical zone thus here from regions to federal – if it has not been proven that the higher level of power can exert it in a more efficient way.
- To what extent the subsidiarity principle at the root of the construction of the European Union may help redefining the distribution of competencies between the different levels of power in Belgium?

- *Acting together*
  - Case study: PIT vs CIT
- *Intergovernmental cooperation between regions or a central authority*
  - Do we trust each other? If regions collect, will they actually support the fed and make equalization?
- *A federal agency: in charge of what?*
  - Deciding the rates? Collecting revenue? Writing the tax code?
- *Public failures and political economy: an extended test*
  - For the benefit of which group?

## 4.2. Efficiency without solidarity: the second death of a nation?

- A two-tier social security?
  - Interpersonal solidarity within each region
  - Interregional solidarity between regions

# 5. Conclusion: lessons for Scotland

## Constitutional Change

- Two big differences however exist between the two experiences. First of all, due to the referendum mechanism, the Scottish play may be closer to a one-shot game than the Belgian game where such referendum is not permitted by the constitution. That change the environment of the game e.g. in terms of trust.
- Second, London is not located in Scotland. As a consequence UK has not that limitation to the separation of UK; unlike that, without the Brussels node, separation of Belgium would be much easier indeed.
- (to be completed after the conference)