

# In Flanders' Fields the Transfers Grow

## Equalization Policies Fraying Belgian Federation

### Executive Summary

- Once a unitary country, Belgium has divided itself into federal regions.
- The country has attempted to equalize conditions in the relatively more prosperous north and the relatively poorer south with a series of transfer programs.
- The transfers are based on several factors, the most important being income tax revenues and social security levies.
- Rather than spreading wealth, the perverse incentives contained in the transfers have encouraged politicians in Brussels and Wallonia to expand spending and regulatory programs.
- The transfers have failed to equalize economic conditions; rather, they have widened gaps in standards of living and employment levels.
- Once touted as a tool for reducing separatism, equalization has instead intensified the trend.

### Background

For a century and a half before 1977, Belgium was a unitary country. In that year, it was divided into three administrative regions, and its federal structure formalized in stages over the next eighteen years. At least until the middle of the 20<sup>th</sup> century, the country prospered economically, although less-advanced areas of the country already existed. The Flemish region in the north was less industrialized than Wallonia, the home of iron and steel working, metallurgy, chemical industries, and more. Until the 1960s, the Walloon region and Brussels acted as the main drivers of the country's economy. But an increasing level of political patronage and a growing number of subsidies offered to uncompetitive Walloon industries started the region's decline, while Flanders began modernizing.

Neither Belgium's north or south could be characterized as free-market economies. Like most countries, Belgium has a mixed economy. Many corporations are co-managed by people appointed for their partisan affiliation and political intervention in most sectors of activity is rife. Government economic planning, inherited from the interventionist ideology of the 1930s and implemented through the country's 1960 law on economic planning, remains entrenched through the *Bureau du Plan*. Some Belgians have called their country a "*particratie*," referring to a society and economy dominated by party politics.

Although always present, regionalist options were slow to take official root in Belgian institutions. Flemish nationalist movements have been very influential in the farm lobby, particularly the "*Boerenbond*," which is close to Catholic circles. Many Francophone intellectuals, politicians and unionists support Walloon regionalism. Today, while a level of

“federalization”<sup>1</sup> has been achieved by various groups, more or less explicit calls for institutional divorce continue to be heard, the only difference being that Flemish separatists dream of an independent Flemish republic while their Walloon counterparts hope that Wallonia (minus Brussels) becomes part of France.

Despite some similarities, from an economic point of view Flanders and Wallonia have evolved very differently. Unemployment rates are a telling indicator. Wallonia’s has increased constantly for 20 years to its current 17%, while the rate in Flanders is just 7%.

The third federal region, the officially bilingual capital area around Brussels, has an unemployment rate even higher than Wallonia’s, at 22% in December, 2003. Brussels’ economic decline has been very similar to Wallonia’s. In addition, the two depressed regions are linked by another level of power, the *Communauté française*<sup>2</sup>.

The statistics for net income per capita follow the same pattern of regional difference. In 2002, the national average was EUR 11,801. In Flanders, it stood at 12,563, in Wallonia at 10,783 and in the poorest, Brussels, at 10,675.

### Equalization

The Belgians use a number of methods to equalize these differences. One important tool for interregional transfers is based on the system of personal income taxes (*impôt sur les personnes physiques* or IPP). Since 1989, the lower a region’s IPP revenue, the more subsidies it receives through a federal redistribution system called the National Solidarity Intervention (*intervention de solidarité nationale*). With IPP numbers lower than the national average, the Brussels and Walloon regions receive such transfers. Flanders, above the national average, receives none.

The weights of personal income tax receipts that factor into interregional transfers has changed over time. In 1994 and 2003, per capita IPP revenues were as follows: Belgium as a whole, EUR 1,914 and 2,947; Brussels 2,038 and 2,757; Flanders 2,021 and 3,208; Wallonia 1,690 and 2,538.<sup>3</sup> Revenues increased across the board, but not at the same pace. Brussels’ contribution – which was more than that of Flanders a decade ago – is now in second place. The last Brussels-Capital region budget report is informative: “Since 1997, the Brussels region has benefited from the National Solidarity Intervention (1996 taxation year): since then, the IPP per Brussels resident has been below the national average.” [Translation]

Since then, regional taxes have increased as well. Since transfers from the north aren’t decreasing, Brussels and Wallonia politicians are in effect maintaining the tax pressure, knowing they will receive financial aid (not to mention European subsidies). For Brussels alone, regional tax revenues<sup>4</sup> have gone from EUR 252.52 million in 1996 to EUR 780.221 million in 2003, in part due to the transfer of some federal and community responsibilities to the regions.

<sup>1</sup> This term is in fact inaccurate because local power was added from a central political structure, unlike the union that occurred in countries like Switzerland, Canada, and the United States.

<sup>2</sup> The CF includes a government and parliament, which is also the case for the federal power and regional entities. It governs education, culture, sports, etc. Flanders has a similar institution, the *Vlaamse Gemeenschap* (Flemish Community), but it is *de facto* identical to the Flemish Region.

<sup>3</sup> Sources: *Service public fédéral des Finances*, *Service d’Études et de Documentation*, and *Calculs propres*.

<sup>4</sup> Including taxes on betting and games, video gaming devices, business start-up, real estate, inheritance, registrations and donations (previously collected by the federal government), transport vehicles (previously federal), radio and television (previously *Communauté française*), waste, and the *eurovignette* (federal; an annual charge for heavy vehicles).

But the thorniest issue dividing the north and south is the compulsory package of social security, which includes health insurance, maternity and old-age pensions, unemployment insurance and other social programs. Relations between the northern and southern parts of the country are poisoned over the question. Once again, the Flemish subsidize other regions in the name of "federal solidarity." The KBC Bank published an inquiry showing that in 2002 Flanders contributed EUR 2.91 billion to the other regions, 1.39 billion to Brussels and 1.52 billion to Wallonia, compared to a total of 2.2 billion in 1990 and 2.7 billion in 2000. Francophone parties cloud the issue by invoking the precarious situation of their Walloon citizens. Yet no one asks why the situation is precarious.

The KBC report also consolidated these figures to show that total transfers from Flanders were EUR 5.43 billion in 2002, compared to 4.88 billion in 2000, and 3.76 billion in 1990.

### **Transfers fail to spread the wealth; they underwrite more government**

Contrary to what is often said and written in the Francophone community, the evidence shows that the Flemish are paying more and more to underwrite other Belgian regions. But these fiscal transfers are not increasing the standard of living of the people targeted by the policy. On the contrary, assistance has become a way of life in several cities: Liège, Mons, and Charleroi are among Wallonia's most impoverished places, while Brussels is slowly becoming an economic desert. It should be noted that Flemish recriminations aren't the result of a desire to reduce taxes or expenses; northern politicians want tax monies to serve their own ambitions.

Knowing that new monies are coming one way or another, the Brussels and Walloon political leadership continues to intervene, spend and tax. The Walloon Business Union (*Union Wallonne des Entreprises, or UWE,*) determined that on average a new body of legislation is issued each month, dealing with everything from "workplace harassment" and anti-discrimination policies to a reduction in the number of work hours and environmental regulations. Since 1998, 525 orders and decrees have been adopted on the latter question alone. In addition, the Walloon government is preparing to grant another EUR 151 million to public hospitals.

Brussels is not inactive in this. The region recently adopted a petty and highly penalizing housing code (*Code du Logement*), whose sole effect will be to further diminish the number of private units in favour of public housing. Property owners are asked to assume a burden of shame for increasing their rents, but politicians inevitably "forget" to mention why they are forced to do so. High property and inheritance taxes discourage property owners, particularly the less fortunate, from maintaining or improving their assets. Laws are designed to protect low-income renters in reality do a disservice by reducing the supply of rental housing. Every regulation comes with a cost, which is inevitably supported in the political arena by the lowest income earners. The UWE has noted that cadastral (property tax) revenues in Wallonia have increased by 6% while in Flanders they have levelled off; in some cases, Flemish cadastral taxes have been eliminated. Real estate taxes in the Walloon region are 20% higher than those in Flanders. That is a reflection not of inequality or irresponsible property owners, but of poor public policy.

A constant supply of federal aid, particularly through the IPP, means spending by the Brussels and Walloon governments continues unchecked. In four years, Brussels' spending has increased from EUR 1,769 billion to 2,122 billion. This expansion always comes under the guise of creating jobs, particularly through business aid and subsidized employment, of increasing the standard of living and of fighting exclusion by supporting associations that promote "integration through housing" and some "urban renewal"

projects. However, it is evident that such counter-productive aid only aggravates poverty and dependency on assistance for the most underprivileged.

## Conclusion

Belgium is a country divided – in the full sense of the word – between its north and its south. In the north, political leaders and pressure groups express a willingness to stop the unending transfer of subsidies to the south, infected by unemployment and political patronage,. The situation has reached the point where nationalist groups like the Vlaams Blok ([www.flemishrepublic.org](http://www.flemishrepublic.org)), whose separatist discourse includes xenophobic elements, want to end Belgian unity.

These Flemish separatists are not without ambitions which would harm their region's relative success. They want to reorient tax dollars toward the interests of Flemish lobbies and political groups, as opposed to reducing the Flemish tax burden. Northern politicians are no more liberal than those in the south, they simply want to stop fiscal redistribution toward the south and enjoy the benefits themselves.

Southern politicians who want Wallonia to join France know that economic intervention is at least as present there as in Belgium. The majority prefer the status quo. On either side of the regional divide, individual freedom and prosperity are overshadowed by the interests of organized political groups.

Belgium's experience of equalization policies so far indicates that they have failed entirely to achieve their stated goals. Rather than spreading prosperity from richer to poorer regions, they have accelerated the slide of the latter. Politicians in Brussels and Wallonia have used the easy availability of transfers from Flanders as a vehicle for expanding their bureaucratic empires and spending programs. The transfers have insulated them from the full consequences of expanded regulatory regimes, which will impoverish them even more. Rather than curtail the public's desire for separatism, they have intensified it.

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