Report on the role of the public sector in Belgium

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Contents

In a 2,500 words (+/- 10%) report describe and analyse the role of the public sector in a chosen country. Conduct proper research and The areas of interest may include but are not limited to: the historic development of the public sector, the size of the public sector, taxation, welfare provisions, the role of state in the economy.

Any special aspects?

- I believe there is a wealth tax and/or higher than usual income tax
  - Belgium, New Tax on Resident and Nonresident, KPMG Global
- There's unusually high public spending in Belgium relative to other European countries. This is due to the decision to increase public spending made in 2008 following the financial crisis, aiming to increase economic activity and provide stability. (Which it did) since then though, public spending hasn't been radically changed.
- A quick search about the public sector in reference to Belgium revealed recent Labour strikes, heavily criticizing the public spending of the government. (What is this about, considering the last bullet-point?)

Executive Summary

Introduction

The Political Economy: studies the relationships between individuals making up the society of a state, the markets that are attributed and the state.

The Public Sector: entails the general government and the central government, as well as both function and responsibilities. Such functions include the allocation, distribution and stabilisation of resources. These functions are executed using support functions such as monetary / fiscal policies, public spending such as welfare provisions / benefits or pensions.

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> Belgium performs well in many measures of well-being relative to most
> other countries in the Better Life Index. Belgium ranks above the
> average in work-life balance, income and wealth, civic engagement,
> education and skills, subjective well-being, health status, social
> connections, and personal security but below average in environmental
> quality. These rankings are based on available selected data.  Money,
> while it cannot buy happiness, is an important means to achieving
> higher living standards. In Belgium, the average household
> net-adjusted disposable income per capita is USD 29 968 a year, less
> than the OECD average of USD 30 563 a year. There is a considerable
> gap between the richest and poorest - the top 20% of the population
> earn about four times as much as the bottom 20%. [^0]
[OECD Country Fact Sheet Belgium 2015](https://www.oecd.org/gov/Belgium.pdf)
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- **TODO**
  - Measure of the size of the public sector (GDP?)
  - Definitions / Introduction
  - Conclusion

The role of the public sector in Belgium

A general overview of Belgium

The monarchic constitutional federation of Brussels, divides power between the king as head of state and the prime minister as head of a multi-party government. The government is threefold and equally powered in decision making processes. The three language and region based communities have different responsibilities to pursue. ("Belgium | european union," 2019) With a declining population of 11.2 millions and same trend following GDP of 49,512 US$ per capita, Belgium is a well-developed free market economy typical for its size and location within the Euro-zone. There's 7.1% unemployment in the labour force, though Belgium has the second highest social spending among the OECD countries and a total of 52.2% of GDP general government spending. In fact, their high public spending is a primary function they utilise to stimulate economic activity and provide stability, as they did following the financial crisis in 2008. ("Belgium - oecd data," 2019) The employment issues that may be seen in a relatively high unemployment rate in a country the size of Belgium arise from not only economic factors and have much to do with the cultural history and governmental role of Belgium.

As mentioned, the role of the public sector is executed by the federal government and supplemented by regional and culture (language)-based communities, the king has its role being subtle and discreet relative to the execute powers of the communities/regions.

> "Belgium is a federal state, composed of *communities* and *regions*
>
> The power to make decisions is no longer the exclusive preserve of the federal government and the federal parliament. The leadership of the country is now in the hands of various partners, who independently exercise their authority within their domains." ("Belgium, a federal state," 2019)
>
> The Federal government retains control over the judicial system, the army, the Federal police, labour law, social security (unemployment, pensions, health insurance), public debt, prices, income and wage policy financial sector and financial markets ("OECD economic surveys," 2017)

The reason for this responsibility distribution is economic autonomy and cultural considerations, which have emerged over the historic development of the public sector of Belgium and their overall politics. Geographical regions can adapt aspects relating to the economy, employment and public works depending on the local economic activities, developments and political situation.("The powers of the regions," 2010) Cultural differences within the regions of Belgium are also reason for the regions having emerged in the first place. Thus, *the communities* have controlling powers over aspects including education, health policies or assistance for individuals requiring assistance (social welfare).("The powers of the communities," 2010)

> Presenting the survey in Brussels at a news conference alongside Belgian Prime Minister Charles Michel, OECD Secretary-General Angel Gurría said: "In a difficult global context, it is encouraging to see that Belgium's economy is gathering speed, albeit at a modest pace compared to pre-crisis levels. There is much to be positive about, and Belgium possesses the necessary determination to address the significant challenges it continues to face. A focus on public investment and tax and education reforms are important actions in order to boost growth and make it more inclusive, so everyone benefits." (OECD, 2017) ("Public investment, tax and education reforms will help bolster inclusive growth in belgium - oecd," 2017)

Taxation Structure

Tax-to-GDP revenue in Belgium is 10% higher than the *OECD* average. In fact, it is ranked third of all 36 *OECD* countries, just behind France & Denmark, both central & northern European countries, less peripheral and closer to the greatest economic activity & market, Germany. In comparison to other *OECD* Countries, Belgium has greater revenues from taxes on "*personal income, profits & gains; social security contributions; and property taxes*" and "*lower proportion of revenues from taxes on corporate income & gains; value-added taxes*" ("Revenue statistics 2018 - belgium," 2018). In fact, the *estimated* percentage of GDP for Belgium's total general government revenues is 50.7%. The composition of that number and thus the sources of revenue streams for the Belgian Government can be identified in *figure 1* below.

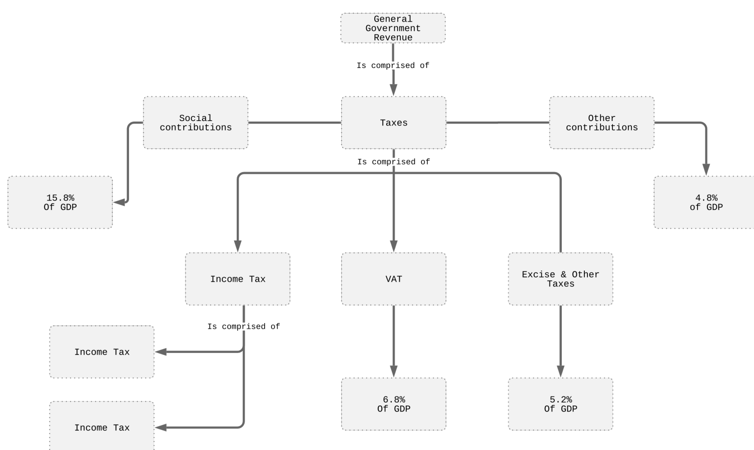

Figure 1: Belgium's Taxation structure

Illustrated in *figure 1*, are the constituent contributors towards the taxation revenue, knowing these is important when starting to think about public spending and expenditure. Income distribution, wealth distribution and re-distribution come into mind when considering from where and to where funds go within a country, based upon public spending and taxation decisions. For *the people / the citizens*, the structure is an indicator of the considerations the government makes about the community (part of the population), that they self-identify with. The reduction in corporate tax, with the aim to reach a 25% corporate tax is an ongoing Trend, though Belgium's revenue as percentage of GDP is greater than the OECD average, even Germany's. This trend may very well be a result of globalisation, where *FDI* attraction is the objective behind effectively lowering corporate tax, though the effectiveness of the overall tax structure has to be secured, which is where concerns are raised. This potentially problematic situation is an essential conflict of interest the government has to balance using tools effecting the tax structure policies and public spending behaviours.

> "In a free market where MNCs now hold greater negotiating power than many governments, the space for influencing international tax cooperation has been dominated by those with interests at odds with the general welfare." (ActionAid, 2018)

With very similar personal income taxation to Germany, being closer to the OECD average, Belgium is making up for its focus on collecting taxes from business with lowered social contributions. The reduction in corporate taxes will need to be adequately compensated for. One way Belgium is already doing so, is by implementing a higher than usual property tax, which is far above Germany's and too, above the OECD's average. The public opinion of the tax structure impact the perception of the government and as such the involvement of the state in the public sector. The relief of burden on individuals and the reduction in taxes on corporations aids the public image and aligns with the goals of the labor unions. (OECD, 2017) The sources of revenue for the government and thus public sector/spending are identified and the interests of the government have become clearer from mentioned taxation structure. The use of these funds identify the public spending. The general welfare provision and involvement of the state within the economy and the society are key to understanding the public sector and how it is perceived.

Public Involvement

Belgium's Public spending in areas such as education is more than 2% above the average OECD country's GDP("Education policy outlook country profile belgium," 2017). *The communities* have executive power regarding education related decisions and have to consider the three languages and cultures represented within the country. Hence, the three autonomous educational system in Belgium, *Flemish, French & German*, thus having issues managing a fragmented decentralised education system, in terms of consistency of quality and opportunities. Considering that the educational system experiences issues with the threefold, decentralised communal system, it becomes clear that similar issues may arise in the management of other departments of the public sector's social welfare provision. Managing these issues correctly is apparently an ongoing issue for Belgium, as public spending is described as "inefficient" in the *Economic Survey of Belgium 2017 ("OECD economic surveys," 2017).*

Belgium has the second highest social spending among the OECD countries ("OECD - social spending (indicator)," 2018), which aligns with the plans to stimulate economic activity and invest in social public spending. Belgium, enabled through having such high social spending, has the highest ranking *public unemployment spending* of any OECD country, in fact, it is more than double the average OECD member country's ("OECD - public unemployment spending (indicator)," 2018). Not only does Belgium spend a lot on unemployment benefits/compensations, but also on the labour market in form of subsidies, training or direct job creation in the public sector ("Public spending on labour markets (indicator)," 2016). Unemployment has been decreasing, while employment rate of the total labour force has been steady ("IMF executive board concludes 2018 article iv consultation with belgium," 2018).

> "The Michel government collapsed last December, after four years in power" (Fund, 2019)

Not only did he quit because of a UN mitigation pact, but also because of severe difficulties with the social complexity and cultural community considerations that have to be made, underlying the real difficulty of managing the *threefoldness* of Belgium. (Rankin, 2018) Labour unions are agitated and have been for a while. These recent strikes / interference from labour unions (Schreuer, 2019) resulted in a tighter labour market and increased wages, seeing implementation in the new labour market reforms and overhauled wage moderation.

> "The government implemented a number of reforms designed to reduce unemployment traps, increase labor market participation, and introduce more flexibility in the labor market."(Fund, 2019)

"The Tax Shift" (Fund, 2019) is another implementation Belgium made in order to relieve the working individual.

> The Tax Shift (...) aims to improve competitiveness and strengthen purchasing power by shifting taxes away from labor. The reform, which was targeted especially to low wage earners, entails lowering social security contributions for employers and employees and reducing personal income taxes for employees. Partially compensating measures include higher excise duties on alcohol, tobacco, diesel (...) (Fund, 2019)

Thus, price inflation will follow the rise in disposable income. High and increasing public business investment spending is counteracting the tax vacuum. ("Belgium - economic forecast summary," 2018)

Belgium's employs a fully-funded statutory pension scheme, where 7.5% & 8.7% are contributed by employee and employer respectively, but non-deducted from income. Pension spending is similar to Germany and Spain in terms of percentage of GDP spent. There's a ¼ more pensions spending compared to the OECD average. In fact, *"The projected substantial rise in pension expenditure over the long term is one of the highest in Europe"* ("OECD pension policy notes belgium," 2015). In 2017 it has been recommended by the OECD to shift taxes away from the working individual via corporate social security contributions.

Conclusion

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