Report on the role of the public sector in Belgium

Ty Yiu

2019-04-07

Contents

Executive Summary

This report analyses Belgium's public sector. The analysis requires knowledge about how the public sector functions and how decisions made by the government affect the public sector. Identifying the systems at work, such as the taxation structure or public spending behaviours, in the functions empowering the public sector is key for analysing the effectiveness of use of said systems. *The circular flow of income* is the concept used for determining where funds originate from and for what they are being used for. Understanding why the circular flow of income is how it is in Belgium, lifts the curtain of uncertainty regarding prioritisations of communities & activities that the state exercises.

Glossary

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.

Introduction

The monarchic constitutional federation of Belgium, 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. The role of the public sector in Belgium is thus being analysed via the behaviour of the state and their decisions upon public involvement, including taxation and public spending.

The role of the public sector in Belgium

A general overview 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 pol-

> icy 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." ("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.

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

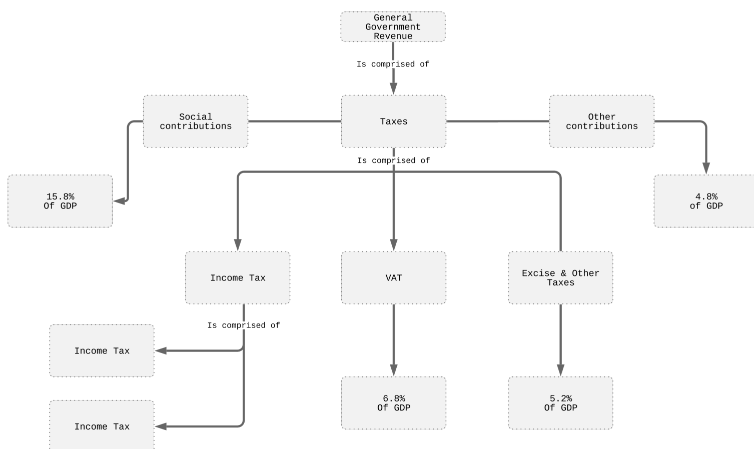

Figure 1: Belgium's Taxation structure

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 income (re-)distribution and wealth (re-)distribution are two functions heavily affected by this property tax decision, but are even more supported via the 0.15% *wealth tax* which Belgium passed legislation for early 2018. (Kevin Hellinckx, 2018) A wealth tax is usually perceived a distinct way by the public and specific communities and is a topic of heavy debate as more EU countries consider and discuss such policies regarding fairness and equality. The mentioned high public spending and the destinations public spending funds arrive at support the public sector in Belgium and strengthen its position within society, indicating Belgium's clear interest and care for their political economy. 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). These measures clearly provide an insight into the public sector spending of Belgium and how the funds generated from e.g. taxes are distributed within the economy. General Welfare provision and public spending in the labour market, as well as the high unemployment spending underline the fact, that Belgium is a very *caring* state with their involvement in the public sector being well executed. The mentioned trend, where economic activity is inflated by leveraging globalisation effects, such as the attraction of FDI, is Belgium's method for enabling such public spending and generous social & welfare system.

> 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

References

ActionAid. (2018). IMF 2019 analysis of international corporate taxation. Retrieved April 5, 2019, from https://www.imf.org/external/np/exr/consult/2018/corptaxation/pdf/2018commentscorptaxation.pdf

Belgium, a federal state. (2019).. Retrieved April 5, 2019, from http://www.oecdbetterlifeindex.org/countries/belgium/

Belgium - economic forecast summary. (2018).. Retrieved April 5, 2019, from http://www.oecd.org/belgium/belgium-economic-forecast-summary.htm

Belgium - oecd data. (2019).. Retrieved April 5, 2019, from https://data.oecd.org/belgium.htm

Belgium | european union. (2019).. Retrieved April 5, 2019, from https://europa.eu/european-union/about-eu/countries/member-countries/belgium_en

Education policy outlook country profile belgium. (2017, August).. Retrieved April 5, 2019, from http://www.oecd.org/education/Education-Policy-Outlook-Country-Profile-Belgium.pdf

Fund, I. M. (2019, March 11). Belgium : 2019 article iv consultation-press release; staff report; and statement by the executive director for belgium. Retrieved

April 5, 2019, from https://www.imf.org/~/media/Files/Publications/CR/2019/1BELEA2019001.ashx

IMF executive board concludes 2018 article iv consultation with belgium. (2018, March 8).. Retrieved April 5, 2019, from http://www.oecd.org/economy/surveys/Belgium-2017-OECD-economic-survey-overview.pdf

Kevin Hellinckx, K., Senior Tax Adviser. (2018). *Belgium, new tax on resident and nonresident, kpmg global.* Retrieved April 5, 2019, from https://home.kpmg/xx/en/home/insights/2018/02/flash-alert-2018-024.html

OECD. (2017). Economic survey of belgium 2017. Retrieved April 5, 2019, from http://www.oecd.org/belgium/economic-survey-belgium.htm

OECD economic surveys: Belgium. (2017, June).. Retrieved April 5, 2019, from http://www.oecd.org/economy/surveys/Belgium-2017-OECD-economic-survey-overview.pdf

OECD pension policy notes belgium. (2015).. Retrieved April 5, 2019, from https://www.oecd.org/els/public-pensions/OECD-Pension-Policy-Notes-Belgium.pdf

OECD - public unemployment spending (indicator). (2018).. Retrieved April 5, 2019, from https://data.oecd.org/socialexp/social-spending.htm

OECD - social spending (indicator). (2018).. Retrieved April 5, 2019, from https://data.oecd.org/socialexp/social-spending.htm

Public investment, tax and education reforms will help bolster inclusive growth in belgium - oecd. (2017).. Retrieved April 5, 2019, from http://www.oecd.org/belgium/public-investment-tax-and-education-reforms-will-help-bolster-inclusive-growth-in-belgium.htm

Public spending on labour markets (indicator). (2016).. Retrieved April 5, 2019, from https://data.oecd.org/socialexp/public-spending-on-labour-markets.htm

Rankin, J. (2018). Charles michel lost confidence vote after coalition partner quit over un migration pact. Retrieved April 5, 2019, from https://www.theguardian.com/world/2018/dec/21/belgian-king-accepts-prime-minister-charles-michel-resignation-say-reports

Revenue statistics 2018 - belgium. (2018).. Retrieved April 5, 2019, from https://www.oecd.org/tax/tax-policy/revenue-statistics-belgium.pdf

Schreuer, M. (2019). National strike grips belgium, canceling flights and shutting breweries. Retrieved April 5, 2019, from https://www.nytimes.com/2019/02/13/world/europe/strike-in-belgium.html

The powers of the communities. (2010).. Retrieved April 5, 2019, from https://www.belgium.be/en/about_belgium/government/communities/competence

The powers of the regions. (2010).. Retrieved April 5, 2019, from https://www.belgium.be/en/about_belgium/government/regions/competence