



THE CURRENT INSTITUTIONAL SETUP OF BELGIUM : BONUS OR HANDICAP FOR THE ECONOMY ?

Hansjörg Blöchliger
Head, OECD Fiscal Federalism Network
Brussels, 25 September 2013



Federal Institutions and the Economy

- Federal institutions reflect fundamental societal choices and are not necessarily geared towards achieving economic objectives
- But federal institutions affect the behaviour of firms, households and governments and thereby economic activity. They become an object of economic scrutiny
- OECD findings: decentralisation is positively associated with GDP, productivity, public investment and education performance



Benchmarking against the principles of “market preserving federalism”

- 1. Clearly delineated responsibilities across government levels
- 2. Tax, spending and regulatory autonomy at the sub-national level
- 3. Internal market
- 4. Hard budget constraint for sub-national governments
- 5. Constitutional guarantees

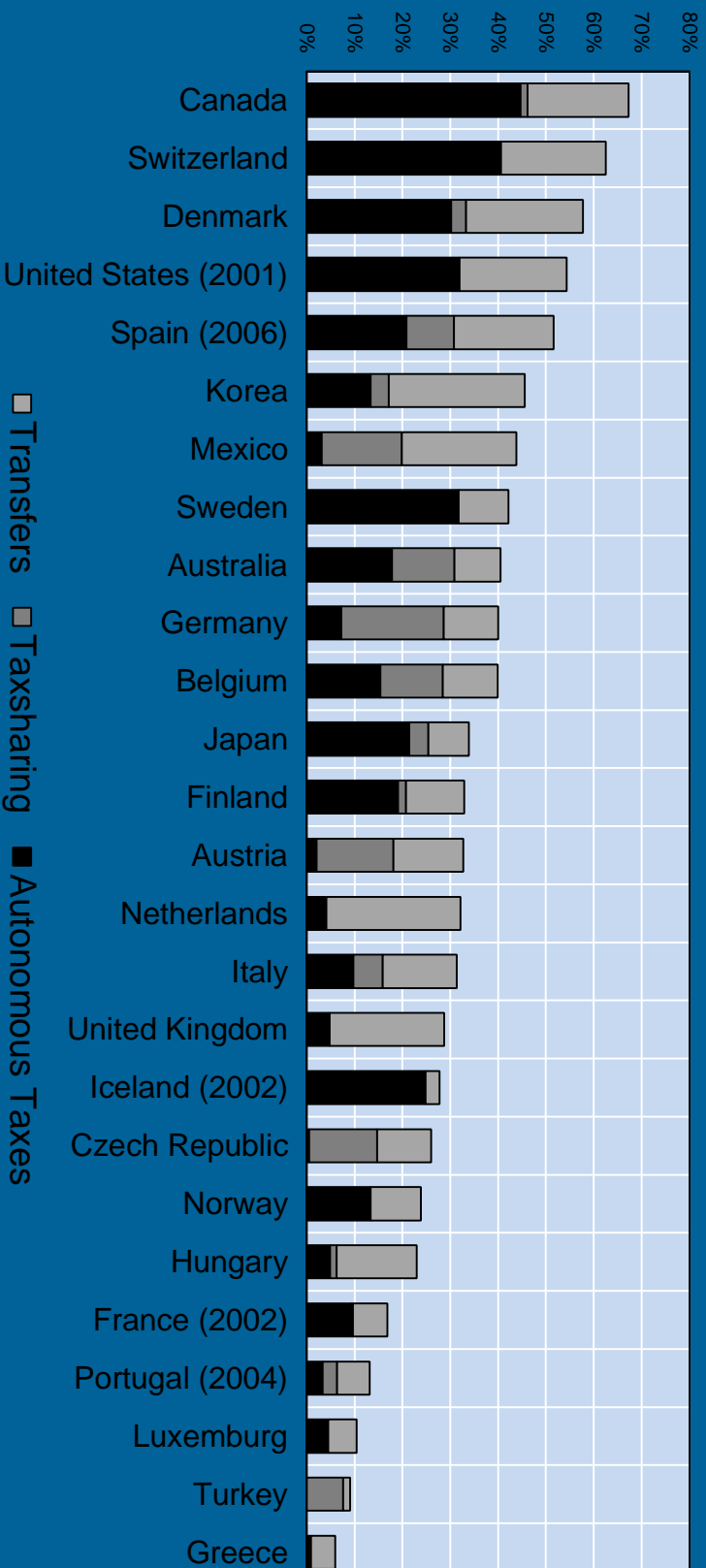
- How does Belgium compare?



1. Responsibility assignment

Large transfer and tax sharing systems point at overlapping responsibilities

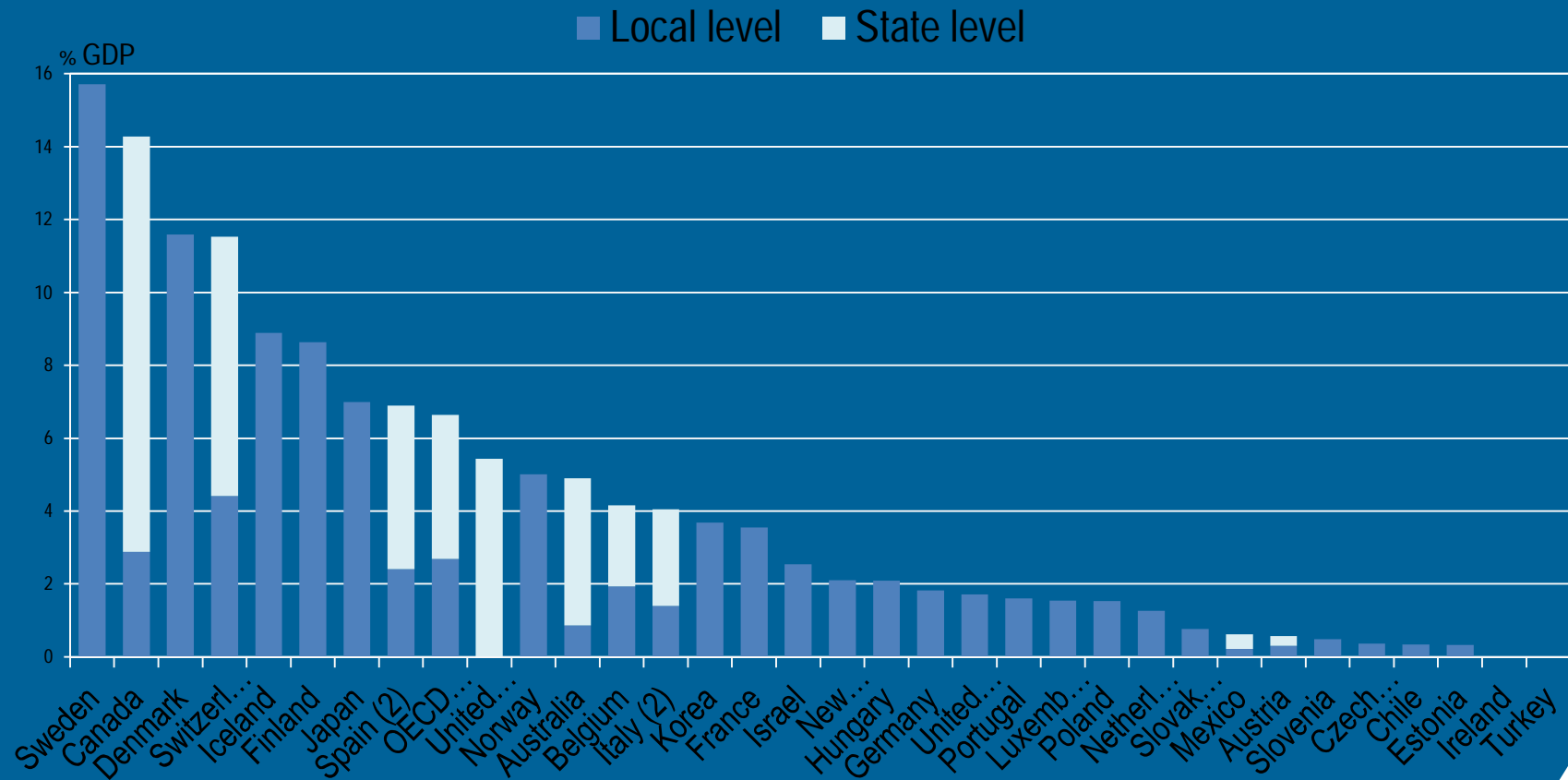
Share of sub-central revenue to total revenue: 2008





2. Tax and Spending Autonomy

Little tax autonomy points at weak relationship between taxation and spending, thereby affecting public sector efficiency





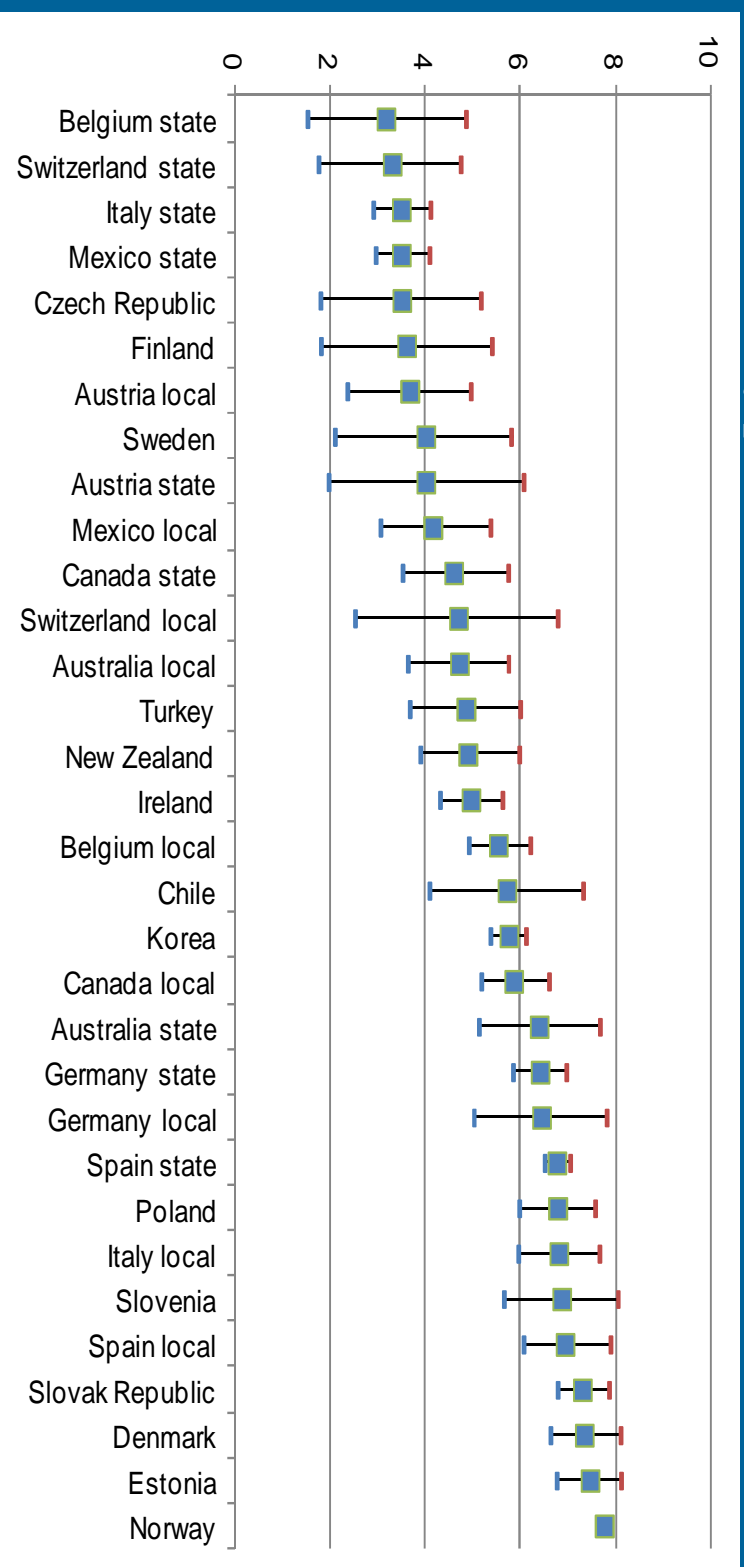
3. Internal market

- Does the autonomy of regions and communities impair the free flow of people, goods and services?



4. Hard budget constraint

Sub-national fiscal rules indicator suggests soft budget constraint at the sub-national level. Stability pact?





5. Constitutionalisation

- To what extent are federalist principles enshrined in the constitution and hence difficult to change?



Disparities and convergence

- Recent empirical evidence points at an association of higher decentralisation and lower disparities.
- Federal systems could be better placed to address inter-regional disparities
- Trade-off between efficiency and equity if fiscal autonomy is increased?



Conclusions

- In OECD countries, decentralisation is associated with better economic outcomes. Belgium might have benefitted economically from devolution
- Some issues remain: a re-sizing and redesign of the transfer system; proper assignment of tax and spending autonomy; effective fiscal equalisation; and ensuring a long-term hard budget constraint at the sub-national level