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PROCESSES OF BUDGETARY AND FISCAL DECENTRALIZATION AND POLICY NARRATIVES IN BELGIUM AND SPAIN : ESSAY ON A CONFEDERAL MODEL IN THE LIGHT OF THE FORAL SYSTEM OF THE BASQUE COUNTRY

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Summary

Introduction

1. Narratives : Definition
2. Narratives of budgetary discipline and fiscal decentralization in Spain
3. The Basque Tax System
4. Policy narratives in federal and highly indebted Belgium
5. Narratives : Discussion

Conclusion : What could Belgium's future look like ?

Introduction

- Belgium : (yet) no Federal Government
- Will for a confederal model ?
- Foral system of the Basque Country not well known
- Space for an in deep study
- Paper still *on hold*
- Opening discussion, further investigations ...

1. Narratives : Definition

- Policy Narratives:
 - Cognitive elements;
 - Attached to public policies;
 - Certify and stabilize assumptions for decision-making;
 - Suggest certain actions;
 - May have a beginning, a middle and an end.

2. Narratives of budgetary discipline and fiscal decentralization in Spain

- Context :
 - Financial and economic crisis of 2007/2008
 - Crisis :
 - National public finances
 - Autonomous public finances
 - Dual self-identification
 - Asymmetrical decentralization
 - Triggered by dual self-identification
 - Lack of fiscal correspondence
 - Fiscal illusion

2. Narratives of budgetary discipline and fiscal decentralization in Spain

- Consequences

Short term:

- Austerity
- *De facto* recentralization
 - Tensions

Long term:

- Constant negotiation
- Bilateralism
- Cost for public finance
- Externalities
- Risk of harmful tax competition

2. Narratives of budgetary discipline and fiscal decentralization in Spain

- Narrative
 - Injustice
 - *Permanent state of reforms*
 - *Building a real Federal country*
 - *High cost for public finance*
 - *Solution :*
 - *Rethought solidarity*
 - *Accountable CCAA*
 - *Rationalized spendings*

3. The Basque Tax System

- Asymmetrical financing system in Spain
- Two differentiated financing systems of Autonomous Communities in Spain:
 - Common regime (15 Autonomous Communities)
 - Foral regime (Basque Autonomous Community and Foral Community of Navarre)
- Historical and political origin

TAX SOVEREIGNTIES IN THE SPANISH STATE



THE BASQUE AUTONOMOUS COMMUNITY



BASQUE ECONOMIC AGREEMENT

- The Basque Provincial Governments “may maintain, establish and regulate, within their territory, their taxation system”
- Mainly all the taxes are managed by the Basque Provincial Governments
- Obligation: quota (*cupo*) payment

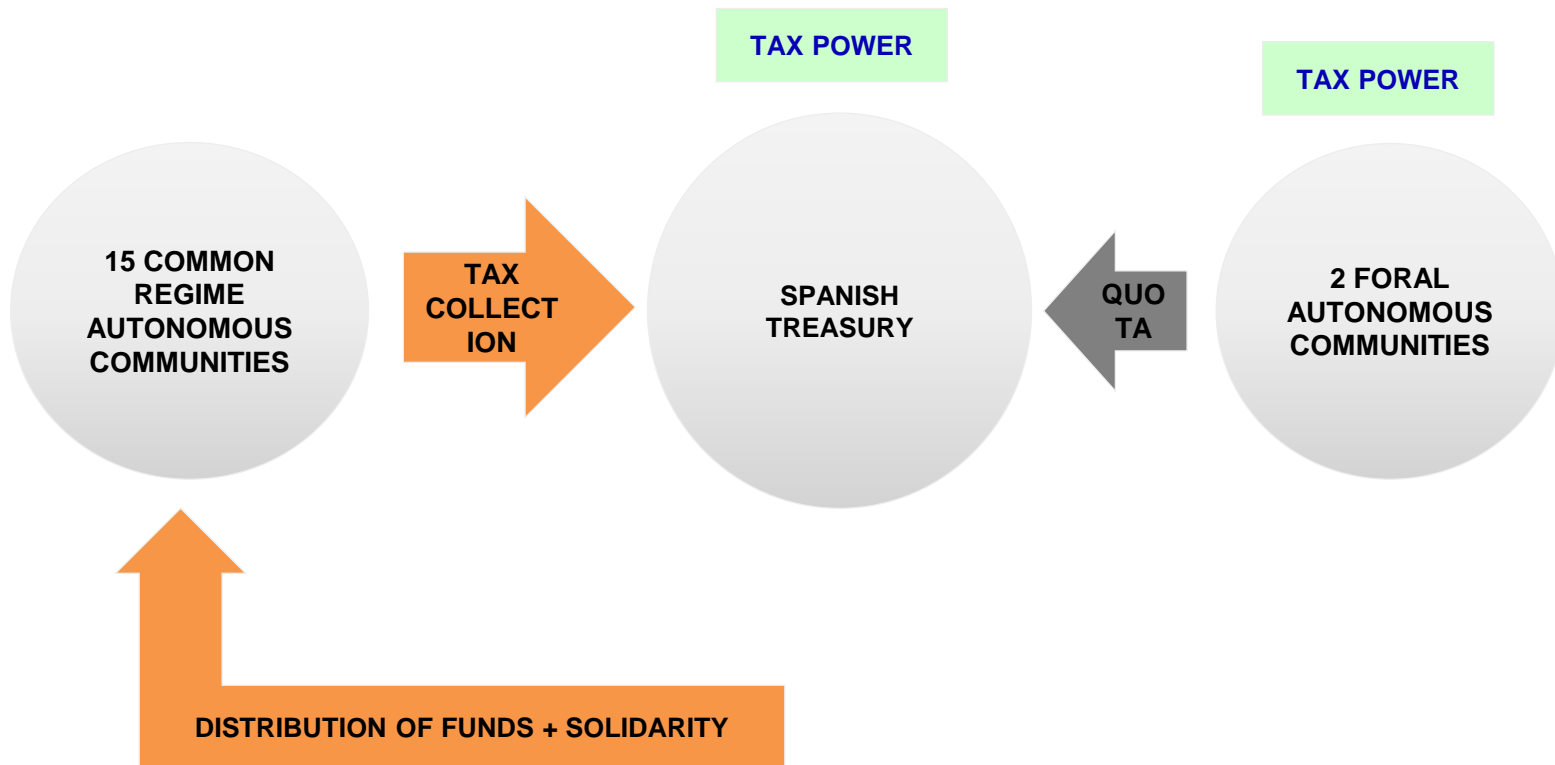
TAX COLLECTION BASQUE COUNTRY –
 QUOTA=
 FINANCIAL AUTONOMY

As a result of the Economic Agreement, in the Basque Country, **THE TAX POWER BELONGS TO THE BASQUE GOVERNMENTS**

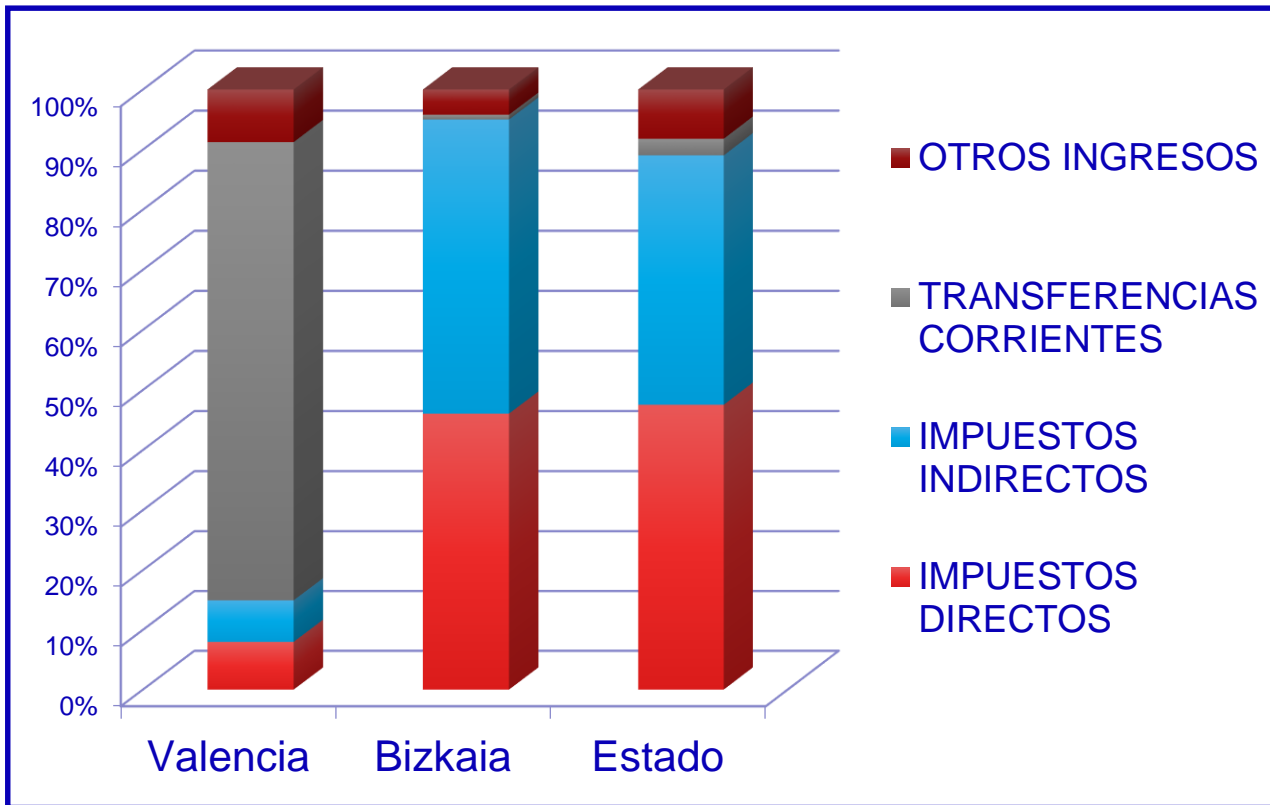
Both, normative and management powers

DIRECT TAXES	INDIRECT TAXES
Income tax	VAT
Corporate income tax	Excises
Non residents income tax	Tax on insurance premiums
Wealth tax	Capital transfer tax and Stamp Duty
Inheritance and Gift taxes	Gaming duties
Other direct taxes	Other indirect taxes

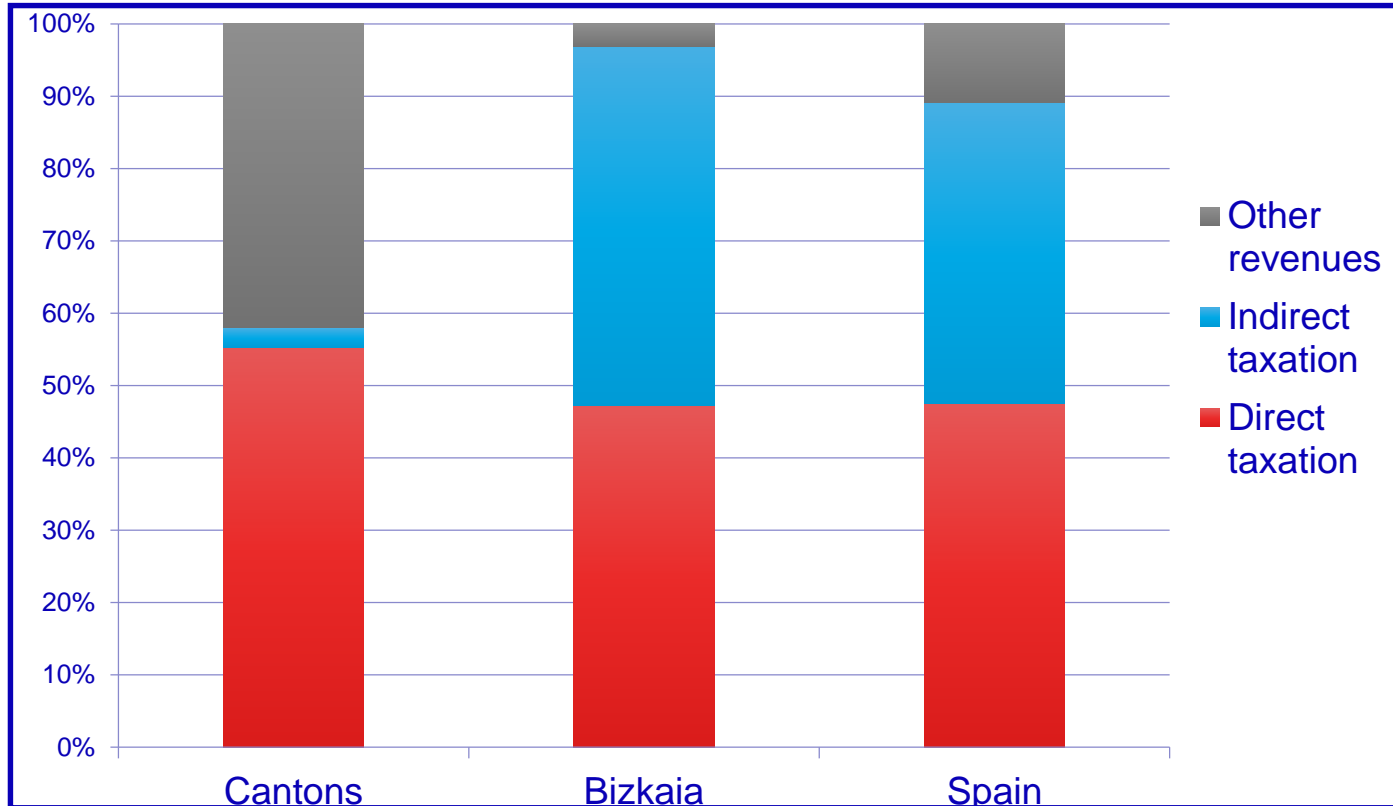
PRINCIPLE OF FISCAL CO-RESPONSABILITY



DISTRIBUTION OF VALENCIA AND BIZKAIA PROVINCIAL AND SPANISH STATE NON FINANCIAL REVENUE BUDGET, 2018



DISTRIBUTION OF CANTONS, BIZKAIA AND SPANISH STATE NON FINANCIAL REVENUE BUDGET, 2016-2018



QUOTA OBLIGATION

- Amount the Basque Country must pay to the State in order to finance the competences which have not been effectively assumed or assigned to the Basque institutions
- Quota index: 6,24% (based on income)

BASQUE COUNTRY-STATE POWER DISTRIBUTION

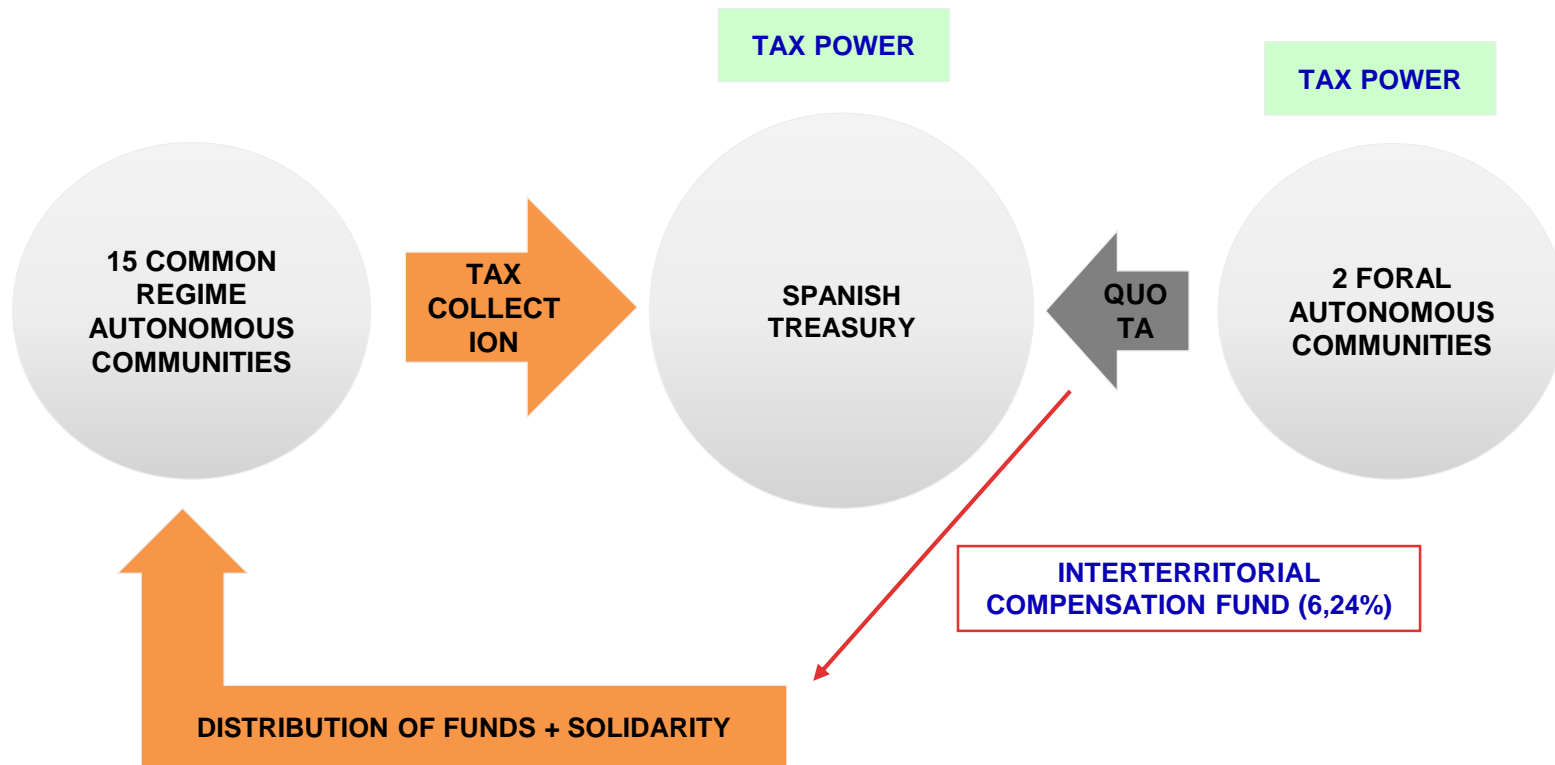
Assumed competences/executed by the Basque institutions

- HEALTH
- EDUCATION
- CULTURE
- SOCIAL ASSISTANCE
- TOURISM
- ROADS
- OTHER

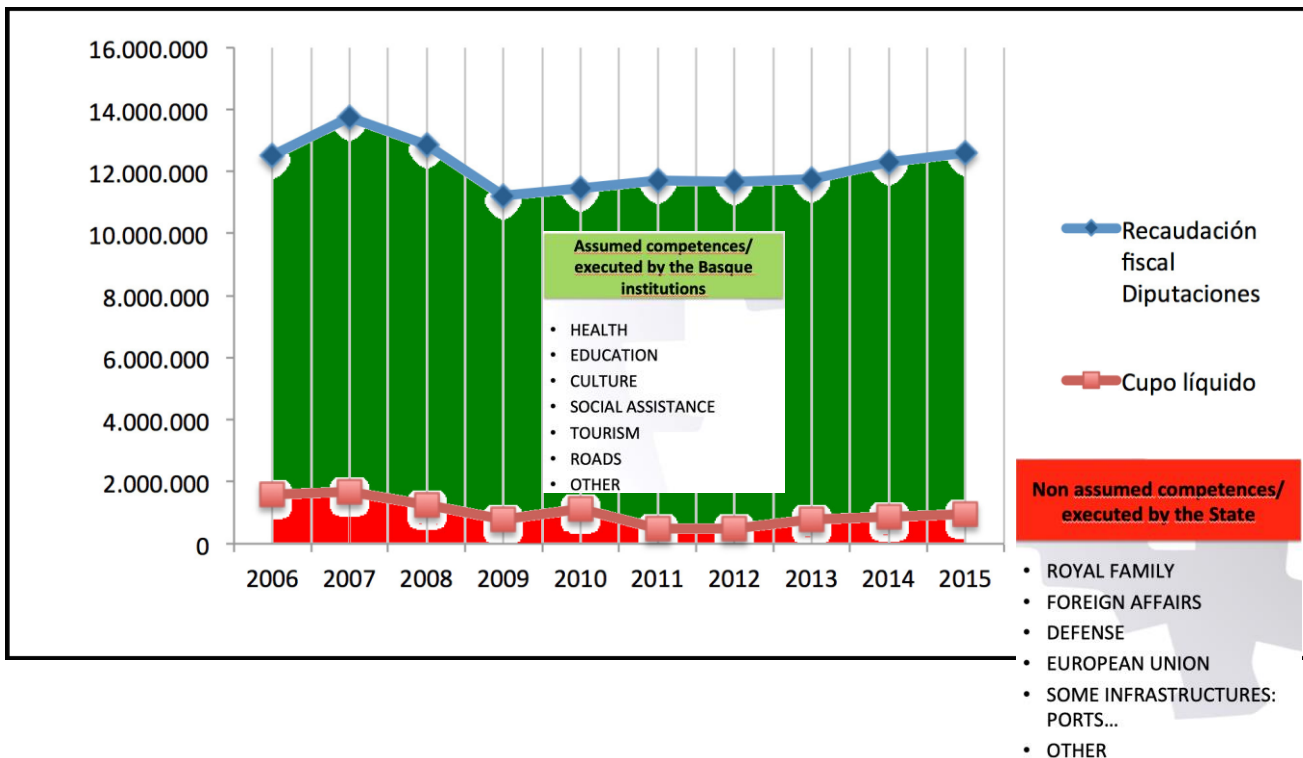
Non assumed competences/executed by the State

- ROYAL FAMILY
- FOREIGN AFFAIRS
- DEFENSE
- EUROPEAN UNION
- SOME
INFRASTRUCTURES:
PORTS...
- OTHER

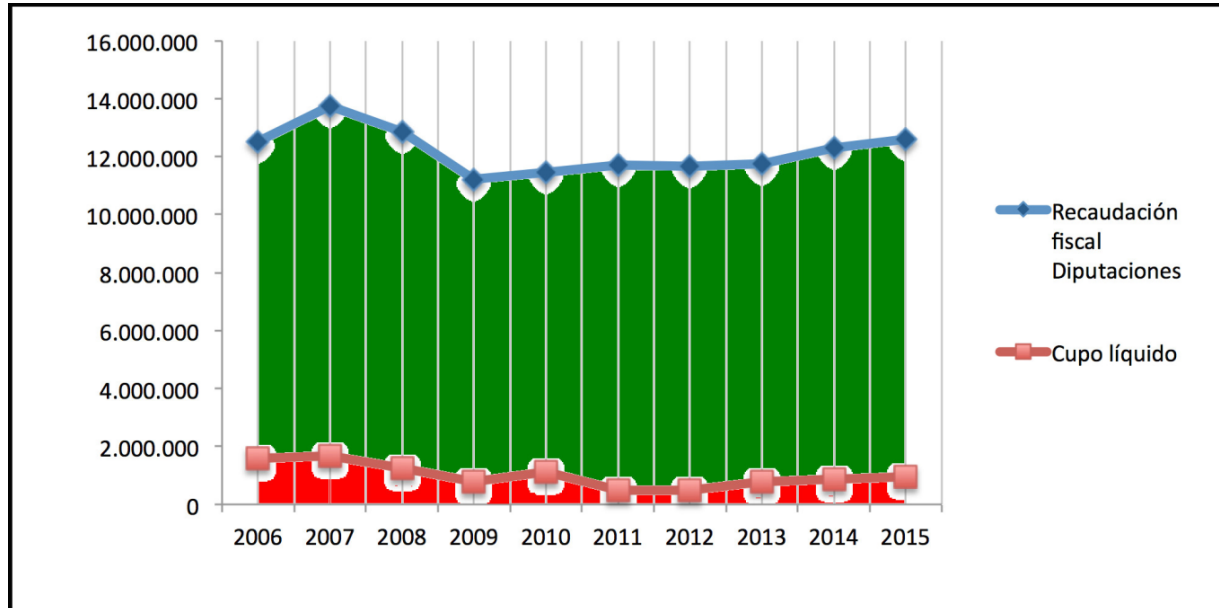
SOLIDARITY FUND



FINANCIAL AUTONOMY



PRINCIPLE OF UNILATERAL RISK I



- Power to change unilaterally the revenue side
- No control over the quota obligation
- No state lifeline

PRINCIPLE OF UNILATERAL RISK II

The Basque Country assumes the risk of a possible lower tax revenue, whether resulting from a relatively worse economic situation, its regulatory decisions when setting its tax system, or simply less efficiency in the management and collection of its taxes; and vice versa.

PRINCIPLE OF UNILATERAL RISK III

- Judgment of the Court of Justice of the European Union, 11 September 2008, endorsed the compliance of unilateral risk principle in the Basque case:

The Basque Country is fiscally responsible for its policies in tax matters, assuming the repercussion that a lower tax revenue might result in a limitation of public expenditure on services for the community and infrastructures of its competence, without there being specific regulatory precautions in the system referring to a hypothetical fiscal deficit that might result from a lower tax revenue should be borne or subsidized by the central public powers or by other regions.

4. Policy narratives in federal and highly indebted Belgium

- Context:
 - Financial and economic crisis of 2007/2008
 - Political Crisis of 2010/2011
 - Institutional reforms and Public debt
 - Systemic subjects in political debates
 - Asymmetric competences
 - Two « layers » of decentralization

4. Policy narratives in federal and highly indebted Belgium

- Consequences:
 - Sought ambiguity of the 6th State reform
 - Perverse effects of previous SFA
 - Need for a reform
 - Economic crisis → Democracy crisis
 - Unfair tax competition

4. Policy narratives in federal and highly indebted Belgium

- Narrative :
 - North VS South
 - Need for an institutionnal reform
 - Financial and budgetary « viruses »
 - Remedy :
 - The ratification of the TSCG and the Cooperation Agreement of 13 December 2013 (at the same time)
 - European budgetary discipline
 - Influence on multi-level governance ?
 - Not in details (SR, MR, LR)

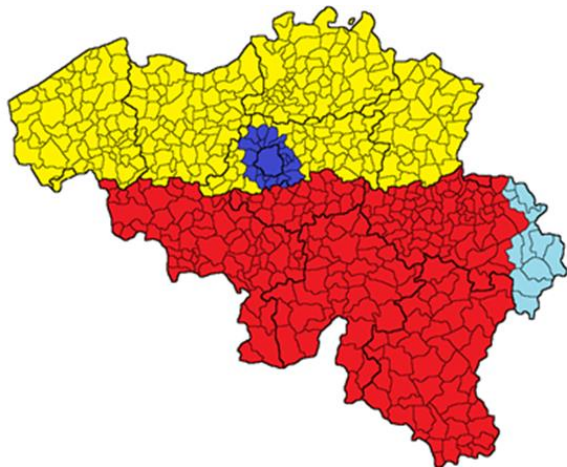
5. Narratives : Discussion

- Narrative dataset
- Anticipations
- 2 vs 4 « nations »
- External strength
 - (Re)centralization
 - (Budgetary) Agreement

Conclusion : What could Belgium's future look like ?

- Four Regions :
 - Flanders,
 - Wallonia,
 - Brussels Capital Region
 - East Belgium
- ~~Communities~~
- Optionnal : « switch » of municipalities
- BCR → limits of the Brussels conurbation
- ~~German-speaking Community~~ → Region of Ostbelgium.

Conclusion : What could Belgium's future look like ?



- **Vlaanderen:** 6.36mio inh. (cur. 6.52);
- **Wallonie:** 3.45mio inh. (cur. 3.62);
- **RBC:** 1.61mio inh. (cur. 1.19);
- **Ostbelgien:** 0.08mio inh. (cur. 0.08).

Conclusion : What could Belgium's future look like ?

- Autonomy Statutes elaborated and approved by Regional Parliaments
- (Levying), administration, settlement, inspection, revision and collection of
 - Regional taxes
 - Regionalized taxes
 - Corporate tax
- = Full normative and management power recognized
- Administration, settlement, inspection, revision of
 - Regional additional over PIT : extended to the “granted parts” ?
- Confederation :
 - Justice, Social Security Defence, Foreign Relations, Royal Family or the Public Debt of the State, Contribution to the European Union, Environnement, ...
 - PIT, Excise Duties, VAT and Social contributions

Conclusion : What could Belgium's future look like ?

- Respect for the principle of interterritorial solidarity: OK but
 - Solidarity Mechanism
- Respect for the principle of interpersonal solidarity: OK
 - Social Security Confederal
- Regulatory autonomy and legislative capacity : OK
- Fiscal co-responsibility: OK
- Bilateralness (not subordination): On hold