Kent Academic Repository

Full text document (pdf)

Citation for published version

Schnabel, Johanna (2019) Fiscal Consolidation in Federal Belgium: Collective Action Problem and Solutions. Politics of the Low Countries . ISSN 2589-9929. (In press)

DOI

Link to record in KAR

https://kar.kent.ac.uk/75270/

Document Version

Author's Accepted Manuscript

Copyright & reuse
Content in the Kent Academic Repository is made available for research purposes. Unless otherwise stated all content is protected by copyright and in the absence of an open licence (eg Creative Commons), permissions for further reuse of content should be sought from the publisher, author or other copyright holder.

Versions of research
The version in the Kent Academic Repository may differ from the final published version.
Users are advised to check **http://kar.kent.ac.uk** for the status of the paper. **Users should always cite the published version of record.**

Enquiries
For any further enquiries regarding the licence status of this document, please contact:
researchsupport@kent.ac.uk

If you believe this document infringes copyright then please contact the KAR admin team with the take-down information provided at **http://kar.kent.ac.uk/contact.html**

KAR Kent Academic Repository

University of Kent

Schnabel, Johanna. 2019. "Fiscal Consolidation in Federal Belgium: Collective Action Problem and Solutions." *Politics of the Low Countries*.

Fiscal Consolidation in Federal Belgium: Collective Action Problem and Solutions

Johanna Schnabel[*]

Abstract

Fiscal consolidation confronts federal states with a collective action problem, especially in federations with a tightly coupled fiscal regime such as Belgium. However, the Belgian federation has successfully solved this collective action problem even though it lacks the political institutions that the literature on dynamic federalism has identified as the main mechanisms through which federal states achieve cooperation across levels of government. This article argues that the regionalization of the party system, on the one hand, and the rationalization of the deficit problem by the High Council of Finance, on the other, are crucial to understand how Belgium was able to solve the collective action problem despite its tightly coupled fiscal regime and particularly high levels of deficits and debts. The article thus emphasizes the importance of compromise and consensus in reducing deficits and debts in federal states.

Keywords: fiscal consolidation, fiscal policy, federalism, intergovernmental relations, High Council of Finance, Belgium.

1 Introduction

After decades of major increases in public spending and the expansion of government budgets in the second half of the 20th century, budget deficits widened and public debt skyrocketed in many developed countries across the world. Since the 1990s, and in some countries already since the 1980s, governments have been looking closely at the reduction of deficits and debts (Streeck, 2014; Wagschal & Wenzelburger, 2008, p. 5). Inspired by Public Choice Theory (Buchanan & Wagner, 1977), decision makers introduced fiscal rules[1] as a mechanism of self-constraint that would prevent them from overspending (Kopits & Symansky, 1998; Schaechter, Kinda, Budina & Weber, 2012; White, 2012).

---

[*] School of Politics and International Relations, University of Kent, Rutherford College, Canterbury CT2 7NX, United Kingdom. J.M.Schnabel@kent.ac.uk.

[1] Fiscal rules are numerical constraints on fiscal policy. They can consist of balanced-budget rules, debt rules, expenditure rules and revenue rules (Cottarelli & Guerguil, 2015).

In federal states such as Belgium, fiscal authority is distributed between (at least) two levels of government (Blöchliger & Kantorowicz, 2015). The constituent units enjoy fiscal autonomy, i.e. they collect revenues and decide on expenditures. Accordingly, the federation as a whole can be successful in consolidating the general government budget, i.e. the combined budget of the constituent units and the federal government, only if both levels of government reduce their deficits and debts. In other words, both the federated entities and the federal government have to introduce fiscal rules to ensure the solvency of the federation – be it in the form of joint fiscal rules or individual budget constraints. However, this cooperation cannot be taken for granted, especially in federations with a tightly coupled fiscal regime. On the one hand the constituent units can refuse to accept fiscal rules since they do not have to internalize the costs of fiscal indiscipline (Rodden, 2006; Rodden, Eskeland & Litvack, 2003; Treisman, 2007; Weingast, 2009). On the other hand the federal government may seek to impose a fiscal rule on the constituent units to enforce fiscal discipline. Therefore, fiscal consolidation may cause tensions between the two levels of government.

The Belgian federation is subject to this collective action problem given its tightly coupled fiscal regime, the disastrous state of public finances (Hallerberg, 2000; IMF, 2011) and the salience of autonomy issues in a federation that is still searching for the right model to appease the structural conflict between two linguistic groups and a significant socio-economic cleavage dividing the country (Benz, 2016; Deschouwer, 2012). Nevertheless, Belgium has successfully solved the collective action problem regarding fiscal consolidation even though it lacks the mechanisms identified in the literature on dynamic federalism as preventing a federal government from imposing its decisions on the constituent units. These are a strong bicameral system, in which the second chamber represents territorial interests and enjoys powers symmetric to those of the lower house (Swenden, 2004) and an integrated and decentralized party system (Bednar, 2009; Hueglin & Fenna, 2015, pp. 205–237; Watts, 2008, p. 153).

To explain how the collective action problem related to fiscal consolidation has been resolved in the Belgian federation, this article examines the development of annual fiscal targets and the decentralization of a share of the federal deficit in the latest state reform in 2011. Annual fiscal targets, set for four to six years in advance and updated every year, constitute Belgium's fiscal rule. By underfunding newly transferred responsibilities and through the Communities' and Regions' larger participation in funding the pensions of public

servants, the 2011 state reform decentralized a share of the federal deficit – which further restricts the constituent units' discretion to spend. This case study relies on secondary literature, data from the International Monetary Fund (IMF) and the Organization for Cooperation and Economic Development (OECD), public reports and newspaper articles. It draws on the literature on dynamic federalism (Bednar, 2009; Benz, 2016; Benz & Broschek, 2013) that underlines the importance of balancing the federal distribution of power – and hence of the autonomy of the different governments within a federation – in order to maintain the stability of a federal system.

The article shows that a regionalized party system and the delegation of the development of fiscal rules to an expert body (the High Council of Finance,[2] HCF) constitute sufficient conditions to solve the collective action problem of reducing deficits and debts in a federal state with a tightly coupled fiscal regime such as Belgium. A regionalized party system can protect the constituent units from federal imposition in a similar way to strong bicameralism or integrated and decentralized parties. This has been overlooked by the literature on dynamic federalism. So far, research on the HCF has focused on its effectiveness with respect to the policy dimension, i.e. deficit rates and debt levels (Bethuyne, 2005; Bogaert, Dobbelaere, Hertveld & Lebrun, 2006; Hallerberg, 2000; Husson, 1997; Piron, 2013). This article, in contrast, concentrates on politics and the relations between federal actors.

The next section addresses the collective action problem of fiscal consolidation in federal states, while Section 3 presents the mechanisms through which it can be solved. Section 4 explains why fiscal consolidation in the Belgian federation is subject to the collective action problem. Finally, Section 5 examines the development of fiscal targets and the dispositions of the sixth state reform to decentralize parts of the federal budget. It also analyzes how the HCF makes them acceptable to the Communities and the Regions.

2 The Collective Action Problem of Fiscal Consolidation in Federal States

In regard to fiscal consolidation in federal states, both levels of government need to cooperate to balance the general government budget. With regard to rules-based consolidation, this means that both levels of government should introduce fiscal rules – either jointly or individually. Fiscal rules limit all governments' discretion to spend since they have to adjust

[2] *De Hoge Raad van Financiën* in Dutch, *Conseil Supérieur des Finances* in French.

their revenues and expenditures. In general, however, federal governments benefit from higher revenues than the constituent units because they have access to major taxes and because they can freely borrow from the financial markets (Oates, 1999). Therefore, the constituent units can, in principle, count on federal assistance, notably in the form of bailouts should they experience a fiscal crisis (Rodden et al., 2003). Because of this possibility, the federated entities may be reluctant to introduce fiscal rules and accept these constraints on their discretion to spend. However, as the ultimate guarantor of general government debt and being responsible for the macroeconomic stability of the federation, the federal government faces incentives to impose a fiscal rule on the constituent units so as not to have to bail them out in the future. Fiscal consolidation thus confronts federal states with a collective action problem (see Braun & Tommasi, 2004; Weingast, 2009).

Bednar (2009) has shown that the constituent units' refusal to cooperate as well as federal imposition undermine the, often fragile, balance of power of federal systems (see also Braun, Ruiz-Palmero & Schnabel, 2017; de Figueiredo & Weingast, 2005; Weingast, 1995). With regard to fiscal consolidation, constituent units' non-cooperation affects the federal government's resources when it has to bail them out instead of spending on its own priorities. The imposition of a fiscal rule by the federal government undermines the constituent units' autonomy. By imposing a fiscal rule on them, the federal government unilaterally sets limits to the constituent units' discretion to spend. Hence, it indirectly decides how much they can spend. These asymmetric losses of autonomy threaten the federal balance of power, considering that autonomy and power are interlinked. Thus, they are likely to trigger contestations of those governments that see their autonomy or resources restricted by decisions of another government of the federation.

The introduction of fiscal rules to consolidate public finances is more likely to produce asymmetric autonomy losses in federations with a tightly coupled (or integrated) fiscal regime compared with federations with a loosely coupled (or decentralized) fiscal regime (Eyraud & Gomez Sirera, 2015; Rodden et al., 2003; Rodden & Wibbels, 2002; Treisman, 2007). In loosely coupled fiscal regimes, the constituent units have to manage their finances on their own. As the constituent units have substantial taxing rights, which allow for lower transfer rates from the collective resources collected by the federal government, they have enough leeway to adjust their revenues. The federal government can thus refuse to bail them out. Hence, the constituent units have to internalize the costs of fiscal indiscipline (such as increasing interest

rates) to a much bigger extent than the federated entities in federations with tightly coupled fiscal regimes (Wibbels, 2005). In tightly coupled fiscal regimes, in contrast, a large percentage of revenues is shared. Federal transfers (including solidarity payments coming from fiscal equalization) constitute a significant share of constituent units' revenues. Because their leeway to adjust their revenues is limited, it is more difficult for the federal government to refuse to bail them out or to provide other forms of financial support when they experience a fiscal crisis. As the constituent units can count on federal assistance, they have fewer incentives to commit to fiscal discipline (Fredriksen, 2011) because the costs of a fiscal crisis are not internalized (Plekhanov & Singh, 2014; Treisman, 2007). Because of this collective action problem, asymmetric autonomy losses resulting from fiscal consolidation, and the federal tensions they may trigger, can be expected mostly in federations with a tightly coupled fiscal regime.

3 Solutions to the Collective Action Problem of Fiscal Consolidation in Federal States

The collective action problem of fiscal consolidation is solved if the federal government refrains from imposing a fiscal rule on the constituent units, on the one hand, and when the constituent units accept the introduction of fiscal rules and the limits to their discretion to spend, on the other hand.

With respect to limiting federal encroachment, Bednar (2009, pp. 98–103) identified a number of mechanisms that raise the federal government's awareness for the interests of the federated entities. A bicameral system prevents the federal government from imposing decisions on the constituent units. Through the second chamber of the federal parliament, the constituent units can influence federal decision-making. They can veto federal policies that impose expenditures, decrease their revenues or that oblige them to reduce their deficits and debts (Hueglin & Fenna, 2015, pp. 205–237; Watts, 2008, p. 153). However, the constituent units have real influence on federal decision-making through the second chamber only if the upper house has the right to introduce, amend and veto ordinary and constitutional legislation in addition to representing the interests of the constituent units (Swenden, 2004). In Belgium, these requirements are not fulfilled. Even though territorial representation in the Belgian Senate was strengthened in 1993 and 2011, both reforms have significantly reduced

the powers of the second chamber, and the Senate cannot veto federal decision-making (Dandoy, Dodeigne, Reuchamps & Vandeleene, 2015; Deschouwer, 2012, pp. 182–184; Popelier, 2018; Sägesser & Istasse, 2014). Other mechanisms that give the constituent units a voice in federal decision-making are also non-existent, such as consultation procedures, through which the Swiss cantons can influence federal bills (Vatter, 2016), or an integrated and decentralized party system in which the regional branches are sufficiently influential to be able to leverage the national branches (Bednar, 2009, pp. 113–119; Filippov, Ordeshook & Shvetsova, 2004). In federal Belgium, the party system is disintegrated and regionalized (Deschouwer, 2012; Watts, 2008, p. 145). Consequently, it can be expected that the collective action problem of fiscal consolidation is not resolved since the federal government may impose a fiscal rule on the constituent units.

However, Bednar's argument ignores the possibility that a federal government can be composed of regional (or even regionalist) parties that participate in federal elections in one part of the country only (Brancati, 2008). If regional (or regionalist) parties form the federal government, strong partisan ties exist with the governments of the constituent units. Consequently, the federal government's interests and preferences are likely to overlap with those of the constituent units. Decisions of the federal government are compromises of the regional parties composing the federal executive and parliament. This reduces the risk of federal imposition significantly, especially when governments are congruent across levels. In Belgium, statewide parties do not exist anymore (Deschouwer, 2012).[3] Each party has Flemish and French-speaking branches that are completely independent of each other and sometimes even defend different positions with regard to policy issues. Thus, they effectively constitute different parties. Furthermore, regionalist parties have won seats in federal elections in Flanders (Deschouwer, 2012, pp. 148, 83–84; Watts, 2008, p. 145). Hence, regional and regionalist parties constitute the federal parliament and the federal executive. Following the principle of consociationalism, the latter is composed of an equal number of Dutch-speaking and French-speaking representatives (Deschouwer, 2006). Moreover, Belgium is a partitocracy where parties have significant influence on their representatives in government. For example, party leaders choose the ministers when coalition governments are formed, and these ministers' decisions need to be confirmed by their parties (Deschouwer, 2012, pp. 78,

[3] The only exception is the *Parti du Travail de Belgique* (PTB)/*Partij van de Arbeit van België* (PVDA).

151). What is more, until 2003, the same parties governed on the federal level, in the Communities and in the Regions (Deschouwer, 2006) so that 'the parties forming a federal and a regional or community government [were] exactly the same' (Deschouwer, 2012, p. 161). While governments have become slightly less congruent since 2003, partisan ties between the federal government and the Regions and Communities have tended to be strong (Deschouwer, 2012, pp. 161–167; Deschouwer & Reuchamps, 2013)[4] – at least until 2014, when government congruence declined further. The fact that the federal government is composed of regional(ist) parties has thus minimized the risk of federal imposition right from the start given that decisions of Belgium's federal government with respect to the reduction of public deficits and debts are based on agreements of the regional parties constituting the federal government.

While the regionalization of the party system prevents the imposition of budget constraints on the constituent units by the federal government, it does not ensure the participation of the former in fiscal consolidation. A fiscal rule must be acceptable to them if the constituent units are to cooperate. The literature on intergovernmental relations and multilevel governance suggests that this is the case if federal actors adopt a problem-solving mode of interaction instead of bargaining (Benz, 2016; Elgström & Jönsson, 2000; Panke, 2006; Scharpf, 1988). Bargaining equals confrontations that are resolved through compromises that often require package deals because individual interests and preferences dominate. When governments of a federation agree on a fiscal rule through bargaining, the constituent units only give their consent if the federal government offers financial compensations in exchange for their agreement – but without really accepting the constraints on their budgets. Problem-solving, in contrast, builds consensus based on shared ideas and preferences so that all actors are 'convinced that they will all benefit in the long run' (Elgström & Jönsson, 2000, p. 688). Hence, the constituent units agree to constraints on their discretion to act not because the federal government lures them with financial compensations but

[4] Note that while the combination of government congruence with a regionalized party system creates strong partisan ties between the two levels of government, conflicts between the two levels of government cannot be fully excluded – for example, when regional interests dominate over partisan issues. The constituent units may even decide to team up against the federal government to defend their collective interests. Nevertheless, it can be expected that such conflicts are eventually resolved through partisan channels.

because they share the idea that deficits and debts should be reduced through the introduction of fiscal rules.

Focusing on constitutional reforms, Benz (2016) has identified institutional arenas consisting of experts or citizens as a mechanism in intergovernmental relations whereby consensus based on shared ideas and interests can be built through arguing. According to Benz, the separation of the arena in which policy decisions are negotiated from the arena in which these decisions are adopted increases their acceptability. With regard to fiscal consolidation, this condition is fulfilled if the budget constraints are not developed by the politicians who will have to respect them when making decisions on public revenues and expenditures. This is the case if experts in public finance develop the fiscal rules. The IMF recommends the establishment of fiscal councils consisting of experts in public finance to advise policymakers on fiscal policy (IMF, 2013). These councils, in basing their recommendations on expert advice, contribute to the emergence of the shared idea that fiscal discipline benefits all governments of a federation in the long run. Moreover, the reputation and independence of experts increase the disposition of policymakers to accept their advice even if it means that they have to make unpopular decisions (Van Meensel & Dury, 2008). Fiscal councils thus constitute an arena where arguing overtrumps the individual interests and preferences of the federal government and the constituent units. Consequently, the federated entities agree to limit their expenditures or increase their revenues not because they are the losers in bargaining processes but because they consider the constraints on their budgets to be 'rational' since they are recommended by experts. Furthermore, fiscal councils increase the transparency of fiscal policy. This increases the pressure on policymakers to prove their commitment to fiscal discipline. Therefore, Van Meensel and Dury (2008) conclude that fiscal councils help solve the collective action problem of fiscal consolidation in federal states. However, the IMF (2013) has identified four conditions that must be fulfilled for the rationalization of fiscal consolidation to be effective. First, fiscal councils must be independent. Second, they must have the mandate to produce budgetary forecasts. Third, they must be transparent and adopt a communication strategy. And, finally, fiscal councils must monitor the budgets of governments on both levels to ensure compliance with their recommendations.

Since 1989, the HCF has developed annual fiscal targets for the different entities that constitute the Belgian federation (Piron, 2013, 2014). The HCF has existed since 1936. In 1989,

a Public Borrowing Requirements Section was created to develop the fiscal targets for the two levels of government.[5] The Section consists of 12 experts of public finance.[6] The HCF was mandated to monitor the finances of the constituent units when the third state reform (1989) transferred significant fiscal powers to the Regions and Communities and allowed them to borrow (Pagano, 2007). Members of the HCF cannot assume political office (Bethuyne, 2005; Pagano, 2007).[7] Furthermore, the HCF bases its recommendations on macroeconomic forecasts provided by the National Accounts Institute and the Federal Planning Bureau (Bogaert et al., 2006). Besides, it publishes its recommendations on its website in the three official languages as well as in English.[8] Finally, the HCF monitors the compliance of the federal government's budget and the budgets of the constituent units with the annual fiscal targets and evaluates whether or not they respect the Convergence/Stability Programmes that Belgium submits to the European authorities (Wagschal & Wenzelburger, 2008, p. 78). If the HCF concludes that the federal government or a federated entity might fail to meet the fiscal targets, it may request adjustments in the following year's budget. Moreover, the HCF can advise the federal government to restrict the borrowing of the Regions and Communities. The HCF is thus a strong fiscal council that meets the conditions established by the IMF. Accordingly, fiscal rules are developed in an arena that is distinct from that in which they are adopted and implemented. The rationalization of fiscal consolidation through the HCF builds consensus on fiscal constraints, which is likely to make fiscal consolidation acceptable to the constituent units. Therefore, it can be expected that the Communities and Regions accept and respect fiscal rules and similar budget constraints.

---

[5] Art. 49 of the Special Finance Act for the Communities and Regions from 16 January 1989.

[6] More precisely, the Section consists of six members nominated by the constituent units, three members designated by the federal government, as well as the governor, vice-governor and the senior director of the National Bank of Belgium.

[7] It is important to note that several aspects undermine the HCF's independence, e.g. the location of the council's secretariat at the federal ministry of finance, the fact that the federal minister of finance chairs the HCF, the nomination of its members by the different governments of the federation and the political background of some members (Coene & Langenus, 2013; Pagano, 2007). However, not only is the Public Borrowing Requirement Section largely autonomous within the HCF (Coene & Langenus, 2013), but it is also chaired by an expert in public finance. Besides, in the context of Belgian bipolarism, 'it can be argued that impartiality can only be ensured through carefully balanced regional, institutional, linguistic, and political dimensions' (Coene & Langenus, 2013, p. 144).

[8] https://www.conseilsuperieurdesfinances.be/fr [last access: 18.02.2019]

4 Belgium: A 'Most Likely Case'

Not only does the Belgian federation have a tightly coupled fiscal regime, but the state of its public finances has also been particularly difficult since the 1980s. Furthermore, the linguistic and socio-economic cleavages dividing the country make autonomy a particularly sensitive issue. Hence, fiscal consolidation in Belgium is potentially subject to a collective action problem, and the constituent units may refuse to cooperate to reduce the deficits and debts of the federation while the federal government, to make them consolidate, may decide to impose a fiscal rule on them.

As part of the federalization and decentralization of the country, fiscal autonomy has been transferred by and by, mainly to the Regions but also to the Communities, though it lagged behind the decentralization of law-making powers (Deschouwer, 2012, p. 69). The *Special Finance Act for the Communities and Regions,* adopted in 1989 as part of the third state reform, assigned the authority to raise a piggyback tax on the federal personal income tax and to collect a number of regional taxes to the Regions. In 1989, the constituent units also obtained the right to issue loans. Some loans require the formal approval of the federal government with regard to the conditions under which they are issued and the date of the loan. The federal government can also limit the borrowing rights of the Communities and Regions for two years upon recommendation of the HCF. With regard to the collective action problem, however, it is important to note that the use of this mechanism is politically infeasible; the federal government has thus never applied it (Bethuyne, 2005; Coene & Langenus, 2013). As part of the Fifth State Reform (2001), the Regions received the right to grant lump-sum reductions or increases on the piggyback tax as well as reductions on taxes related to regional responsibilities (Verdonck & Deschouwer, 2003). Finally, an amendment of the *Special Finance Act* in 2014, one of the outcomes of the sixth state reform adopted in 2011, transferred 25% of the federal share of the federal income tax as own revenues to the Regions. They were assigned the right to define the level of their respective shares of the personal income tax. This increased the Regions' own revenues to 70% of total regional revenues (Deschouwer, 2012, p. 71). Even though the different state reforms have moved Belgian federalism towards the loosely coupled type of fiscal regime, the fiscal consolidation that started in the 1980s took place in the context of an integrated fiscal regime, at least until 2014, given the high transfer dependency of the constituent units (64.1% in 2005) and the low

share (10% in 2010) of their own revenues in their total revenues (Cottarelli & Guerguil, 2015).[9] Transfer dependency and own revenues of the constituent entities vary, and the Communities have always depended entirely on federal and regional support. Apart from a specific-purpose grant for foreign students, grants to the Communities are unconditional. Although the Regions dispose of an increasing share of own taxes as well as the piggyback tax on the federal personal income tax, they have also been rather dependent on federal transfers until the recent amendment of the *Special Finance Act*. They received a share of the personal income tax, an equalization grant, and some specific-purpose grants (mainly for unemployment policy) (Deschouwer, 2012; Verdonck & Deschouwer, 2003). Consequently, the leeway the Regions, and especially the Communities, had to adjust their revenues was limited.[10] Moreover, implicit federal bailouts were granted in 1993, 2001 and 2013 (Jennes, 2014). Amendments of the *Special Finance Act* in 1993 and 2001 increased (unconditional) federal grants to the Communities after the French Community was repeatedly running deficits, though mostly for structural reasons. In accordance with the way negotiations work in Belgium, Flanders received these extra grants as well. In 2013 the Brussels Region received an implicit bailout when it obtained additional (unconditional) grants after claiming that it would not be able to balance its budget without assistance from the federal government (Jennes, 2014, p. 27). While explicit bailouts are unlikely to occur given that federal grants are mostly non-discretionary, the fact that the *Special Finance Act* was amended several times to provide implicit bailouts suggests that the costs of overborrowing are not fully internalized, which may reduce the constituent units' willingness to accept fiscal rules.

In addition to Belgium's tightly coupled fiscal regime, high levels of deficits and debts exacerbated the collective action problem of fiscal consolidation in the country (Hallerberg, 2000). Public expenditures increased significantly between the 1960s and the late 1980s, from 33% of GDP in 1965 to 50% of GDP in 1988. Subsidies to business, interest payments, the expansion of public-sector employment, as well as increasing transfers to households explain

[9] Compared with 18.3% (transfer dependency) and 37.2% (own revenues) in the United States. Among the federations with a loosely coupled fiscal regime (Canada, Switzerland and the United States), the United States has the highest level of transfer dependency and the lowest level of own revenues of the constituent units (Cottarelli & Guerguil, 2015).

[10] Note that transfers to the Communities and Regions are non-discretionary since their amount and norms of distribution are defined in special majority laws. Consequently, the restrictions on the constituent units' leeway to adjust their revenues do not mean that the federal government decides on these revenues unilaterally.

this expansion of public expenditures. Because of favourable interest rates in the 1970s, large parts of the increase in (federal) government expenditures were financed through borrowing (OECD, 1989). The recession caused by the 1979 oil crisis required considerable interventions from the federal government to fight unemployment (13% in 1983). As a consequence, public deficits (10% of GDP in 1988) and debt (125% of GDP in 1988) increased, triggering a rise in interest payments to more than 10% of GDP in 1988 (IMF, 2011). Belgium thus experienced a snowball effect, i.e. the (federal) government had to borrow to pay the interests on its debt. While the deterioration of public finances triggered a first round of fiscal consolidation (IMF, 2011; OECD, 1989), Belgium still had a general government deficit of 8.4% of GDP in 1993, and general government debt exceeded 135% of GDP (IMF, 2011). Fiscal consolidation was needed because of the country's eagerness to be a founding member of the European Monetary Union (EMU) (Hallerberg, 2000; Piron, 2013), which obliged it to limit the deficit to 3% of GDP and public debt to 60% of GDP to comply with the Stability and Growth Pact. Besides, since 1995, the European System of National and Regional Accounts (ESA) defines a European accounting framework fostering transparency in public budgets, on which the European Union bases its fiscal monitoring. The ESA distinguishes between the two levels of government,[11] and as a result both the federated entities and the federal government in Belgium were under pressure to keep their finances in order. What is more, the OECD had found in its annual reports that the country's ageing population was bound to put considerable strain on future budgets (see, for example, OECD, 2005). Therefore, fiscal consolidation was also a strategy to manage the costs of the ageing society by prefunding future costs through budgetary surpluses that would free funds to be transferred to a public pension reserve fund (Silver Fund) established in 2001 (see Frogneux & Saintrain, 2013).[12] Despite significant consolidation efforts between 1992 and 2000, the state of public finances deteriorated during the global financial crisis (2007-2008) and the European sovereign debt crisis that followed. To save Belgium's banking sector, the federal government recapitalized several banks (Fortis, Dexia,

[11] Furthermore, the ESA treats social security and local government as separate budgetary entities.

[12] In 2016, the federal government abolished the Silver Fund after having failed, since 2007, to allocate contributions to the fund. The federal government decided to enact structural reforms instead, such as increasing the retirement age (to 67 years by 2030). Yet fiscal consolidation remains part of the federal government's strategy to manage the ageing society. See https://www.rtl.be/info/belgique/economie/le-fonds-pour-faire-face-au-papy-boom-n-existe-plus-comment-le-gouvernement-va-gerer-les-depenses-de-pensions-supplementaires--888142.aspx [accessed on 14.11.2018] (see also Pacolet, 2016).

Ethias, KBC), which required investments of more than 5% of GDP (Eijffinger, 2010). Consequently, deficits and debts remained at alarming levels for several years when economic growth stagnated (Troupin, Steen & Stroobants, 2015). The deficit problem further intensified when Belgium entered the Excessive Deficit Procedure of the European Union,[13] when rating agencies such as *Standard & Poor's* and *Moody's* downgraded the country's credit rating (Piron, 2013) and when the bank Dexia requested another bailout (Troupin et al., 2015).

The importance of autonomy questions in a country shaped by bipolarism is another reason why fiscal consolidation in federal Belgium is subject to a collective action. The federalization of the country was an attempt to appease the overlapping socio-economic and linguistic cleavages dividing the Belgian state into an economically well-performing Dutch-speaking North and a French-speaking South struggling with the consequences of economic structural change after the decline of the mining sector (Deschouwer, 2012; Deschouwer & Reuchamps, 2013). Since 1993, Belgium has officially been a federal state consisting of three Communities (Flemish, French and German) and three Regions (Flanders, Wallonia, Brussels-Capital Region).[14] The structural conflict dividing the country remains unsolved (see Benz, 2016) as the different state reforms transforming the country piece by piece into a federal and decentralized state (Dardanelli, 2017; Matagne, Dandoy & Van Wynsberghe, 2013) and the regionalization of the partisan system (Deschouwer, 2012) show. Therefore, autonomy is a particularly sensitive issue. It intensifies the collective action problem of fiscal consolidation because the reduction of deficits and debts demands significantly more efforts in Wallonia, the Brussels-Capital Region, as well as in the French-speaking and German-speaking Communities compared with Flanders. This is explained by the differences in the economic performance of these parts of the country (Pagano, 2007). While Flanders tends to achieve budget surpluses, the other constituent units have been running deficits most of the time (Bisciari & Van Meensel, 2012; Verdonck & Deschouwer, 2003). Consequently, they are much more dependent on federal transfers (including fiscal equalization), whereas Flanders has always been a net payer.

[13] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/closed-excessive-deficit-procedures/belgium_en [accessed on 12.02.2018].

[14] Note that the Flemish Region and the Community have merged in 1980.

5 Fiscal Consolidation in Belgium

In contrast to federal countries that have introduced a legislated fiscal rule, Belgium relies on annual fiscal targets that are submitted to the European authorities as part of the country's Convergence/Stability Programmes (Bogaert et al., 2006; Hallerberg, 2000; Schaechter et al., 2012). Furthermore, the sixth state reform decentralized a share of the federal deficit. This constitutes a further budget constraint for the Communities and Regions (Decoster & Sas, 2013; IMF, 2014; Troupin et al., 2015). The *Special Finance Act*, as amended in 2014, left the constituent units underfinanced, because there was a gap between their new spending responsibilities and their revenues (including federal transfers). Furthermore, the amended act required the Communities and Regions to participate in pre-financing the costs of the ageing population from 2015 onwards by contributing to the pensions of their civil servants, until then covered by the federal government. This contribution will increase from 0.5% of GDP in 2018 to 0.21% of GDP in 2030 (Bisciari & Van Meensel, 2012). The contribution of the Communities and Regions to the pensions of their civil servants was expected to liberate funds in the federal government's budget that would be used to prefund the costs of the ageing society.[15] Yet the decentralization of a share of the federal deficit increased the budget deficits of the constituent units, which required them to make additional consolidation efforts (Decoster & Sas, 2013, 2015; Jennes, 2014).[16]

By depicting how fiscal rules and similar consolidation measures are developed, the following sections examine whether the annual fiscal targets and the decentralization of a share of the federal deficit in the context of the sixth state reform were imposed by the federal government and discuss the Communities' and Regions' disposition to accept these constraints on their budgets.

[15] Jennes (2014) even calls the decentralization of a share of the federal deficit an implicit bailout of the federal government.

[16] This was not the first time such mechanisms were used to transfer a share of the federal deficit to the constituent units. The redistribution of VAT and PIT revenues under the Special Finance Act of 1989, for example, was designed in a way that left the newly transferred responsibilities underfunded during a transition period by coupling its growth rate with inflation but not economic growth (Bethuyne, 2005; Jennes, 2014). Moreover, 3% of general government debt was transferred to the constituent units as indirect debt (Bethuyne, 2005).

5.1 Negotiating Fiscal Discipline

The development of annual fiscal targets has been delegated to the HCF in 1989 (article 49 (6) and (7) of the *Special Finance Act*).[17] Consequently, the federal government does not impose budget constraints on the constituent units, but the Public Borrowing Requirements Section of the HCF establishes the individual fiscal targets for the federal government, each Community and each Region. Given that the use of the federal government's right to temporarily limit constituent unit borrowing is politically not feasible, the governments of both levels are thus subject to the same constraints on their budgetary discretion. Furthermore, the delegation of the development of fiscal targets to the HCF has been decided by the regional parties forming the federal government in 1989. The third state reform was part of the coalition agreement of the Flemish (*Christen-Democratisch en Vlaams* (CD&V), *Socialistische Partij Anders* (SPA), *Volksunie*) and French-speaking parties (*Parti Socialiste* (PS), *Parti Social Chrétien* (PSC)) that also governed in the Regions and Communities. Not only did the amendment of the *Special Finance Act* to formalize the delegation of fiscal target development to the HCF require the consent of two-thirds of the members of parliament, but these members also had to represent the (simple) majority of both Dutch and French speakers. The Public Borrowing Requirements Section was then established by Royal Decree adopted by the federal coalition government as requested by the *Special Finance Act* (Installé, Peffer & Savage, 1989). Hence, not only has the development of fiscal targets been delegated to a (semi-)independent body, but the decision to delegate this task to the HCF has been made by the regional parties that constitute the federal government. To underline their commitment to respecting those targets, the federal government and the constituent units sometimes negotiate cooperation agreements that formalize the fiscal targets recommended by the Public Borrowing Requirements Section of the HCF.[18] These agreements are prepared at meetings of the Interministerial Conference 'Public Finance and Budgeting'.[19] They are then

[17] Note that between 2004 and 2006, agreement on the membership of the HCF was not reached. Therefore the Council did not issue recommendations until March 2007 (Coene & Langenus, 2013). However, the targets recommended in 2004 for the years 2005 to 2010 still applied.

[18] Cooperation agreements between the federal government and the Communities and Regions were signed in 1996, 1999, 2000, 2005 and 2013 (see Piron, 2013).

[19] *Interministeriële Conferentie van Financiën en Begroting* (ICFB) in Dutch, *Conférence Interministérielle des Finances et du Budget* (CIFB) in French.

approved by the Deliberation Committee,[20] which consists of the prime ministers of the federal government and the constituent units.

Similar to the fiscal targets, the decentralization of a share of the federal deficit has not been imposed on the Communities and the Regions. The decisions to underfinance the newly transferred spending responsibilities and to increase the contribution of the constituent units to the pensions of the civil servants were the results of a coalition agreement signed by the regional parties forming the federal government under Elio di Rupo (PS).[21] While the PS, the *Mouvement Réformateur* (MR) and the *Centre démocrate humaniste* (cdH) represented the French-speaking part of the country, the CD&V, the SPA and the *Open Vlaamse Liberalen en Democraten* (OpenVLD) ensured the representation of Flemish interests and preferences. Although governments across the levels were slightly incongruent,[22] these measures could not have been adopted without the consent of the representatives of the two language groups. The decentralization of a share of the federal deficit in 2014, similar to 1989, thus constitutes a compromise of the regional parties and representatives of the two major linguistic communities constituting the country (Bisciari & Van Meensel, 2012; Decoster & Sas, 2013; Piron, 2013). Consequently, the regionalization of the party system and the composition of the federal executive effectively protect the constituent units from asymmetric losses of autonomy.

5.2 Accepting Fiscal Discipline: The Cooperation of the Constituent Units

As Bethuyne (2005) finds, the Communities and Regions generally accept and respect the annual fiscal targets developed by the HCF. The cooperation agreements signed occasionally by the federal government and the constituent units based on the recommendations of the HCF confirm this finding (voir Van Meensel & Dury, 2008). The HCF has a good reputation in the eyes of the different governments on both levels (Bogaert et al., 2006), which Hallerberg (2000, p. 30) links to the inclusion of experts of the National Bank in the Council. His

---

[20] *Overlegcomité* in Dutch, *Comité de Concertation* in French.

[21] Coalition Agreement, 11 December 2011 (https://www.lachambre.be/kvvcr/pdf_sections/searchlist/Accord_de_Gouvernement_1er_decembre_2011.pdf, accessed on 26 March 2018).

[22] N-VA and Ecolo were part of the coalition governments in Flanders and Wallonia, respectively, but not of the federal coalition, whereas the MR joined the federal coalition but was not represented in executives on the constituent unit level.

interviewees identified the central bankers as ‘the key players’ of the Public Borrowing Section and as ‘impartial brokers’. Given the HCF’s good reputation, federal decision makers and policymakers in the constituent units consider the fiscal targets to be binding even in the absence of cooperation agreements. This is indicated by their inclusion in the Convergence/Stability Programmes (Bethuyne, 2005) and the references to them in the annual budgets of the different entities composing the Belgian federation (Deschamps, 1994, p. 136; Hallerberg, 2000, p. 30).[23] Hence, because of the good reputation of the HCF (Coene & Langenus, 2013, p. 144) and given the expertise of its members, the Council’s recommendations do not need to be legally binding to be accepted by the constituent units. Even though Flanders, for example, occasionally complained that there was a lack of effort from the other constituent units to reduce their deficits and debts,[24] it has never openly contested the recommendations of the HCF. This suggests that the Communities and Regions accept the annual fiscal targets developed by the HCF. The acceptance of the HCF’s recommendation is also indicated by the fact that the share of constituent units’ debt in general government debt has remained relatively small over time.[25]

Similarly, the Communities and Regions have accepted to assume the share of the federal deficit that the sixth state reform transferred to them, even though this decision limits their budgetary leeway, at least in the short run: while they were given underfunded spending responsibilities, the constituent units still have to comply with the fiscal targets. This consolidation measure was acceptable to the Communities and Regions because it was based on projections and scenarios developed by the HCF (Pagano, 2007). The Public Borrowing Requirements Section frequently emphasized the importance of consolidation in prefunding the costs of an ageing society. It advised governments on both levels to undertake additional consolidation efforts. The Section not only called for more fiscal discipline, but also insisted that the federal government was unable to prefund the costs of the country’s ageing society on its own (see Frogneux & Saintrain, 2013; OECD, 2011). Therefore, it encouraged the federal government and the constituent units to reach an agreement on the distribution of the costs of the ageing society among the different levels of government. Once this political agreement

[23] See, for example:
http://gouvernement.wallonie.be/files/Documents/Budget/Communiqu%C3%A9%20de%20presse_aju%202018.pdf [accessed on 22 July 2018].
[24] « Dewael : ‘Je ne renégocie jamais un accord’ », *Le Soir* 9.12.2000, p. 3.
[25] See IMF Government Finance Statistics.

was established in 2011, when the coalition agreement of the Di Rupo (federal) government was signed, the Public Borrowing Requirements Section of the HCF published a report (March 2012) in which it underlined the need to prefund the costs of the ageing society that would not only require further consolidation measures. It also insisted that the participation of the constituent units should be increased and recommended the transfer of a certain share of the federal deficit to them (see Frogneux & Saintrain, 2013). The decision to underfund the new spending responsibilities of the Communities and Regions and to increase their contribution to the pensions of their civil servants was based on recommendations and estimates of the HCF's Study Group on Ageing (established in 2001). Even though these measures have not been developed by the HCF itself, they were largely inspired by the recommendations of the HCF and its different committees. Therefore, the agreement within the federal coalition government in 2011 on the contribution of the constituent units to civil servants' pensions went beyond the specific interests of individual governments on the different levels and was built on consensus. Hence, the role of HCF not only explains why the Communities and Regions accepted annual fiscal targets, but also elucidates their willingness to accept a higher contribution to fiscal consolidation in the context of the sixth state reform.

Despite Belgium's tightly coupled fiscal regime, the high levels of deficits and debts and the importance of autonomy issues in a divided country, the collective action problem of fiscal consolidation has thus been resolved.[26]

The development of fiscal targets and the decentralization of a share of the federal deficit indicate that the regionalization of the party system makes decisions of the federal government contingent on the agreement of the representatives of regional parties, which protects the autonomy of the constituent units. Furthermore, these examples confirm that the HCF indeed constitutes a distinct arena in which fiscal consolidation measures are prepared through what Benz (2016) calls arguing, which increases the acceptability of decisions that are then formalized in the political arena, i.e. when federal governments are formed, when budget announcements are made and when the Deliberation Committee formally adopts them.

[26] Moreover, the public finances of the federation have considerably improved despite a significant setback during the global financial crisis (IMF, 2014; Van Meensel & Dury, 2008; Wagschal & Wenzelburger, 2008).

Nevertheless, several external factors increased the willingness of the Communities and Regions to accept limits on their deficits and debts. First, in the 1990s, the EMU pressured Belgium to reduce its deficits and debts, as a condition for participation. Fiscal consolidation in the 1990s was largely motivated by the prospect of EMU membership in addition to the aim of prefunding the costs of an ageing society and of avoiding a snowball effect (Hallerberg, 2000; Husson & Steylaers, 1999; Piron, 2013). When Belgium entered the Excessive Deficit Procedure in the 2000s, this external pressure to reduce deficits and debts intensified. Second, the credit downgrading by *Standard & Poor's* and *Moody's* was an important factor in the agreement on a sixth state reform, which led to the formation of a new federal coalition government in 2011 (Troupin et al., 2015). Third, that the federal government assumed the largest consolidation burden since fiscal consolidation started has significantly reduced the consolidation pressure on the constituent units. Despite the decentralization of revenues by the different state reforms, the bulk of budget deficits and public debt remained on the federal level (Bethuyne, 2005). Besides, the federal government agreed not to cut discretionary transfers during economic downturns (Hallerberg, 2000). This facilitated the constituent units' acceptance of fiscal targets. Moreover, it increased their willingness to strengthen their contribution by taking over a share of the federal deficit (Bogaert & Père, 2001; OECD, 2001; Piron, 2013, p. 164, 2014).

6 Conclusions

Federal states face a collective action problem in relation to the consolidation of public finances, especially if they have a tightly coupled fiscal regime. The reduction of general government deficits and debts requires the participation of both levels of government. Hence, the introduction of fiscal rules is a crucial moment for the stability of a federal system for two reasons. First, if the constituent units expect the federal government to bail them out in the event of a fiscal crisis, they may seek to avoid the constraints that fiscal rules represent for their discretion to spend. Second, to avoid having to bail them out, the federal government can decide to impose a fiscal rule on the federated entities. The constituent units' refusal to cooperate and federal imposition threaten the ever-fragile balance of power on which federal states are built. Thus, fiscal consolidation can lead to tensions in federal relations. In Belgium, high levels of deficits and debts coupled with the structural conflict between Dutch speakers

and French speakers exacerbate this collective action problem. Nevertheless, the collective action problem was resolved: the federal government has not imposed a fiscal rule on the Communities and the Regions, and the constituent units have consented to participate in the reduction of deficits and debts.

By examining the development of annual fiscal targets and the decentralization of a share of the federal deficit in the context of the sixth state reform in 2011, this article advanced two explanations for the resolution of the collective action problem with regard to fiscal consolidation in Belgium. First, the regionalization of the party system and its impact on the composition of the federal government minimized the risk of federal encroachment, at least until 2014. Second, the HCF ensured the cooperation of the federated entities. The literature on dynamic federalism has claimed that the party system protects the constituent units' autonomy *vis-à-vis* the federal government if it is integrated and decentralized. The Belgian case shows that the party system can safeguard the constituent units' autonomy also when it is regionalized. If regional(ist) parties form the federal government, the latter is less distinct from the constituent units than in other federations, especially when governments are congruent. Decisions taken on the federal level are compromises of representatives of regional parties. Therefore, the risk of federal imposition is significantly smaller. But the regionalization of the party system is only one of two necessary conditions for the resolution of the collective action problem. The fact that the development of fiscal targets was delegated to the HCF and that the decision to decentralize a share of the federal deficit was based on the Council's recommendations and advice increased the Communities' and the Regions' willingness to embrace fiscal discipline. The reason is that the HCF ensures the rationalization of fiscal consolidation whereby arguing and consensus building prevail over the individual interests and preferences of the federal government and the federated entities.

Nevertheless, the acceptance of fiscal discipline by the constituent units was facilitated by the fact that the federal government bore the main consolidation burden. Therefore, fiscal consolidation required significantly less efforts from them compared with the federal government. Besides, the fact that the HCF develops targets for the federal government, each Community and each Region separately increases their individual responsibilities, putting pressure on each constituent unit to keep its finances in order to avoid being criticized by the HCF. Hence, the context of fiscal consolidation in Belgium is not very different from the way fiscal rules are introduced in federations with a loosely coupled fiscal regime where the

collective action problem is less pronounced because the costs of overborrowing are internalized. Similar to the Canadian provinces or the US states, compliance with fiscal targets is an individual responsibility of the Belgian Communities and the Regions. This increases the pressure on each federated entity to cooperate. However, the HCF can recommend a budgetary surplus in Flanders, for example, to compensate deficits on Wallonia or the Brussels-Capital Region in the general government budget. It is to be expected that the individual responsibilities of the different governments of the Belgian federation will increase if future rounds of state reforms further decentralize fiscal autonomy.

The regionalization of the party system and the role of independent fiscal councils are effective mechanisms to solve the collective action problem with regard to fiscal consolidation in federal states. Even though the HCF is a specific characteristic of Belgian federalism, as is the way the party system evolved, the resolution of the collective action problem of fiscal consolidation in Belgium emphasizes the importance of compromising and consensus building with respect to the stability of federations.

References

Bednar, J. (2009). *The Robust Federation. Principles of Design*. Cambridge: Cambridge University Press.

Benz, A. (2016). *Constitutional Policy in Multilevel Government: The Art of Keeping the Balance*. Oxford: Oxford University Press.

Benz, A. & Broschek, J. (2013). Federal Dynamics: Introduction. In A. Benz & J. Broschek (Eds.), *Federal Dynamics: Continuity, Change, and Varieties of Federalism* (pp. 1-23). Oxford: Oxford University Press.

Bethuyne, G. (2005). Federalisation and Fiscal Consolidation: The Belgian Experience. *ECFIN Country Focus*, *2*(16), 1-6.

Bisciari, P. & Van Meensel, L. (2012, June). Reform of the Special Finance Act for the Communities and Regions. *NBB Economic Review*, 65-85. Retrieved from http://www.nbb.be/doc/ts/publications/EconomicReview/2012/ecorevI2012_H4.pdf.

Blöchliger, H. & Kantorowicz, J. (2015). *Fiscal constitutions: An empirical assessment* (OECD Economics Department Working Paper No. 1248). OECD Economics Department Working Paper.

Bogaert, H., Dobbelaere, L., Hertveld, B. & Lebrun, I. (2006). *Fiscal Councils, Independent Forecasts and the Budgetary Process: Lessons from the Belgian Case* (Federal Planning Bureau: Working Papers No. 4-06).

Bogaert, H. & Père, T. (2001). Consolidation of Public Finances in Belgium: An Example of Application of European Norms in a State with a Federal Structure. In Banca Italia (Ed.), *Fiscal Rules* (pp. 769-802). Banca Italia: Rome.

Brancati, D. (2008). The origins and strengths of regional parties. *British Journal of Political Science*, *38*(1), 135-159. https://doi.org/10.1017/S0007123408000070.

Braun, D., Ruiz-Palmero, C. & Schnabel, J. (2017). *Consolidation Policies in Federal States: Conflicts and Solutions*. Abingdon, New York: Routledge.

Braun, M. & Tommasi, M. (2004). Subnational Fiscal Rules: A Game Theoretic Approach. In G. Kopits (Ed.), *Rules-based fiscal policy in emerging markets: Background, analysis and prospects* (pp. 183-197). Basingstoke, New York: Palgrave Macmillan.

Buchanan, J. M. & Wagner, R. E. (1977). *Democracy in Deficit: The political legacy of Lord Keynes*. New York: Academic Press.

Coene, L. & Langenus, G. (2013). Belgium: Promoting fiscal discipline in a federal system. In G. Kopits (Ed.), *Restoring public debt sustainability: The role of independent fiscal institutions* (pp. 142-165). Oxford: Oxford University Press.

Cottarelli, C. & Guerguil, M. (2015). Introduction and overview. In C. Cottarelli & M. Guerguil (Eds.), *Designing a European fiscal union. Lessons from the experience of fiscal federations*. London, New York: Routledge.

Dandoy, R., Dodeigne, J., Reuchamps, M. & Vandeleene, A. (2015). The New Belgian Senate. A (dis)continued evolution of federalism in Belgium? *Representation*, *51*(3), 327-339.

Dardanelli, P. (2017). *Restructuring the European State. European integration and state reform*. Montreal & Kingston: McGill-Queen's University Press.

Decoster, A. & Sas, W. (2013). *De nieuwe bijzondere financieringswet van de 6de staatshervorming: werden de beloften ingelost?* (FLEMOSI discussion paper No. 28). Leuven.

Decoster, A. & Sas, W. (2015). Het nut van dotaties in gelaagde staatsvormen: een vergelijking van vereveningsmechanismen. *Belgisch Tijdschrift Voor Sociale Zekerheid*, *57*(3), 561-595.

de Figueiredo, R. J. P. & Weingast, B. R. (2005). Self-enforcing federalism. *Journal of Law, Economics, and Organization*, *21*(1), 103-135.

Deschamps, R. (1994). La coordination des politiques budgétaires des différents niveaux de pouvoir en Bélgique fédérale. In R. Deschamps, J.-C. Jacquemins & M. Mignolet (Eds.), *Finances publiques régionales et fédéralisme fiscal*. Namur: Presses universitaires de Namur.

Deschouwer, K. (2006). And the peace goes on? Consociational democracy and Belgian politics in the twenty-first century. *West European Politics, 29*(5), 895-911. https://doi.org/10.1080/01402380600968760.

Deschouwer, K. (2012). *The Politics of Belgium. Governing a Divided Society*. Houndmills, Basingstoke, Hampshire, New York: Palgrave Macmillan.

Deschouwer, K. & Reuchamps, M. (2013). The Belgian Federation at a Crossroad. *Regional & Federal Studies, 23*(3), 261-270.

Eijffinger, S. C. W. (2010). *Spread of the crisis – impact on public finances. Briefing Paper for the CRIS Committee*. European Parliament: Brussels.

Elgström, O. & Jönsson, C. (2000). Negotiation in the European Union: bargaining or problem-

solving? *Journal of European Public Policy*, *7*(5), 684-704.

Eyraud, L. & Gomez Sirera, R. (2015). Constraints on Subnational Fiscal Policy. In C. Cottarelli & M. Guergil (Eds.), *Designing a European fiscal union. Lessons from the experience of fiscal federations* (pp. 90-132). London, New York: Routledge.

Filippov, M., Ordeshook, P. C. & Shvetsova, O. (2004). *Designing Federalism: A theory of self-sustainable federal institutions*. Cambridge: Cambridge University Press.

Fredriksen, K. (2011). Fiscal Rules for Sub-Central Governments – 2011 Update of the OECD Indicator.

Frogneux, V. & Saintrain, M. (2013). *La 6e réforme de l'Etat : enjeux en termes de soutenabilité budgétaire* (Bureau Fédéral du Plan Working Paper No. 1-14).

Hallerberg, M. (2000). *The importance of domestic political institutions: Why and how belgium qualified for EMU* (ZEI Working Paper No. B 10).

Hueglin, T. O. & Fenna, A. (2015). *Comparative Federalism: A systematic inquiry* (2nd ed.). Toronto: University of Toronto Press.

Husson, J.-F. (1997). Les Accords de Coopération en matière d'objectifs budgétaires. *Bulletin de Documentation Du Ministère Des Finances, 2*, 183-214.

Husson, J.-F. & Steylaers, J.-L. (1999). Les critères de convergence du Traité de Maastricht et la consolidation de la dette publique. *Bulletin de Documentation Du Ministère Des Finances, 59*(4), 3-45.

IMF. (2011). *Belgium: Selected issues paper* (IMF Country Reports No. 11/82).

IMF. (2013). *The Functions and Impact of Fiscal Councils*.

IMF. (2014). *Belgium: Country Report*. Retrieved from http://www.imf.org/external/pubs/ft/scr/2014/cr1476.pdf.

Installé, M., Peffer, M. & Savage, R. (1989). Le financement des Communautés et des Régions. *Courrier Hebdomadaire Du CRISP*, *1240-1241*(15), 1-91.

Jennes, G. (2014). *Has Belgian fiscal decentralization reduced the size of government and the budget deficit?* (Vives Discussion Paper).

Kopits, G. & Symansky, S. A. (1998). Fiscal Policy Rules. *IMF Occasional Paper*, *162*.

Matagne, G., Dandoy, R. & Van Wynsberghe, C. (2013). Les Dynamiques du Fédéralisme Belge. In R. Dandoy, G. Matagne & C. Van Wynsberghe (Eds.), *Le Fédéralisme Belge. Enjeux Institutionnels, Acteurs Socio-Politiques et Opinions Publiques* (pp. 5-26). Louvain-la-Neuve: Academia L'Harmattan.

Oates, W. E. (1999). An essay on fiscal federalism. *Journal of Economic Literature*, *37*(3), 1120-1149.

OECD. (1989). *OECD Economic Surveys: Belgium, Luxembourg 1988/1989*.

OECD. (2001). *OECD Economic Surveys: Belgium 2001*.

OECD. (2005). *OECD Economic Surveys: Belgium 2005*.

OECD. (2011). *OECD Economic Surveys: Belgium 2011*.

Pacolet, J. (2016). Belgium: the end of the public pension reserve “Silver Fund.” *ESPN Flash Report, (2016*/(55).

Pagano, G. (2007). Les recommandations du Conseil supérieur des finances sur le coût du vieillissement. *Courrier Hebdomadaire Du CRISP, 1955*(10), 5-48.

Panke, D. (2006). More Arguing Than Bargaining? The institutional designs of the European Convention and Intergovernmental Conferences Compared. *Journal of European Integration, 28*(4), 357-379. https://doi.org/10.1080/07036330600853976.

Piron, D. (2013). *Le cadre institutionnel de l’assainissement des finances publiques en Belgique* (Federale Overheidsdienst Financiën – België: Documentatieblad No. 73e jaargang, nr. 3, 3e kwartaal 2013).

Piron, D. (2014). Politique budgétaire et décision politique: gérer un système fédéral complexe. *La Revue Nouvelle* (Janvier).

Plekhanov, A. & Singh, R. (2014). How should subnational government borrowing be regulated? Some Cross-Country Evidence Empirical. *IMF Staff Papers 53*(3), 426-452.

Popelier, P. (2018). Bicameralism in Belgium: the dismantlement of the Senate for the sake of multinational confederalism. *Perspectives on Federalism, 10*(2), 215-237.

Rodden, J. (2006). Federalism. In B. R. Weingast & D. A. Wittman (Eds.), *Oxford handbook of political economy* (pp. 357-370). Oxford: Oxford University Press.

Rodden, J., Eskeland, G. S. & Litvack, J. (Eds.). (2003). *Fiscal decentralization and the challenge of hard budget constraints*. Cambridge, MA: MIT Press.

Rodden, J. & Wibbels, E. (2002). Beyond the Fiction of Federalism. *World Politics*, *11*(4), 494-531.

Sägesser, C. & Istasse, C. (2014). Le Sénat et ses réformes successives. *Courrier Hebdomadaire Du CRISP*, *14*(2219-2220), 5-115.

Schaechter, A., Kinda, T., Budina, N. & Weber, A. (2012). *Fiscal rules in response to the crisis — toward the “next-generation” rules. A new dataset* (IMF Working Papers No.

WP/12/187).

Scharpf, F. W. (1988). The joint-decision trap: Lessons from German Federalism and European Integration. *Public Administration*, *66*, 239-278.

Streeck, W. (2014). The politics of public debt: Neoliberalism, capitalist development and the restructuring of the state. *German Economic Review, 15*(1), 143-165.

Swenden, W. (2004). *Federalism and Second Chambers. Regional Representation in Parliamentary Federations: the Australian Senate and German Bundesrat compared*. Brussels: P.I.E.-Peter Lang.

Treisman, D. (2007). *The architecture of government: Rethinking political decentralization*. Cambridge: Cambridge University Press.

Troupin, S., Steen, T. & Stroobants, J. (2015). Fiscal consolidation in federal Belgium. *International Review of Administrative Sciences*, *81*(3), 457-478.

Van Meensel, L. & Dury, D. (2008, June). Utilité et efficacité des règles budgétaires et des institutions budgétaires indépendantes. *Revue Économique de La Banque Nationale de Belgique*, 71-87.

Vatter, A. (2016). *Das politische System der Schweiz*. Baden-Baden: Nomos Verlagsgesellschaft.

Verdonck, M. & Deschouwer, K. (2003). Patterns and principles of fiscal federalism in Belgium. *Regional & Federal Studies*, *13*(4), 91-110. https://doi.org/10.1080/13597560308559447.

Wagschal, U. & Wenzelburger, G. (2008). *Haushaltskonsolidierung*. Wiesbaden: VS Verlag für Sozialwissenschaften.

Watts, R. L. (2008). *Comparing federal systems*. Montreal & Kingston: McGill Queen's University Press.

Weingast, B. R. (1995). The economic role of political institutions: Market-preserving federalism and economic development. *The Journal of Law, Economics and Organization*, *7*(1), 1-31.

Weingast, B. R. (2009). Second generation fiscal federalism: The implications of fiscal incentives. *Journal of Urban Economics, 65*(3), 279-293.

White, L. H. (2012). *The clash of economic ideas*. Cambridge: Cambridge University Press.

Wibbels, E. (2005). *Federalism and the Market. Intergovernmental conflict and economic reform in the developing world*. Cambridge: Cambridge University Press.