
THE TRUE COST OF AUSTERITY AND INEQUALITY

Belgium Case Study

Introduction

As in many European countries, Belgium's response to the economic crisis has been to follow the European Commission's (EC) austerity orthodoxy. There has though been much debate over how to tackle the crisis and the choice between austerity and growth. Belgium Prime Minister Elio di Rupo has questioned the EC's commitment to austerity and has raised concerns regarding the imbalance between growth and austerity.¹ However, internal political tensions have made it difficult for Belgium to promote this argument at a European level. As a result, the government has resorted to tried-and-tested formulas, with only sporadic discussions on alternatives that might lead to sustainable growth.

Although the government is proceeding modestly, attempting to find a balance between austerity measures and stimulating growth, the Belgian model of social security and social protection is under pressure. Cuts to public spending threaten to further widen the chasm between the haves and the have-nots and drive more people into poverty.

A blend of measures

The economic crisis is certainly having an effect on Belgium; a country with one of the most open economies in the world. Whereas Belgium started the millennium with a reasonably stable balance between expenditure and government revenue, by 2009 it was confronted with a debt ratio of -5.7 per cent.² The instability of the Belgian government and political tensions over drawing up the budget resulted in the country coming under scrutiny from rating agencies. When drawing up the April 2013 budget, a nominal balance was proposed by 2016. This means that between 2012 and 2015, a further 2.7 per cent (equal to €10bn) will need to be saved³ in order to strike a balance between taxes and savings in public spending. In practice, this will be achieved through a virtually equal division of one-third austerity, one-third new taxes and one-third windfalls and/or one-off interventions.

Failure to tackle inequality and poverty

Inequality has not altered significantly in Belgium over the past 25 years. The Belgium Gini co-efficient (the indicator that gauges inequality in a country) has remained at or slightly above 0.26 since the mid-1990s.⁴ However, incomes in Belgium are unevenly distributed and the gap between rich and poor has never been greater. Between 1990 and 2009, the poorest 30 per cent saw their share in net taxable incomes fall (from 11.2 to 8.3 per cent), while the richest 10 per cent saw their share increase (from 27.3 to 31.9 per cent).⁵ Social security and welfare payments are usually too low to enable recipients to actively participate in society. The living wage and the minimum unemployment benefit are not enough for families who rent privately.

In March 2013, Belgium's unemployment rate was 8.5 per cent, up from 7.0 per cent just nine months earlier.⁶ Youth unemployment⁷ had risen to 24.6 per cent by July 2013, an increase of 6.2 percentage points since December 2011.⁸ The time required for young people to qualify for unemployment benefits after graduating from school has been extended from nine to 12 months, and the introduction of tapered unemployment benefits, where recipients' allowances are quickly reduced to the minimum benefit level, means that unemployed adults below the age of 25 are falling more quickly into poverty.

According to the EU Statistics on Income and Living Conditions (EU-SILC) 2010 survey, 15.3 per cent of Belgium's population in 2011 was at risk of falling into poverty (in Flemish-speaking Flanders, the wealthiest region in Belgium, this was 9.8 per cent, whereas in Wallonia, a poor French-speaking region this was 19.2 per cent).⁹ These relatively stable poverty figures obscure a burgeoning group of people who, due to the crisis, have fallen on hard times. In 2012, nearly one in seven Belgians¹⁰ had to make ends meet with a monthly income that was lower than the official poverty threshold (€1,000 for a single person or €2,101 for a couple with two children).¹¹ Twenty-one per cent of the Belgian population are at risk of poverty or social exclusion, according to the new European poverty indicators, which consider people confronted by at least one of three risks (monetary poverty, serious material deprivation or low work intensity).¹² At 38.5 per cent, single-parent families are the most at risk of poverty. Another 5.7 per cent of the population lives in serious material deprivation (according to the European definition). The risk of poverty is higher for women (16 per cent) than for men (14.6 per cent).¹³

Austerity measures have meant that migrants living in Belgium are also at a greater risk of poverty. Around one-fifth of north-western and southern Europeans living in Belgium live below the poverty-risk threshold.¹⁴ Among eastern Europeans and non-Europeans living in Belgium, the risk of poverty is around three times greater than it is for Belgians. In Flanders, the number of people benefiting from food aid has increased by 18,000 over the last 10 years. In 2011, food aid reached more than 225,000 people. Private organizations are increasingly offering assistance to the homeless and those without papers; however, support for initiatives by local health centres and co-operative groups is often inconsistent.

The number of bankruptcies has risen since 2008. Between November 2012

and May 2013, almost 6,000 bankruptcies were recorded, an increase of 13 per cent on the same period a year earlier.¹⁵

Belgium's aid commitments under pressure

Belgium is further than ever before from meeting its international obligations on Official Development Assistance (ODA). Various governments have cut ODA significantly in recent years, each time further distancing Belgium from its 0.7 per cent obligation and its explicit commitment to achieve this goal by 2010. In 2011, Belgium dedicated 0.54 per cent of its gross national income (GNI) to ODA.¹⁶ New cuts have reduced this to 0.47 per cent by the end of 2012.¹⁷ It should be noted that ODA calculations can be problematic, as government figures include non-development related spending such as migration, debt relief or defence-related spending. By removing debt relief from the official figure the percentage of GNI given as ODA in 2012 drops to 0.43 per cent. In March 2013, the Belgian government announced an additional cut in ODA of €25m.¹⁸ Observers are alarmed by this, particularly as further budget tightening is scheduled for the end of 2013, with major cuts due to be announced in order to comply with EC austerity plans.

An equitable tax system?

Belgium has the third-highest tax levels in the EU, after Denmark and Sweden.¹⁹ The structure of the Belgian tax system, in terms of the share of revenue raised by the main categories of taxes,²⁰ has remained relatively stable since 2000. The implicit tax rate (ITR) on consumption has been stable since the beginning of the economic crisis at 21 per cent. Belgium imposes heavy taxes on labour with an ITR on employed labour of 42.8 per cent, the highest in the EU. The ITR on capital increased from 29.5 per cent in 2000 to 32.9 per cent in 2006, after which it declined to 28.7 per cent in 2010 to rebound to 30.3 per cent in 2011. The 2011 figures thus show us that labour in Belgium is subject to far more taxes than capital, which leaves space for a structural change towards greater imposition on capital.²¹

Revenues from environmental taxation have declined as a percentage of GDP since 2005. In 2011 environmental tax revenue amounted to 2.1 per cent of GDP, below the EU average (2.4 per cent). Revenues from energy taxation are the second lowest in the EU (1.3 per cent compared to an EU average of 1.8 per cent). There are no wealth taxes in Belgium. In order to allow the social security system to achieve the required redistribution of resources, a better balance must be found between the tax on labour, capital and the environment. In terms of equity and sustainability, capital, wealth and environmental taxes can be expected to bear a higher burden in future.

Conclusion

In its response to the financial crisis, the Belgian government has opted for a blend of measures that are failing to prevent inequality from increasing and the poverty gap from widening. At the same time, pressure on Belgium's model of social security and social protection is growing. There appears to be a greater margin for asking the better-off to take a greater share in the effort of making public finances healthier again.

NOTES

- ¹ Di Rupo: "L'austérité nuit gravement à la santé", *La Libre*, 27 April 2013, <http://www.lalibre.be/actu/politique-belge/di-ruupo-l-austerite-nuit-gravement-a-la-sante-51b8fc0ae4b0de6db9ca580e>
- ² Eurostat (2012) 'Government finance statistics Summary tables — 1/2012', Statistical Books, European Commission, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-EK-12-001/EN/KS-EK-12-001-EN.PDF
- ³ High Council of Finance (2013) 'Budget route to prepare the stability programme 2013-2016', http://docufin.fgov.be/intersalgn/hrfcfs/adviezen/PDF/HRF_032013_Synthese_en_aanbevelingen.pdf
- ⁴ SILC, 'Gini coefficient of equivalised disposable income', Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di12;
OECD, 'OECD Income Distribution Database: Data, Figures, Methods and Concepts', <http://www.oecd.org/social/income-distribution-database.htm>
- ⁵ D. Dierckx, S. Oosterlynck, J. Coene, A.V. Haarlem (eds) (2012) 'Yearbook on Poverty and Social Exclusion 2012', press release, ACCO, [http://www.ua.ac.be/main.aspx?c="OASES&n=111335&ct=111335&e=307057](http://www.ua.ac.be/main.aspx?c=)
- ⁶ Statistics Belgium (2013) 'Employment rate, unemployment rate, labor force participation rate by sex for Belgium and regions last 4 quarters', <http://statbel.fgov.be/fr/statistiques/chiffres/travailvie/emploi/trimestriels/>
- ⁷ All people younger than 25 years in search of a job
- ⁸ Eurostat (2013), 'EU Labour Force Survey: Belgium Youth Unemployment Rate', http://ycharts.com/indicators/belgium_youth_unemployment_rate_ifs
- ⁹ Based on D. Dierckx, S. Oosterlynck, J. Coene, A.V. Haarlem (eds) (2012) *op. cit.*; and on 'Facts and Figures', Support Point for combating poverty, insecurity, and social exclusion, http://www.armoedebestrijding.be/cijfers_aantal_armen.htm#4.%20Europese%20armoede-indicator
- ¹⁰ D. Dierckx, S. Oosterlynck, J. Coene, A.V. Haarlem (eds) (2012) *op. cit.*, press release, p. 1.
- ¹¹ These are official thresholds, set up by the Ministry of Economy, Statistics department. It is considered as being the minimum income necessary to maintain a minimum living standard (according to Belgian living prices and other indicators).
- ¹² The new European Poverty indicator is defined in a different way to the EU-SILC survey (based on the indicator of income risk, poverty threshold, as indicated for a single or a couple with 2 children). It is defined as people who are confronted with at least one out of three risks (monetary poverty, serious material deprivation or low work intensity), are considered by this new European poverty indicator as people with a risk to poverty or social exclusion. http://www.armoedebestrijding.be/cijfers_aantal_armen.htm#4.%20Europese%20armoede-indicator [available in Dutch only]
- ¹³ *ibid.*
- ¹⁴ This takes into account all different statuses: immigrants, people with or without Belgian nationality, people in process of asylum etc. Note that the surveys do not include illegal, homeless and collective households.
- ¹⁵ 'Nombre de faillites pour la Belgique et les régions, derniers 13 mois' [Bankruptcies for Belgium and regions during the previous 13 months], Statistics Belgium, <http://statbel.fgov.be/fr/statistiques/chiffres/economie/entreprises/faillites/mois/>
- ¹⁶ OECD 'Aid Statistics, Donor Aid at a glance. Belgium', <http://www.oecd.org/dac/stats/BEL.JPG>
- ¹⁷ *ibid.*
- ¹⁸ 'L'aide, catalyseur de développement ou variable d'ajustement budgétaire? Rapport 2013 sur l'aide belge au développement', National Centre for Development Cooperation, http://static.lecho.be/upload/RAPPoRT_APD_2013_bd1_4339673-1661387.pdf
- ¹⁹ Eurostat (2013) 'Taxation trends in the European Union: Data for the EU member states, Iceland and Norway', Statistical Books, European Commission, p. 52, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-DU-13-001/EN/KS-DU-13-001-EN.PDF
- ²⁰ These includes indirect taxes (such as VAT), direct taxes (such as income and corporate tax), and social contributions.
- ²¹ Eurostat, 'Taxation trends in the European Union', news release, 29 April 2013, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-29042013-CP/EN/2-29042013-CP-EN.PDF

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