

FEDERALISM AND DECENTRALISATION IN BELGIUM

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1. Recent history of the decentralisation process

At the time of independence (1830), Belgium was a unitary state with nine provinces, roughly corresponding to the *Départements* established by the previous French rulers, and 2739 municipalities (*communes*)¹.

Some cultural demands expressed in Flanders remained unmet. When it occupied Belgium in 1914-1918, Germany promoted a kind of regional policy and established a Flemish government, giving ground to some Flemish requests. Despite the resulting negative associated image, some Flemish requests were encountered in the interwar period, most notably by granting a Flemish identity to the University of Ghent. The structure of the State remained globally unchanged until the 1960s, when “linguistic borders” were established paving the way for a sort of regionalist and later federalist process.

Three trends then emerged; these were a Flemish demand for more cultural autonomy, a Walloon demand for more social and economic autonomy and a wish for some rationalisation of local government structure. These various moves concluded with a sequence of legal and constitutional reforms.

Willingness to rationalise the municipal level motivated the first reforms. A 1961 law allowed a voluntary merging of municipalities and another law, adopted in 1975, imposed municipality mergers (“*Fusion des communes*”), reducing the number of municipalities from 2359 to 589². Another law introduced “Agglomerations” based on the main Belgian municipalities but was implemented in Brussels only³.

Cultural demands led to the establishment in 1970 of three Communities, around linguistic lines: these are the Flemish, French- and German-speaking communities.

¹ This number was later reduced, some municipalities being lost to the Netherlands or the Grand-Duchy of Luxemburg in 1839, some being gained from Germany after WWI and some other being merged.

² After additional mergers in Antwerp.

³ With 19 municipalities which later became the Brussels-Capital Region (*Région de Bruxelles-Capitale*). This Agglomeration still exists.

Initially in charge of strictly cultural affairs, they later gained competences over education and social policies.

Regions were created in 1980, resulting from social and economic demands. The Flemish and Walloon Regions were later followed by the Brussels-Capital Region.

The important State reform of 1989, transferring important policies and budgets to Communities and Regions, followed previous constitutional reforms of 1970 and 1980.

The constitutional reform of 1993 established the federal character of the Belgian state.

It also split up the former Province of Brabant into two, *Province du Brabant wallon* (in the Walloon Region) and *Provincie van Vlaams-Brabant* (in the Flemish Region), while the area of Brussels-Capital Region became outside any province, provincial competences being taken over by the Region.

The fifth State reform (2001) provided more fiscal autonomy to federated entities and gave them power over local government⁴. Since then, the Regions have revised municipal and provincial laws but no important change in territorial structure has been implemented; for instance, the Provinces remain globally unchanged, even if their role and existence has regularly been challenged.

After the 2007 federal elections, negotiations for setting up a government were very difficult, as French-speaking parties had no wish to consider Flemish requests to devolve more power to federated entities or the scission of the administrative area of Brussels-Hal-Vilvoorde⁵: more than six months were needed to set up a federal government. After the government led by Yves Leterme (CD&V) collapsed and early general elections were called on 13 June 2010, an extremely long political crisis lasted 541 days, as it proved difficult –and eventually impossible– to reach an agreement between the Flemish nationalist party NVA –that had become the first Flemish political party– and other Flemish and French-speaking parties. Six parties (Christian-democrats, Liberals and Socialists from both sides of the linguistic border) eventually constituted a large coalition government in December 2011. With the external support of the Green parties, the government reached an agreement on a new State reform, including large transfers of competences to the Regions and Communities and a revision of their financing schemes, as well as on public finances, bringing them in line with European

⁴ Municipal law had previously been kept at the federal level as French-speaking parties were reluctant to transfer this matter to the Flemish Region, regarding tensions between French-speaking population and Flemish regional authorities in a few municipalities in the Flemish Region.

⁵ Most notably, this administrative boundary allows French-speaking inhabitants from Flemish municipalities around Brussels to vote for French-speaking parties at federal and European elections.

requirements. This government implemented what came to be known as the sixth State reform, in legislation passed between 2012 and 2014.

The federal government set up after May 2014 elections, headed by the French-speaking liberal Charles Michel, does not have any further institutional reform on its agenda. The country has therefore to adjust to being governed by very different coalitions at the federal level and in some Regions and Communities. While the federal centre-right government does not have a majority in the French-speaking group in the House of Representatives and comprises the Flemish nationalist party NVA, socialists head governments in the Walloon and Brussels-Capital Regions. This puts the cooperation mechanisms to the test. Many observers also believe that the halt to state reforms is temporary and that further demands from Flanders for more autonomy will need to be addressed in the future.

2. Territorial structure

The cultural, socio-economical and rationalisation demands resulted in a complex institutional architecture. This part will first present the federal State, Communities, Regions and coordination among them before addressing competences and organisation of local government and introducing the role of the Constitutional Court.

2.1. The federal State

As a rule, the federal State retains the competences considered as “regalian” (defence, justice, foreign affairs, and finance) as well as social security and important competences within public health policies and home affairs.

The federal Parliament is made up of:

- a House of Representatives: 150 MPs, directly elected in constituencies corresponding to Provinces;
- a Senate: 60 Senators, of which 50 are designated by the parliaments of the Regions and Communities: 29 Dutch-speakers, 20 French-speakers and 1 German-speaker⁶. Another 10 Senators are co-opted while the King’s children are not senators by law anymore.

⁶ The 29 Dutch-speakers senators are designated by the Flemish Parliament and the Parliament of Brussels; the 20 French-speakers senators are designated as follows: 10 by the French Community Parliament, 8 by the Parliament of Wallonia and 2 by the Parliament of Brussels. The German-Speaker senator is designated by the Parliament of the German-speaking Community.

Since the last state reform, the role of the Senate has been considerably reduced; it conveys only eight times a year and is only competent for Constitutional matters or institutional reforms.

Elections are normally held every five years. These are held jointly for Federal, Regional and European levels, as well as for the German-speaking Community.

Belgium is classically considered as a “consociative” democracy (Lijphart 1977 ; 1981) which means that its society is characterised firstly by a vertical segmentation in several communities (based on religion, language or political ideology), secondly by the internal cohesion of each of these communities founded on its elites’ authority, thirdly by the institutionalisation of negotiation between these elites (Dumont & Delgrange 2008). The majority unilateral ruling in such a society would be potentially detrimental to social cohesion⁷ and governmental majorities are usually made up of coalitions of several political parties that are representatives of different tendencies. Due to a proportional representation system, these governmental coalitions rest on a compromise between the representatives of the more influential communities rather than on the implementation of a majority party’s program. While the government used to be obliged to have the support of both Houses, since 2014 it must only have a majority in the House of Representatives. A majority in each linguistic group (French-speakers and Dutch-speakers) is preferable but not compulsory: according to the Constitution, this double majority is only required for the voting of some special laws in domains that are sensitive from a linguistic point of view.

It should be stressed that there is no longer any national or federal party in Belgium, except the far-left PTB-PVDA. Each “political family” now has two distinct parties⁸, a Dutch-speaking one and a French-speaking one. There is no structural coordination body in any “political family”⁹; even names and manifestoes are now different¹⁰. Some parties exist in a single Region only and have no ideological counterpart in the other parts of the country, such as the Flemish nationalist party NVA, today Flanders’ first party, the Vlaams Belang, the Flemish far-right party, or *Défi*, formally known as FDF,

⁷ In the above-mentioned discussion about the scission of the administrative area of Brussels-Hal-Vilvoorde, the voting of a common resolution of the Flemish majority against the French-speaking minority in Home Affairs parliamentary Commission had been considered as a severe breach in the Belgian social contract and led to an important governmental crisis.

⁸ In fact three, taking into consideration the German speaking community.

⁹ Except for the Greens as they have a common parliamentary group in the federal parliament.

¹⁰ For instance, both Christian Democratic parties have changed their names, the Flemish one keeping a reference to its roots (“Christian Democratic and Flemish”) while the French-speaking one has become more neutral (“Humanist Democratic Center”).

which defends the rights of French-speakers in and around Brussels and now developing in Wallonia.

2.2. The Communities and the Regions

The first tier of sub-national government is comprised of six federated entities: three Regions and three Communities. The three Regions are the Flemish Region (*Vlaams Gewest*), the Walloon Region (*Région wallonne*¹¹), and the Brussels-Capital Region (*Région de Bruxelles-Capitale – Brussels Hoofdstedelijk Gewest*). The three Communities are the Flemish Community (*Vlaamse Gemeenschap*), the French Community (*Communauté française*¹²) and the German-speaking Community (*Deutschsprachige Gemeinschaft Belgiens*).

The determining constituent of a Region is its geographical area, whereas a Community's perimeter of action is mostly determined by its inhabitants' language and culture. Hence, the area of some Communities and Regions overlap or are superimposed. The Brussels-Capital area has a special status because it is embedded in Flemish territory but a large majority of its inhabitants are French speakers. The bilingual status of Brussels implies that there are specific imperatives with regard to the use of languages, the bilingual composition of both the regional executive body and parliament, and the exercise of community responsibilities throughout the bilingual areas in the Region (carried out by the French, Flemish, and Common Community Commissions).

Table 3.1. Federated entities – an overview

	Parliament	Government
Walloon Region www.wallonie.be	75 representatives directly elected by universal suffrage.	9 members (maximum) elected by Parliament.
French Community www.cfwb.be	94 members made up of: <ul style="list-style-type: none"> • The 75 members of the Walloon parliament • 19 members elected by the French language group in the Brussels-Capital Regional Council from among its members. 	8 members (maximum), elected by Parliament. They can be at the same time Ministers in the Walloon Region or in the Brussels-Capital Region.

¹¹ Now using “Wallonie” even if *Région wallonne* is still the constitutional wording.

¹² The official term *Communauté française* has been supplanted by the politically-designed term “Fédération Wallonie-Bruxelles”, stressing on the regional territories covered by this institution.

<p>Brussels-Capital Region http://www.bruxelles.irisnet.be</p>	<p>89 representatives elected by universal suffrage :</p> <ul style="list-style-type: none"> • 72 on lists presented by French-speaking parties • 17 on lists presented by Dutch-speaking parties 	<p>8 members (5 ministers and 3 Secretaries of State), elected by Parliament.</p>
<p>Flemish Community and Region www.vlaanderen.be</p>	<p>124 representatives elected by universal suffrage :</p> <ul style="list-style-type: none"> • 118 elected by the inhabitants of the Flemish Region; • 6 elected by the inhabitants of the Brussels-Capital Region. 	<p>11 members (maximum). The Minister-President is chosen from the party with the largest representation within the majority.</p>
<p>German-speaking Community http://www.dglive.be</p>	<p>25 representatives elected by universal suffrage.</p>	<p>Between 3 and 5 members, elected by Parliament.</p>

The Communities are competent for matters closely related to people such as culture, education and social affairs. The Regions are competent for territorial matters, like territorial planning, environment and employment policy.

Each of these entities has a deliberative body with legislative responsibilities (Parliament of the Region/Community) and an executive body (Government of the Region/Community). In Flanders the decision was made in 1980 to merge the Region's and the Community's institutions; there is therefore only one unified Flemish Parliament and one unified Flemish Government¹³. The French Community has transferred some competences to the Walloon Region and to the French Community Commission in Brussels¹⁴ and the Walloon Region has in turn transferred some competences to the German-speaking community. This pragmatic approach has therefore led to a complex sketch. The situation is particularly complicated in the Brussels-Capital Region, where no less than five levels of power (federal state, Region, French and Flemish Community, three community commissions and 19 municipalities) have authority.

2.3. Coordination

Budgetary coordination is an important safeguard against an excessive deficit in one of the federated entities that could put Belgian economic and monetary unity in danger; this argument became even stronger after Belgium's admission to the euro area

¹³ Members of the Flemish Parliament elected in Brussels cannot vote on regional competences.

¹⁴ Members of the Walloon Parliament elected in the German-speaking area cannot vote on these matters.

(Husson, 2008b). According to Denil and Savage (2009), depending on the country, this coordination can be controlled by an administrative design or be based on a large autonomy and on market sanctions. The Belgian case is neither of them but can be considered as an “institutionalised cooperation” between the different tiers of government. This kind of coordination arouses debates on the common good and can stimulate the budgetary discipline by the control of the peers but is also likely to result in inefficient or compromises that are too soft on sanctions (*idem*, p. 600).

However, the efficiency of the Belgian system seems to be satisfactory. Three important institutions are in charge of budgetary coordination: one of them is a college of experts working within the framework of the High Council of Finance (*Conseil supérieur des Finances*), the other two are intergovernmental bodies: the Coordination Committee (*Comité de concertation*) and the Interministerial Conference on Finance and Budget (*Conférence Interministérielle des Finances et du Budget*).

The High Council of Finance

The special law organizing the financing system of the Regions and Communities (Special Act of 16 January 1989, art. 49) created the Public Sector Borrowing Requirement Section of the High Council of Finance. The 12 members are chosen according to their special competence and experience in finance and economy. Linguistic parity is observed and institutions specifically mandate some of the experts: six of them represent the federated entities, three others represent the National Bank of Belgium and another one is mandated by the Ministry of Finance.

As an advisory board, its role is important in preparing the budget targets for the public authorities (the federal government, social security, each community and region, and the local authorities as a whole) in an annual report. The importance of local authorities in this report varies from year to year but since 2000, the electoral cycle¹⁵ and its impact on budget is subject of detailed inquiry. Moreover, international bodies like the FMI or the European Commission regularly request the High Council of Finance, including on local finances (Husson, 2008b).

The Public Sector Borrowing Requirement Section of the High Council of Finance can advise the Minister of Finance on the appropriateness of reducing the borrowing capacity of one authority in accordance with safeguarding economic and monetary

¹⁵ Local investments tend to be boosted before election years.

union. The Section's recommendations are not formally binding but they influence political decision as they form the basis for agreements to be concluded between the federal government and the federated entities within the Inter-ministerial Conference on Finance and Budget. These agreements are also subject to confirmation by the Coordination Committee.

The Coordination Committee (“Comité de concertation”)

The main authority for coordinating the federal State and the federated entities is the Coordination Committee. The linguistic balance is once more strictly kept as the Committee is made up of twelve members, six representing the federal State and six representing the federated entities:

- the Prime Minister and five members of the federal government;
- the Flemish government's president and another member of this authority;
- the Walloon Region and French Community governments' presidents;
- the Brussels-Capital Region government's president and another member (representative of another linguistic group) of this authority.

The president of the German-speaking Community is invited to participate in the Committee when matters concerning the German-speaking Community are discussed.

This Committee is in charge of an annual cooperation on fiscal policy and, as far as budgetary coordination is concerned, this body has to give assent to the agreements negotiated by the Inter-ministerial Conference on Finance and Budget. In 2015, the reform of the law on income tax made discussions on the budgets of the different entities especially long and difficult.

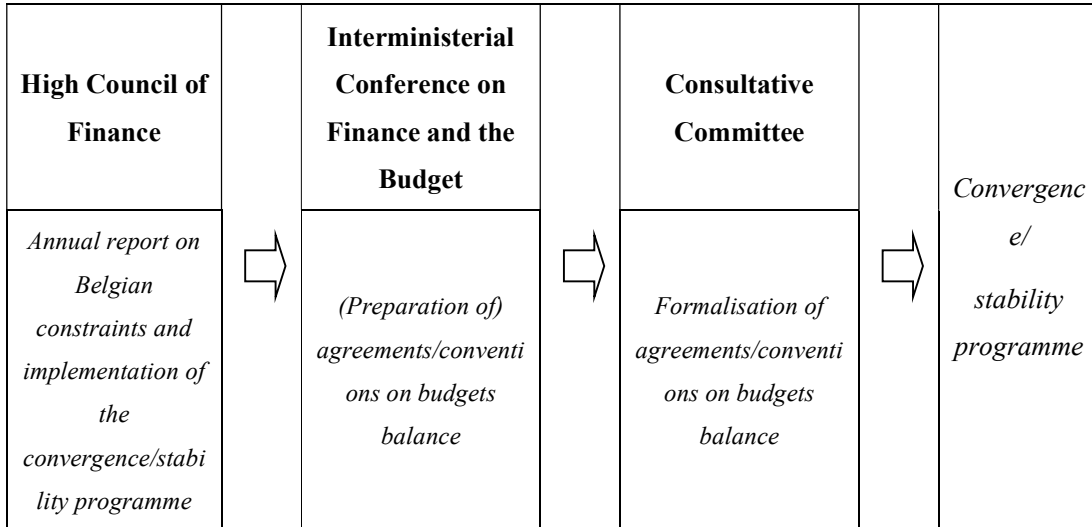
The Inter-ministerial Conference on Finance and Budget

The Inter-ministerial Conference is a committee made up of the federal, regional and Community's Ministers of Finance and Budget. Despite its lack of power to decide, this is an important element of coordination. Its role is to prepare agreements between entities before confirmation by the Consultative Committee.

The following chart summarizes the role of the main actors in keeping Belgian budgetary stability. This system was designed originally to keep economic and monetary unity at the Belgian level. The European budgetary discipline and the

increasing cost related to ageing led to some modifications but the system can still be described as an “institutionalised cooperation”.

Chart 3.1. Actor and tools of budgetary coordination



Source: adapted from Husson (2008b).

The budgetary control on local authorities is of growing importance as the European budget constraints and the ESA methodology gave visibility to the local administrations’ capacity to allocate financial assets for reducing the debt. Financial targets (like budgetary balance and deficit controls) have thus been assigned to the local authorities for some years. The following sections will be devoted to these local authorities.

2.4. Provinces¹⁶

The main legislation organizing provinces is now a regional competence. Provinces have no clear competences established by law. As they deal with what is of “provincial interest”, intervention profiles may differ quite substantially. Among the Walloon provinces, for instance, education is an important field in terms of budget expenditures for two out of the five provinces: they manage some schools in secondary and higher education, particularly in the paramedical and commercial sectors. The range of provincial activities also includes social and cultural infrastructure, medical prevention, social policy, environment (noise and pollution), roads and waterways, economic development, transports, public works and housing.

¹⁶ Brussels-Capital Region remains outside of any province: competences usually exerted by the provinces are attributed to the regional authorities.

Provincial councils are directly elected, each province being divided into a few constituencies. In Wallonia, provincial deliberative bodies have between 31 and 56 members, after a reduction by one third after the 2012 elections. In Flanders, there are between 63 and 72, to be between 24 and 49 after 2018 elections. Provincial elections take place simultaneously with municipal elections, every six years.

The council nominates a provincial executive (college provincial in the Walloon Region, Deputatie in Flanders) of six full-time representatives. It is chaired by a President in Wallonia and by the Governor in Flanders.

The Governor is both a Commissioner of the federal State (as such, he is in charge of coordinating security and law enforcement on the provincial territory) and of the Region, for which he or she exerts supervisory authority on the Province, municipalities, municipal Public Centres for Social Welfare (*CPAS* in French), police zones, church councils. He or she attends the provincial executive's meetings but does not have any voting right.

2.5. Municipalities

Municipalities are in charge, on the one hand, of missions attributed to them by higher authorities and, on the other, of those considered as "of municipal interest". Public law and order, civil administrative functions management and maintenance of population registers are included in the first range of responsibilities. Amongst the competencies of "municipal interest", town planning and road network as well as education (mostly pre-school and primary schools), culture (libraries and museums) and sports facilities play an important role. Municipalities are also in charge of some critical environmental issues such as waste management and drinking water, and of tourism, health and social welfare via the above-mentioned Public Centres for Social Welfare. In Brussels-Capital Region, some of these responsibilities (fire-fighting, emergency medical care, household waste) have been taken over by the Agglomeration and later by the Brussels-Capital Region. Since 2002, the main legislation organizing municipalities is a competence of the Regions.

Municipal elections are set up every six years and lead to the appointment of 7 to 55 municipal councillors depending on the size of the population in each municipality. The proportional representation system is in use at the local level as well as at the federal

and regional levels¹⁷. The municipal council is chaired by the *bourgmestre* (mayor) in the Brussels-Capital Region, whereas the councils in Wallonia and Flanders elect their own president.

Following the Special Act of 13 July 2001, the responsibility for the composition and organisation of the provincial and municipal institutions has been devolved to the Regions. This regionalisation led to the adoption of decrees that introduced some new differences in terms of municipal government between Regions: the *Gemeentedecreet* by the Flemish Region (2005-2006) and the *Code de la démocratie locale et de la décentralisation* (2005) by the Walloon Region. For instance, whoever collects the most preferential votes on the largest list among those making up the municipal majority is appointed mayor in Wallonia; in the Flemish Region, the mayor is appointed by the Flemish government from among municipal council representatives; in Brussels the regional government appoints as mayor the candidate presented by a majority of the members of the municipal council. The college of mayor and aldermen constitutes the municipal executive body. The municipal council elects aldermen; their number depends on the size of the municipal population.

2.6. Supra-communal cooperation

Local governments are free to set up public corporations to run public services. This can also be done while pooling resources with other municipalities and/or provinces in so-called “inter-municipal” structures or companies. These are public law entities, coming under both private and public (mainly regional) laws, and can be a limited company, a cooperative company or a non-profit making organization. Capital can be either entirely public or be opened to private partners.

The number of inter-municipal structures is declining, mainly due to rationalization and mergers, especially in Wallonia, as well as the consequence of deregulation in the energy market. They are mainly active in utilities (power, water, waste management), health care (hospitals, elderly care, kindergarten,...), economic development (management of industrial parks,...) and cable TV. In 2015, there are around 195 of them (down from 225 in 2005, due mainly to mergers). Since 2015, some of them are submitted to corporation tax, leading to smaller dividends for municipalities.

¹⁷ The system used for local elections in the Imperiali one while the one for elections at upper levels is the D'Hondt one.

The 196 police zones¹⁸ are another form of supra-communal cooperation. Each has its own personnel, budget and accounts. These zones can be either “mono-communal” (covering a single, usually large, municipality) or “multi-municipal”. In this latter case, a police council, made up of representatives of the various participating municipalities, is established.

On 1 January 2015, the 250 local fire departments were similarly merged into 34 zones.

2.7. Constitutional Court

The Constitutional Court is a court of law composed of twelve judges who watch over the observance of the Constitution by the legislative authorities. The judges are appointed for life, on a list presented by Parliament, and respecting some linguistic and gender criteria. The Court has the power to annul and suspend laws (from the Federal State), decrees (from Communities as well as Flemish and Walloon Regions) and ordinances (from Brussels-Capital Region).

It should be stressed that article 142 of the Constitution gives the Constitutional Court the exclusive authority to review regulations that have force of law for compliance with the rules that determine the respective powers of the State, the Communities and the Regions. These power-defining rules are set forth in the Constitution and in laws (usually passed by a special majority) that are enacted with a view to institutional reform in federal Belgium.

In view of its special mission, it is independent of the legislative, the executive and the judiciary authorities.

3. Civil service

A study of the Federal Planning Bureau based on national accounts¹⁹ estimates public employment in 2009 at 828,000 or 18.7 per cent of total employment.

¹⁸ This number may reduce gradually as they now have the opportunity to merge.

¹⁹ Some public corporations (for example transport, radio and television) are excluded in order to keep comparable data. See the study for the complete methodology. No such comprehensive study has been carried since.

Table 3.2. Public employment (in thousands)

	Employment 1995	Employment 2002	Employment 2009	Variation 1995-2009	Average yearly increase	% of total (2009)
Federal State	139.0	135.3	139.2	0.2	0%	16.8%
Social Security	25.8	28.0	30.4	4.6	1.2%	3.7%
Sub-total	164.8	163.4	169.6	4.8	0.2%	20.5%
Communities and Regions	327.1	329.5	364.6	37.5	0.8%	44.0%
Local government	235.9	258.7	293.5	57.6	1.6%	35.5%
Sub total	563.0	588.2	658.2	95.1	1.1%	79.5%
TOTAL	727.9	751.5	827.8	99.9	0.9%	

Source: Federal Planning Bureau (2010).

In 2009, nearly 80 per cent of public employment is to be found within Communities, Regions, and local government. Employment increased substantially between 1995 and 2009 and more particularly between 2002 and 2009, with 100,000 new jobs in the public sector, among which 95,000 in Communities, Regions and local government. A larger approach, based on the OECD definition of public domain, put the figure of public employment at 1,299,000 or 29 per cent of total employment (2008). More recent data on local government employment (Belfius, 2015b) set figures at 114,855 Full-Time Equivalent (FTE) in the Flemish Region (for the first time, a reduction by 2,253 in one year), 75,812 in the Walloon Region (-172) and 29,923 in Brussels Capital-region (+478, the only one with an increase). This total of 220,590 FTE refers to a stricter perimeter than the one used in Table 3.2.

There is a federal public service (with federal public services, a name that replaced ministries) as well as one for each Community and Region. Transfers of personnel occur when competences are transferred from the federal State to Communities and Region (as happens with the sixth State Reform); beside that, transfers are possible but rather rare. Regulation is based on the basic set of General Principles of the Public Service, common to all federal and federated entities. These general principles are complemented in each Region or Community by detailed regulations that determine rules for selecting, appointing and evaluating staff and hierarchy as well as promotion and pay. There are also special laws regarding the armed forces, courts, Council of State, Court of Audit and so on.

Regulations regarding local government agents are set by each municipality, province or other independent body, within the frame established by regional decree or ordinance.

Organization tables and local regulations adopted locally regarding local government agents have to be approved by upper authorities (*a priori* legal control)²⁰. Some negotiations take place directly between unions and the regional government, a situation with which the local government associations are not very pleased.

Public employment usually fell into one of the following categories:

- statutory jobs, where staff is appointed on a final basis and whose working conditions are regulated by a set of texts setting status;
- contract jobs, similar to the ones in the private sector, are based on a contract of employment, usually for an indefinite period. The salary is roughly the same as for a statutory job but career opportunities as well as pensions are more limited.

In the Regions, Communities and local governments, a part of these jobs is subsidized, (GESCO in Flanders, APE in Wallonia, and ACS/GESCO in Brussels). In such schemes, the employer will pay little social insurance contribution and will benefit from a subsidy. These schemes are now under review because of the sixth State reform as social contributions have now to be paid while a supposed corresponding budgetary envelope has been attributed to Regions.

4.- Financing

4.1. General overview : receipts, expenditures and overall balance

Table 3.3. presents a general overview of Belgian public finance, based on ESA methodology²¹. Sectors' totals in comparison with the General government aggregated data show the importance of social security funds and of redistribution between sectors.

²⁰ Examples of statutes proposed to Walloon municipalities can be found on the website of their association: http://www.uvcw.be/no_index/modeles/statut_personnel.pdf.

²¹ European system of national and regional accounts (ESA 2010). As other data may come from other sources, methodology differences may lead to some discrepancies in numbers.

Table 3.3. Overview based on ESA national accounts (millions of EUR)

	2005	2010	2014 (a)
Federal government			
Receipts	84,064	95,922	112,511
Expenditure	92,015	106,803	122,723
Net lending (+) or net borrowing (-)	-7,951	-10,881	-10,212
Social security			
Receipts	58,328	75,670	89,102
Expenditure	58,840	76,281	89,164
Net lending (+) or net borrowing (-)	-512	-611	-62
Communities and Regions			
Receipts	43,943	53,783	63,027
Expenditure	42,461	56,477	64,585
Net lending (+) or net borrowing (-)	482	-2,694	-1,558
Local Government			
Receipts	21,141	25,979	29,177
Expenditure	21,172	26,286	29,808
Net lending (+) or net borrowing (-)	-31	-307	-631
General government			
Receipts	152,188	180,054	208,309
Expenditure	160,200	194,547	220,772
Net lending (+) or net borrowing (-)	-8,112	-14,493	-12,463
<i>Deficit in % of GDP</i>			-3,1%

(a) 2015 not yet available.

Source: *Comptes des administrations publiques 2014*.

Table 3.4. Transfers from federal government to other sectors (millions EUR)²²

To	2005	2010	2015
Communities and Regions	32,835.8	37,660.2	53,102.2
Social security	15,989.9	24,290.2	17,366.3
Local government	2,441.9	3,130.9	3,665.8
European Union	4,568.5	5,160.1	6,028.4
Total	55,836.1	70,241.4	80,162.7

Source: adapted from *Budget 2016. Exposé général*, pp. 149-165.

The federal government, local government and Regions can establish taxes. Local government and federated entities also receive grants from other authorities: Table 3.4. shows transfers operated from the federal Government. The Federal Government retained nearly 60 per cent of tax receipts in 2000 but only slightly more than 50 per cent in 2005 and 44 per cent in 2009 (with no competence transfers having occurred in this period). In 2016, it is up to 49 per cent (55.3 out of 110.7 billion euros) as Regions now collect an increasing proportion of regional taxes. The Federal Ministry of Finances collects most taxes but since 2001, Regions take gradually over collection of federal taxes that have been transferred to them. Regions and local government also collect taxes other than surcharges on federal taxes or transferred ones.

²² Surcharges on income and real estate taxes levied by local government are not in these totals.

4.2. Communities and Regions

This section will briefly explain the system introduced by the sixth State reform as it would be too long to detail the previous mechanisms as well.

4.2.1. Funding mechanisms²³

The funding mechanisms of the Regions and Communities are quite complex but can be summarized as shown in Table 3.5. with some complementary comments.

Table 3.5. Overview of funding mechanisms of Communities and Regions (a)

	Regions	Communities
Taxation	<p>Surcharges on Federal Personal Income Tax (FPIT)</p> <p>Regional taxes (former federal ones (b))</p> <p>Regional taxes (established by the Regions in their domains of competences, generally earmarked ones, e.g. on water and waste)</p>	None
Grants drawn from Federal taxes (c)	Grants drawn from FPIT for agriculture, R&D, local authorities, animal welfare, employment, tax rebates, etc. (see text)	Grants drawn from FPIT and VAT (see text)
Specific subsidies from federal gov. budget		For child allowances, elderly, health policies, hospitals infrastructure, foreign students in universities, etc. Each with a specific formula.
Non tax receipts	<p>Grant from the French Speaking Community to compensate the cost of policies transferred to the Regions (Walloon Region and COCOF only).</p> <p>Fees, rents, fines, sales, etc.</p>	Fees, rents, fines, etc.
Responsibility schemes	Amounts retained by the Federal government regarding environment, retirement and employment objectives.	Amounts retained by the Federal government regarding retirement objectives.
Equalization scheme	Compensation for Region(s) that contribute less to the FPIT than their percentage of the population.	None
Intermediary scheme	Complementary amount for the transition period between the previous scheme and the one introduced by the 6 th State reform.	Complementary amount for the transition period between the previous scheme and the one introduced by the 6 th State reform.
Specific situation	Brussels-Capital Region benefits from <i>ad hoc</i> grants for its federal and European role.	The German-speaking Community has a specific financing scheme based on grants from the Federal government.

- (a) The three Brussels Commissions will not be dealt with, except specific mentions.
 (b) Being considered as transferred taxes, these do not appear in the Federal expenditures budget.
 (c) Initial amounts have been established by political decisions based on the costs of transferred policies; they do not vary according to PFIT or VAT receipts.

Flemish and French **Communities** receive general grants from the federal State; these are financed from its VAT and personal income tax receipts. The amount was initially

²³ For a detailed description see Bayenet and Pagano (2011) and Bayenet and Husson (2015).

established on basis of the budgetary costs of transferred competences. The VAT amount, originally established mainly on the cost of education policies, is not related to the variation of VAT incomes. It is adapted annually to take into account inflation, demography and 91 per cent of GDP growth. It is then shared between the two Communities according to the total number of pupils. Other transferred policies (such as culture, institutions for young offenders, home care for families and elderly) are financed by grants drawn from the Federal Personal Income Tax that are shared according to regional FPIT receipts (80 per cent of these from the Brussels Capital-Region being imputed to the French Community and 20 per cent to the Flemish Community). It is yearly adapted to inflation and to 91 per cent of GDP growth but there is no horizontal equalization scheme. Having no tax capacity, Communities have very little receipts of their own.

Under the previous scheme, **Regions** received a part of the federal personal income tax derived from the transferred policies. Sharing mechanism and possibilities to decide on measures such as rebates as well as surcharges have evolved with time. The sixth State reform has introduced a profound change, as 25.99 per cent of the FPIT has become a regional surcharge. Regions can modify rates (which could influence tax progressivity) and some rebates while guidelines have been set up to prevent fiscal competition (Bayenet and Husson, 2015). Consequently, such regional incomes depend on each Region tax base in the FPIT.

Regions also receive grants drawn from the FPIT for policies transferred in the various State reforms. The amounts, derived from the cost of transferred policies, are adapted yearly taking usually into account inflation and (part of) GDP growth and are then redistributed on a so-called “fair return” principle that is the yield of each Region in income tax receipts.

The equalization scheme establishes an intervention for Region(s) that contribute less to the FPIT than their share in the population. These are currently Walloon and Brussels-Capital Regions.

The other main regional receipts are former federal taxes that have been transferred to the Regions, including the real estate tax, registration duties, inheritance tax, tax on donations, car tax and so on.

Both Communities and Regions can contract loans.

The situation is in fact a little more complex as the Flemish Community and Region have decided to merge, as the French Community has transferred some competences to the Walloon Region (and a French Community Commission in Brussels-Capital Region²⁴) and the Walloon Region has transferred some competences to the German-speaking Community (see above). This has resulted in pooling fiscal resources (Flanders) or *ad hoc* financial agreements usually based on grants (others).

4.2.2. Expenditures

Due to some methodological problems²⁵, another source will be used to present the expenditure side. Federal State remains important for General administration (that is mainly transfers to federated entities, debt interest and repayments), defence, public order and health. Communities and Regions are first players for economic affairs, environment, culture (in broad terms), education and housing. Transfers to local government are an important part of their expenditures, as general grants under General services should be complemented with earmarked grants considered in other functions. Interventions are roughly equal in terms of social protection, a domain in which federated entities are due to play an increasing role.

Table 3.6. Main expenditures per function (2013 consolidated results – millions EUR)

	Federal State	Flemish Community and Region	French-Community	German-speaking Community	Walloon Region	Brussels-Capital Region	Brussels Communities' Commissions	Total
01. General services <i>incl. general transfers to local government</i>	127,733 305	4,914 2,522	1,020 0	56 21	2,429 1,456	1,764 853	103 0	138,019 5,156
02. Defence	3,638	0	0	0	0	0	0	3,638
03. Public order and safety	4,480	0	3	0	0	127	0	4,610
04. Economic affairs (incl. employment. agriculture. energy. transport)	5,474	5,012	1	9	3,369	1,468	<1	15,342
05. Environmental protection	188	771	0	<1	146	317	0	1,422
06. Housing and community amenities		312	0	0	158	147	0	625

²⁴ The three Community commissions (a French-speaking, a Dutch-speaking and a common one) will not be presented here.

²⁵ As the various Communities' and Regions' budgets have quite different structures, a comparison based solely on such official documents is difficult and may be misleading. The General Documentation Center Report has then been used, with the latest implementation data.

(sewage and public lighting)	0							
07. Health	3,344	375	149	2	82	<1	73	4,025
08. Leisure, culture and religious affairs	275	1,390	800	6	78	26	48	2,624
09. Education	5,710	10,635	7,710	153	131	51	194	24,533
10. Social protection	8,099	4,645	625	15	982	220	257	14,842
Total	158,941	28,064	10,308	241	7,375	4,119	632	209,680

Source: own calculations based on *Rapport annuel 2014 – Base documentaire générale* (<http://www.begroting.be>); data not yet impacted by 6th State reform.

4.3. Local Government

The budget system used by local government is quite different from the one used by the Federal State, Communities and Regions. Data cannot be compared as such with national accounts data provided earlier without retreatment²⁶ In Wallonia and Brussels-Capital region, municipalities and provinces have a two-part budget, one being for running costs (staff, working costs, transfers, debt interests and repayments) and the other one for investments. Flanders has adopted another budget and accounting format (BBC) leading to some difficulties to compare with other Regions.

4.3.1. Operating receipts

Sources of revenues differ between institutions and regions. There are therefore general trends such as the importance of taxes that represent more than 50% of incomes.

Table 3.7. Structure of operating receipts (2015 budgets – in millions EUR and percentage per Region)

	Walloon Region (a)		Flemish Region		Brussels-Capital Region (a)	Total
	Municipalities	Provinces	Municipalities	Provinces	Municipalities	
Taxes - of which:	2,441	582	4,805	684	1,137	9,649
	50,4%	58,9%	52,8%	79,9%	52,4%	53,7%
Surcharges on income tax	936	-	1,858	-	226	3,020
	19,3%		20,4%		10,4%	16,8%
Surcharges on estate tax	960	564	2,197	512	641	4,874
	19,8%	57,1%	24,2%	59,8%	29,6%	27,1%
Surcharges on car tax	50	-	102	-	11	164
	1,0%		1,1%		0,5%	0,9%
Local taxes	495	18	648	172	258	1,591

²⁶ See Husson *et al.* (2011) for further explanations.

	10,2%	1,8%	7,1%	20,1%	11,9%	8,9%
General grants	1.176	174	2,200	1	422	3,973
	24,3%	17,6%	24,2%	0,1%	19,5%	22,1%
Earmarked grants	774	161	890	62	377	2,264
	16,0%	16,3%	9,8%	7,2%	17,4%	12,6%
Fees and financial revenues	456	71	1,199	109	233	2,067
	9,4%	7,2%	13,2%	12,7%	10,7%	11,5%
Total	4,847	989	9,094	856	2,168	17,953

(a) Including German-speaking municipalities.

(b) As already mentioned, there is no Province in the Brussels-Capital Region.

Source: Belfius and own calculations on Belfius data.

Tax revenues amount to 9,649 million EUR. There are two kinds of taxes. Most important are surcharges (“additional taxes”) on federal or regional taxes. Each municipality sets rates, except for the car tax.

- Surcharges to regional tax on real estate are the most important fiscal receipt. It represents 50 per cent of tax revenues, with a higher share in Brussels and a lower one in Wallonia. It is based on the estimated rental value of the estate. That is the only surcharge provinces can levy.
- Surcharges to personal income tax come second but represent a smaller share in Brussels where both rate and average income are under national average.
- The last and smallest surcharge is on car tax. The rate is 10 per cent and global revenue is 164 million EUR.

Each municipality or province set tax base, rate and exemptions for taxes it has decided to establish. These represent 1,591 million EUR or 9 per cent of total local receipts. They include taxes on waste, on administrative documents, on advertising, on second homes and so on. Regions have regularly tried to set guidelines for these with mitigated success.

General grants are provided from the respective regional municipal or provincial funds (*Fonds des communes/des provinces*). The Regions²⁷ and the German-speaking Community set repartition criteria. Nowadays all systems –despite their differences– do take into account lower fiscal revenues as well as expenditure needs linked to – among

²⁷ As an example, Flanders has merged the schemes for general running grants and investment grants, a path that the other Regions have not followed (even if Brussels-Capital Region share investment grants on the same base as general operating grants).

others – externalities (Husson, 2004, 2009). Earmarked grants from upper authorities cover an important part of education, culture, police and employment expenditures.

Fees are user contributions to the costs of local services ranging from parents' payments for school meals or entrance fees to cultural or sport facilities to wood sales from municipalities owning forest resources.

Financial incomes are dividends from inter-municipal companies, interests or repayment from third parties (for example CPAS and church councils) for which the municipality has contracted a loan.

CPAS and Police zones are the other local government authorities and both have their deficit covered by municipalities (3.5 billion EUR in 2015). CPAS other revenues are general and earmarked grants for 2.7 billion EUR and other incomes (such as fees in elderly homes) for 1.7 billion EUR. These latter resources represent around 15% in Wallonia and Brussels-Capital Region but up to 40% in Flanders. General and earmarked grants (1.1 billion), complemented by the municipal intervention, finance nearly entirely police zones, that have virtually no other resources.

4.3.2. *Operating expenditures*

Operating **expenditures** of local government are estimated at 26,244 million EUR in the 2015 budgets.

Table 3.8. Local operating expenditures according their nature (2015 budgets – in millions EUR and percentage per Region) (a)

	Walloon Region	Flemish Region	Brussels-Capital Region	Total
Staff	4,105 48.1%	6,079 43.7%	1,794 47.2%	11,978 45.6%
Working costs	1,206 14.1%	3,263 23.5%	385 10.1%	4,854 18.5%
Transfers	2,439 28.6%	3,316 23.9%	1,347 35.4%	7,102 27.1%
Debt	784 9.2%	1,243 8.9%	251 6.6%	2,279 8.7%
Use of provisions	7 0.1%		24 0.6%	31 0.1%
Total	8,541	13,902	3,801	26,244

(a) Totals include municipalities, provinces, CPAS and Police zones.

Source: Belfius and own calculations on Belfius data.

This table reflects different production functions: the share of staff is higher in Wallonia and Brussels and lower in Flanders as the latter shows a preference for subcontracting instead of running their own municipal services. Police zones and Public Centres for Social Welfare (CPAS) receive both around 30 per cent of transfers; firefighting authorities, church councils, hospitals, various social and cultural institutions and local public firms share what remains.

Tables 3.9. and 3.10 show a repartition per function. The share of the various functions may vary from one municipality to another as well as between municipalities of different regions. Differences may be due to political willingness (per example spending on culture) or geographical characteristics of the municipality (hence for instance a higher share on public roads in Wallonia). Nowadays, classification used in Flanders differs from the one used in other Regions, hence separate presentations in Tables 3.19. and 3.10.

Table 3.9. Operating expenditures per function (2015 budgets – in millions EUR)

	Walloon Region				Brussels-Capital Region		
	Municipal-ities	Provinces	CPAS and Police zones	Total w/o internal transfers	Municipal-ities	CPAS and Police zones	Total w/o internal transfers
General administration	1,154.3	255.1	362.0	1,516.3	432.1	243.4	675.4
Police	516.4	0.0	736.2	771.0	411.2	461.6	520.5
Fire fighting	204.0	16.4	0.0	204.0	0.0	0.0	0.0
Communications (road maintenance)	582.0	43.8	0.0	582.0	90.5	0.0	90.5
Economic affairs	78.3	60.9	1.1	79.3	16.0	0.7	16.6
Education (a)	341.5	308.0	0.0	341.5	228.0	0.0	228.0
Leisure, culture and life stances	481.9	109.5	0.0	481.9	193.1	0.0	193.1
Health and social policies	694.6	124.3	1,640.7	1,880.3	501.5	913.9	1,100.1
Waste management, sewage, land planning and housing	521.3	18.0	18.5	539.8	158.5	1.9	160.4
Unclassified	215.4	27.2	29.1	244.4	150.2	25.4	175.6
Total	4,789.7	963.2	2,787.5	6,640.5	2,181.1	1,646.9	3,160.3

(a) Without teachers' salaries paid directly by Communities.

Source: Belfius.

Table 3.10. Operating expenditures per function (2015 budgets – in millions EUR)

	Flemish Region	
	Municipalities	Provinces
General financing	343.7	29.6
General administration	2,029.5	252.9
Moving and mobility	393.9	14.1
Nature and environment	728.8	91.2
Public order and safety	1,354.8	5.7
Economic affairs and public works	148.6	83.8
Housing and land planning	483.7	41.6
Culture and recreation	1,142.2	164.4
Education	960.7	209.9
Care services	1,283.7	40.1
Total	8,869.7	933.3

Source: Belfius.

Tables 3.9 and 3.10 also underline the more important role of provinces in the Walloon Region: While Walloon provinces (at least two of them) are very active in education, Flemish provinces intervene very little in this field. Walloon provinces spend more in social and health policies while Flemish provinces spend more on culture. Support to economic development receives a similar share in both regions.

4.3.3. *Investment budgets*

Local governments intend to invest for 6,042 million EUR in 2015, more than $\frac{3}{4}$ emanating from municipalities. These provisions represent +/- 1.5 per cent of GDP but implementations are usually lower: 1 per cent should be closer to reality. The latter is therefore half public investments in Belgium.

Investments are mainly financed through loans, capital transfers from upper authorities, self-financing and sale of municipal estates or other assets. This differs greatly from one Region to another and from one municipality to the other. To provide only one example, loans will cover on average 60 per cent of investments in the Brussels municipalities, between 50 and 55 per cent in the Walloon ones and below 40 per cent in the Flemish ones.

Table 3.11. Local governments investment expenditures (2015 budgets – in millions EUR)

	Wallonia	Flanders	Brussels
Municipalities	1,518	2,593	539
Provinces	156	241	0
CPAS	131	527	164
Police zones	35	108	28
Total	1,840	3,470	732

Source: Belfius

Main investment sectors are general administration, culture and sport, roads, sewage networks, education and CPAS infrastructures such as nursing homes.

A key problem is the investment guidelines set by regional government in order to implement ESA2010 methodology. There has been an outcry from local government stressing that this would dramatically reduce local investment (roughly half of all public investment in Belgium) while local debt remain low and well under control.

4.3.4. Local government result in the national accounts

Table 3.12. ESA result for local government (a)

	2011	2012	2013	2014
Walloon Region (b)	-184	-468	-252	-65
Flemish Region	-269	-962	-598	180
Brussels Capital-Region	-47	-120	6	-26
German-speaking Community	-5	-21	-5	16
Police zones	-178	-187	-52	-54
Statistical corrections	31	-168	112	-682
Total	-652	-1.926	-789	-631

(a) Provinces, municipalities, CPAS, Police zones.

(b) Except German-speaking Community (9 municipalities)

Source: Belfius

Table 3.12. show the budgetary result of local government under the ESA methodology. In the past, local government budgetary results have had a positive contribution to global Belgian budgetary results (Husson, 2001). With little surprise considering statistics series, the worse year is 2012, year of the latest local elections. This methodology present a very different view than the one provided by regional reporting standards, aiming at checking the capability for local government to face investment-related debt burden (Husson, 2011, Belfius, 2015c, 2015d).

5. Conclusions

The implementation of the last State Reform (2012-2014) is under way and Belgium faces collation asymmetry. Both are testing current Belgian federalism that will be with no doubt a key issue in future federal government negotiation, as the Flemish nationalist party NVA (currently the first Belgian party) has already announced and as the new design is sometimes questioned (coherence of transferred policies, financing schemes and so on).

Other points of attention in terms of institutional and policies design are:

- the evolution of inter-municipal corporations, as the Regions have repeatedly announced a will to reorganize these sectors, sometimes under the constraint of energy liberalization;
- the maintenance of provinces as their existence is regularly questioned and rationalization of means has already been implemented by both Regions, especially in Flanders;
- financial prospects of local government as some observers and advisory bodies fear a budgetary deterioration in the coming years due to a combination of higher spending (most notably in social and health policies and police, due mainly to federal government decisions) and reduced resources (due to declining tax revenues influenced by economic activity and reduced grants from upper authorities);
- on a more technical note, the balance between general and earmarked grants, the adequation of sharing formula as well as the distinction between operating and investment grants, the latter having disappeared in Flanders;
- eventually, the implementation of a strict ESA2010 approach on local finance may have dramatic consequences on public investment in Belgium if an ad hoc solution is not found.

Appendice 1. Brief summary of who is (mostly) competent for what where?

	Wallonia	Brussels-Cap. Region	Flanders
Agriculture	Walloon Region	Brussels Region	Flemish Region
Animal welfare	Walloon Region	Brussels Region	Flemish Region
Children's allowances	French Community / German-sp. Community	COCOM	Flemish Community
Civil records	Federal State	Federal State	Federal State
Communications: post, telephone regulation....	Federal State	Federal State	Federal State
Culture	French Community / German-sp. Community	French Community / Flemish Community	Flemish Community
Defense	Federal State	Federal State	Federal State
Development Aid	Federal State	Federal State	Federal State
Economy	Federal State / Walloon Region	Federal State / Brussels Region	Federal State / Flemish Region
Employement	Walloon Region	Brussels Region	Flemish Region
Education	French Community / German-sp. Community	French Community / Flemish Community	Flemish Community
Energy	Federal state / Walloon Region	Federal state / Brussels Region	Federal State / Flemish Region
Environment	Walloon Region	Brussels Region	Flemish Region
Food safety	Federal State	Federal State	Federal State
Foreign Affairs	Federal State	Federal State	Federal State
Foreign trade	Walloon Region	Brussels Region	Flemish Region
Housing policy	Walloon Region	Brussels Region	Flemish Region
Immigration	Federal State	Federal State	Federal State
Justice	Federal State	Federal State	Federal State
Land planning	Walloon Region	Brussels Region	Flemish Region
Local authorities	Walloon Region / German-sp. Community	Brussels Region	Flemish Region
Media	French Community / German-sp. Community	French Community / Flemish Community	Flemish Community
Public health	French Community / German-sp. Community / Walloon Region	French Community / Flemish Community / COCOF	Flemish Community
Religious organizations	Federal State / Walloon Region / German-sp. Community	Federal State / Brussels Region	Federal State / Flemish Region
Scientific research	Federal State / Wallon Region / French Community / German-sp. Community	Federal State / Brussels Region / French Community / Flemish Community	Federal State / Flemish Region / Flemish Community
Senior citizens	Walloon Region / German-sp. Community	French Community / Flemish Community / COCOF, COCOM	Flemish Community
Social help	Walloon Region / German-sp. Community	French Community / Flemish Community / COCOF, VGC, COCOM	Flemish Community
Social security (excl. children allowance)	Federal State	Federal State	Federal State
Sport	French Community / Walloon Region/ German-sp. Community	French Community / Flemish Community / COCOF / Brussels Region	Flemish Community
Tax and finances	Federal state / Walloon Region	Federal state / Brussels Region	Federal State / Flemish Region
Tourism	Walloon Region /	Brussels Region	Flemish Region

	German-sp. Community		
Transportation (excl. Railways)	Walloon Region	Brussels Region	Flemish Region
Vocational training	Walloon Region / German-sp. Community	Brussels Region / COCOF / Flemish Community	Flemish Community
Youth policy	French Community / German-sp. Community	French Community / Flemish Community / COCOM	Flemish Community

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