

DG ECFIN Workshop
Medium-term challenges for the Belgian economy
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Paper Pagano
Discussion

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1. Summary
2. Methodology
3. Belgian Fiscal Federalism

1. Summary

1. Good overview of

- theoretical fiscal federalism
- applied to Belgian situation

2. Main result:

decentralisation *did not hamper*

- reduction of size of government
- reduction of deficit
- reduction of public debt

1. Summary
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2. Methodology of main result

1. dependent variable

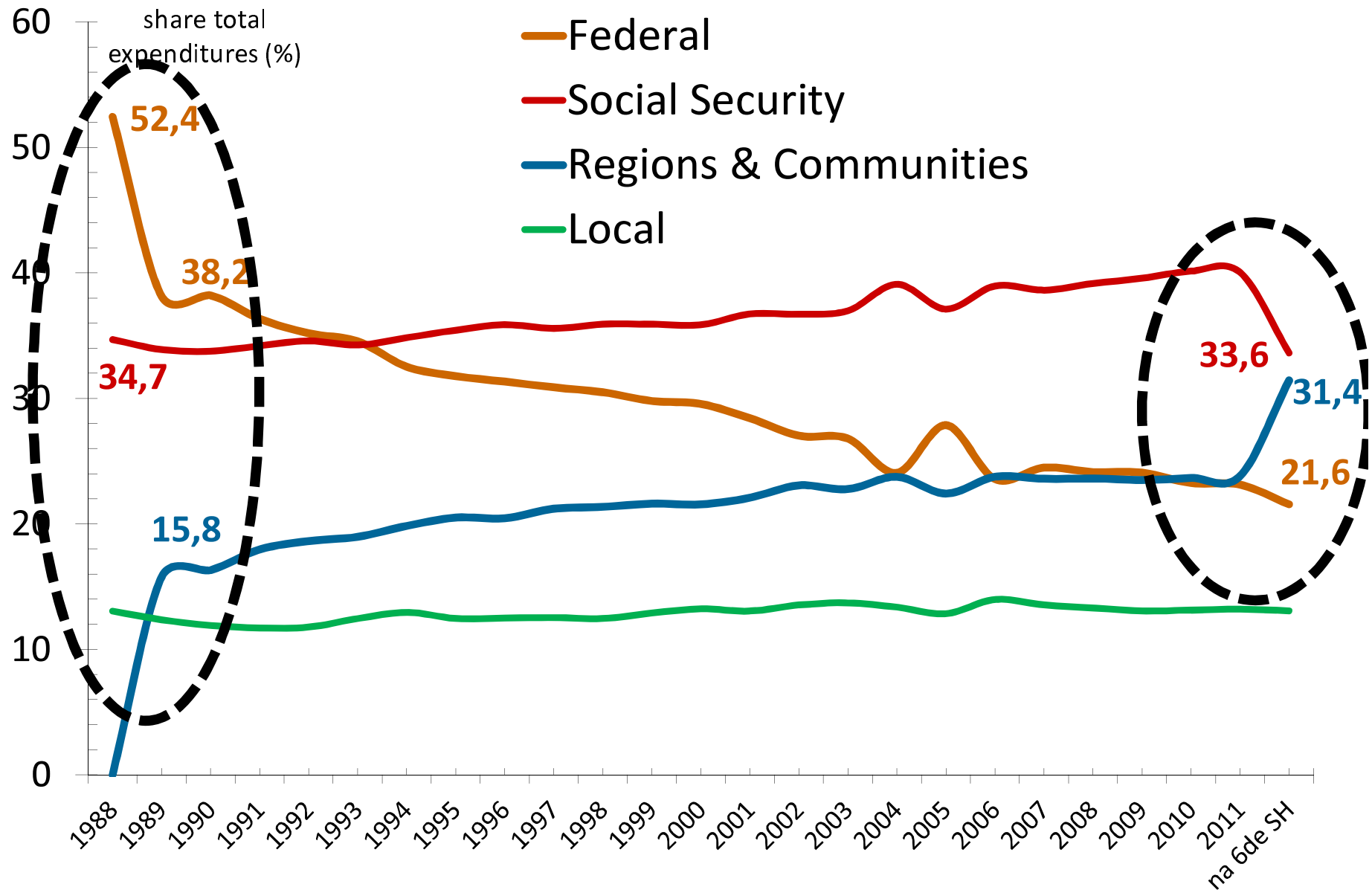
- cyclical element => structural primary balance
- sustainability more relevant
- differentiate between successful and failed consolidations
(as in Alesina & Perotti, 1995, or Darby, Muscatelli & Roy, 2005)

2. Methodology of main result

2. explanatory variable (decentralisation)

- proxied by time period...
- why not:
 - share in revenue
 - share in expenditures
 - Vertical Fiscal Gap
- readily available

2. Share in expenditures



2. Vertical Fiscal Gap

- old SFA, bn € 2012 (estimate)

	Flemish region	Wallonia	Brussels
Regional taxes	5,1	2,5	1,3
Total Revenues	11,7	6,4	2,5
Regional taxes as % of total Revenues	44%	39%	51%

2. Vertical Fiscal Gap

- old SFA, bn € 2012 (estimate)

	Flemish region	Dutch Speaking Community	Flanders	Wallonia	Brussels
Regional taxes	5,1	-	5,1	2,5	1,3
Total Revenues	11,7	13,4	25,1	6,4	2,5
Regional taxes as % of total Revenues	44%	-	20%	39%	51%

2. Vertical Fiscal Gap

- new SFA, bn € 2012 (estimate)

	Flemish region	Dutch Speaking Community	Flanders	Wallonia	Brussels
Regional taxes	11,9	-	11,9	5,5	2,2
Total Revenues	15,5	19,3	34,7	7,7	3,1
Regional taxes as % of total Revenues	77%	-	34%	71%	71%

2. Methodology of main result

3. enough control for endogeneity?

4. **panel** OECD (13 countries 1991-2011):

"The average fiscal decentralisation ratio does not have a significant effect on fiscal sustainability, but it has a significant positive effect on the primary balance ratio"

(Demaeght, 2013)

1. Summary
2. Methodology
3. **Belgian Fiscal Federalism**

3. Belgian Fiscal Federalism

1. Fiscal Federalism:

- spill-overs
- economies of scale
- preference heterogeneity
- moral hazard
- ...

Thé question: **empirical magnitudes?**

3. Belgian Fiscal Federalism

- ## 2. Behaviour of gov'ts, politicians, ...
- model-wise: in its infancy
 - two paradigms of gov't behaviour
 - with different results

3. Fiscal Equalization

- follows from Horizontal Equity
- \neq redistribution (or vertical equity)
- ? normative framework for individuals
 \neq normative framework for groups
- fiscal equalization can foster growth
(contrary to dis-incentive)
- poverty trap: doubts