The Subtle Mechanisms of Europeanization: The European Semester and its Effects on the Social and Employment Policies of Belgium

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Abstract

The paper describes the effects and influence mechanisms of the European Semester on specific national policies. For this, I focus on two Belgian cases, namely the pensions reform and the tax-shift away from labour, as two key social policy domains which share also a fiscal character. I argue that the new socioeconomic coordination framework continued the learning effects of previous coordination instruments, such as the Social Open Method of Coordination and the European Employment Strategy, while increasing the prominence of pressure mechanisms. But contrary to what a large part of academia argues, the fear of sanctions -as prescribed in the Six-Pack- did not trigger reforms but it was rather the incentives given to the national governments for achieving better fiscal and macroeconomic projections, in return for more discretion when passing structural reforms. At the same time, specific national actors used the Commission’s recommendations to legitimize their own political agenda in the domestic debate. In conclusion, I briefly compare the two cases and analyze the factors which influenced the national effects of the European Semester.

1. Introduction

The European Semester, as a major development in the EU’s socioeconomic coordination, has produced an extensive literature from various disciplines and with multiple questions at its epicenter. For example, does the new governance framework have the capacity to influence national policies in a more visible way? Has it enhanced the prevalence of economic actors at the expense of social and employment actors and their goals? Did this new architecture upgrade the intergovernmental governance model or did it strengthen the role of the Commission as a supranational actor? Do national parliaments and other stakeholders enjoy better participation in this process, thus increasing its legitimacy? And, finally, did the Semester increase the power of external pressure mechanisms or instead helped voluntary change and learning processes?

This vivid debate reveals a plethora of views about the role of the European Semester but also a confusion over the CSRs’ implementation. Few writers have focused on the actual impact of the Semester at the national level while the vast majority of literature deals either with the novel institutional framework at the European level or the new role and dynamics of the actors involved. To begin with, I take stock of recent studies which describe the Semester’s effects from an empirical approach. Deroose and Griesse (2014) study the implementation of the 2014 CSRs through a quantitative indicator of their own creation. Although their findings point to a relatively significant implementation level (40% of the total of the CSRs made to all EU Member States), they conclude that the Commission sees the CSRs as guidelines for national reforms. Likewise, they argue that
Member States are responsible for their own initiatives, giving to the Commission the role of framing better the challenges and monitoring the various national developments. From their side, Darvas and Leandro (2015) observe a lower rate of implementation for 2014 (29%) and underline a declining trend from the beginning of the Semester in 2011, where the rate of implementation stood at 40% according to their own indicators. They conclude that the European Semester’s effectiveness remains limited, drawn from the fact that the Member State compliance is not evident, even in fiscally relevant policies. Hallerberg, Marzinotto and Wolff (2012) are highly critical towards the Semester’s effectiveness in pushing for national reforms when examining its first two cycles. By studying six countries, they observe that the reforms are far from ‘regime-changing’ and that they mostly reflect existing national preferences. Even in the field of fiscal adjustment, they add, it is unclear whether the measures taken correspond to the Semester’s recommendations or to the pressure of the markets. While referring to later cycles (2013 and 2014), Zuleeg (2015) claims that the Semester was ineffective in pushing Member States to implement reforms and thus it should be considered as an ‘enhanced coordination’ mechanism. By studying the CSRs of four countries (Spain, France, Poland and Germany) and their persistence over time, Bekker (2016) claims that although the level of coordination has been formally strengthened, the Member States still enjoy a good level of flexibility to implement reforms and reach the annual fiscal deficit targets. This shows that not much has actually changed from the period before the Semester but also implies an enhancement of the political trade-off between fiscal discipline and structural reforms. While focusing on the fiscal policy dimension of France and Italy during the 2013-2014 cycle, Radaelli and Dunlop (2013) draw several conclusions on the limits of learning processes after 2011. In particular, they argue that “under the shadow of hierarchy” actors have limited options to follow alternative policy choices—mainly of budgetary nature—since the new institutional setting offers less space for deviations at the EU and the national level. At the same time, learning continued to take place through negotiations in order to maximize budgetary flexibility in exchange for signals of effective structural reforms.

All these views show that the effectiveness of the European Semester and the particular channels of influence remain an open question. My research aims to address the existing empirical deficit on the issue by focusing on the causal mechanisms which influenced the pension reforms and the tax-shift away from labour in Belgium since 2011. In this paper, I argue that learning and voluntary mechanisms of change played a significant role. At the same time, the most prominent mechanism of pressure, namely the fear of imposing sanctions, does not have an automatic effect on the behavior of the national governments, but rather works in a more strategic way, thus creating a game of trade-offs. My research methodology is based on a combination of secondary literature, primary EU and national documents as well as interviews with actors at both levels. By using ‘process tracing’, I aim to disentangle the Semester-related factors which led to the formation of the current landscape in Belgian pensions and labour taxation (for more on process tracing see: Beach and Pedersen, 2013; Bennett and Checkel, 2015). Thus, the structure of my paper will be as follows: in the next section I unfold the theoretical framework according to which the European Semester can influence policies at the national level. The following section refers to the effects of the Semester on pensions but also to these of the socioeconomic coordination mechanisms before it. Subsequently, I move on to the empirical analysis of labour taxation developments in Belgium and I conclude by summarizing my findings while briefly comparing the two cases.

2. The theoretical framework: mechanisms of change in the European Semester
The boundaries between the different mechanisms of change in the European Semester are blurred (Graziano and Halpern, 2016) and no systematic attempt has been made so far to categorize or conceptualize them in a precise manner. The Semester provides a general framework for pushing and pulling mechanisms (or “the whip and the carrot” in the words of the Socialist MEP and ex-Prime Minister of Malta, Alfred Sant), while bringing together fiscal and macroeconomic coordination instruments with social and employment ones within the same cycle. For my paper I conceptualize two main categories of mechanisms of change: those based on external pressure and those based on volition –as I will elaborate later on. The fear of sanctions, peer pressure, external financial support, pressure of the markets and pressure due to the public opinion belong to the first category. The voluntary mechanisms include socialization, learning, and finally creative appropriation.

The different pressure mechanisms of the Semester do not represent an “automatic flow-chart process” (Dunlop and Radaelli, 2016) but rather a constant procedure of political bargaining. This is also the perspective of the European Commission and Member States (MS), as the statement of Jyrki Katainen, the Vice President of the Baroso Commission shows (“We are not teachers, we are interpreters”) along with numerous statements of national governments over the years (see the statements of Hollande and Renzi in EUobserver, 30 May 2013 and Euractiv, 9 November 2016 respectively). The Commission’s memo of 12 January 2012 (MEMO/11/14) reveals a broad understanding of the coercive mechanisms, albeit not clearly defined. The annexed table mentions peer pressure, fear of sanctions or fines and early warnings towards the MS.

But how can a MS be coerced to adopt reforms? As several authors notice (e.g. EPSU, 2014), the CSRs’ applicability and the efficiency of the different mechanisms remains an open question. Many believe that successful external pressure exerted by the EU is an uncommon event. Gros and Alcidi (2015) underline that the “rationale of reforms” derives primarily from the domestic political agenda, especially in times of fiscal stability. In addition, the existence of perceived democratic legitimacy as a result of an electoral mandate is a necessary precondition for the initiation of reforms. Kopits (2012) adds that the “natural instinct” of governments is to maintain their margin of discretion. In a similar claim, Pasini (2013) argues that national governments are driven by domestic political incentives, avoiding thus any interference which has the potential to reduce their sovereignty. Having in mind the political costs of a reform, he implies that if the domestic agenda does not accord with the Commission’s, then there is little chance for implementing the recommendations. Following the same direction, Hallerberg, Marzinotto and Wolff (2012) state that peer pressure and peer review occurring in the Council are insufficient to lead to reforms. While referring to the period before the European Semester, Citi and Rhodes (2007) argue that both the sanctions and the incentive mechanisms of the Stability and Growth Pact (SGP) have revealed “their limits”. Finally, Zuleeg (2015) describes the European Semester as an ‘enhanced coordination’ governance mechanism which includes only ‘limited enforcement/implementation mechanisms’. On the contrary, Darvas and Leandro (2015) argue that pressuring mechanisms have proven to be effective for the adoption of reforms, but mostly during periods of crisis. Apart from the financial assistance programmes, which is an extreme case, they bring up the example of market pressure. From a similar perspective, Vanden Bosch (2014) says that the CSRs connected to sanction mechanisms have more weight, thus being “closer to injunctions”.

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The first mechanism of coercion is ‘the fear of sanctions’, according to which national actors push for reforms under the threat of the imminent imposition of sanctions, as prescribed in the Semester’s rules. This corresponds to what the legal scientists widely refer to as enforcement mechanisms and tools (Costamagna, 2013; Pasini, 2013; Armstrong, 2014), without taking into consideration the less perceptible forms of pressure. Likewise, the theorists of experimentalist governance designate the ‘penalty-default mechanism’ as a way to pressure recalcitrant actors to comply with collective decisions (De Búrca et al., 2014). According to this definition, actors are not obliged to implement specific rules, but are rather encouraged to follow them in good faith. In that sense, they can challenge a collective decision while designating alternative policy solutions which are better suited to their local context. With the launching of the Semester, the applicability of the ‘fear of sanctions’ mechanism was enhanced both for the SGP and the Macroeconomic Imbalance Procedure (MIP): their “automaticity” became a default setting and hence more difficult for the MS to overrule the Commission’s decisions due to the reverse qualified majority voting (De la Porte and Heins, 2014). De Streel (2014) claims that the pressuring mechanisms of the Semester have proven effective, drawing on the example of Belgium, which in 2013 under the shadow of sanctions improved its fiscal adjustment plan, while Larch (2016) argues that, although the results are not optimal, the outcome would have been even worse without these rules.

But even after these developments, the mechanisms of external pressure have still certain limits, mostly due to the presence of political factors. First, there are issues pertaining to the Commission’s perceived legitimacy and the transparency of the procedure (Costamagna, 2013; Chalmers, 2012) due to the lack of “rule-like qualities and check and balances”. As Heidbreder (2015) explains, the EU lacks a single center of authority as well as traditional coercive enforcement tools, hence the difficulty of ‘traditional hierarchical steering’. In addition, Kelemen (2015) and De Streel (2014) claim that courts do not have the competency to enforce rules referring to balanced budgets. Secondly, the rules concerning the automaticity of the sanctions’ implementation are not clear (Begg, 2017) and are less likely to be put in place especially when a MS faces issues of liquidity. The recent example of Portugal and Spain in the summer of 2016, shows the reluctance of the EU institutions to impose fiscal sanctions under such circumstances. In fact, political considerations linked with this issue have been always present: during the preparation of the Six-Pack, the actors involved were divided into those who wanted the imposition of sanctions to be less of a “political decision” (e.g. the Netherlands and the European Central Bank) and those who supported the existing institutional status quo (Chang, 2013). Even after the launch of the European Semester, the implementation of sanctions remained a politically tinged decision, since the Commission takes into consideration current developments in its effort to show impartiality. For example, in May 2016 the European Commission chose to delay the imposition of sanctions towards Spain, due to the planned national elections of June 26 and the risk of boosting the electoral power of the anti-austerity party Podemos. As Pierre Moscovici, the Commissioner for Economic and Financial Affairs, stated at that time: “We have concluded that this is not the right moment economically or politically to take this step” (European Commission, 18 May 2016). This indicates that the Commission tries to maintain the balance between the need for strict budgetary discipline and more flexibility towards MS in their effort to implement reforms. According to Begg (2017), this is a harsh dilemma which demands careful handling, keeping in mind a potential backlash from the national electorates and the rise of anti-EU parties. Consequently, the boundaries of the Commission’s strategic movements are
reminiscent of Hirschman’s theoretical framework, in which the ultimate form of contestation is the “exit” option (Hirschman, 1970).

There are multiple signs that the aforementioned limits of the ‘fear of sanctions’ mechanism have been understood by the Commission and the national governments. For that reason, both sides have eventually adopted an unofficial bargaining practice, which became increasingly explicit in recent years. This practice refers to a “quid pro quo” mechanism, where the MS make reforms in exchange for more fiscal space, and thus less pressure. As Deroose and Griesse (2014) mention, the Commission assesses “CSR implementation on the basis of action taken, rather than observed outcomes”, so the national governments use this in order to show good will. Zuleeg (2015) confirms that “the Commission has become a political actor” over the years, a fact “which clashes with its independent assessment and implementation role, including in the fiscal policy field”. Especially since the streamlining of the CSRs during the 2014-2015 cycle, the Juncker Commission openly promotes national ownership of the reforms. For that reason, it explicitly recognized the quid pro quo practice, which blunts the hierarchical character of the ‘fear of sanctions’ mechanism and enhances its political side connected with the bargaining procedure. In the words of a Commission high official:

We have issued a communication in January 2015, the flexibility document, in which we more or less explicitly said you can use it as a trade-off. If you ask me about the difference about the former Commission and this one on the Semester I would say that’s it. For the previous Commission, you had to pursue structural reforms, get your budget in order and this Commission sees it as dependent variables to some extent, like if you do this on this from you can do slightly less on this front and this flexibility communication is a symbol now. (COM01)

The second coercive mechanism is peer pressure. This refers to the ‘naming and shaming’ process that Member States – but also the Commission - exercise among themselves, in order to incentivize the less willing. Gern, Jansen and Kooths (2015) understand the CSRs as such. Apart from the multiple Council Committees and their peer review sessions, peer pressure can take place at the political level within the Council of Ministers and the European Council. But the authors argue that this is ineffective when it comes to the implementation of the CSRs, for two reasons: as also confirmed by an EU high official, first, countries act strategically, avoiding an open confrontation with other MS (especially with the big ones as EPSU mentions) knowing that in the future they might find themselves under the same dire circumstances. And secondly, because countries lack the time and resources to analytically disentangle the problems of their peers and thus make useful observations (labeled as the ‘small country syndrome’). However, de la Porte and Heins (2014) argue that the effects of peer pressure can vary, depending on the sensitivity and political culture of the MS when it comes to ‘naming and shaming’. Using a more analytical framework, Zeitlin (2009) argues that the effects of peer pressure are “highly dependent on domestic conditions” including “the perceived legitimacy, intellectual basis and procedural fairness of EU recommendations” as well as “the level of public support for the EU and sensitivity to European criticism”. The Belgian political elites and public opinion are traditionally staunch supporters of the European project, a fact which did not change even during the fiscally harsh period 2009-2013. The desire of the national governments to show that they are ‘the good pupils’ is evident in the statement of Elio Di Rupo, the
Prime Minister at the time: “We are meeting our commitments to the EU. We are strengthening our position in the European peloton” (De Redactie, 20 November 2012).

The next mechanism refers to the reactions of international markets (Darvas and Leandro, 2015) or, more specifically, government bonds markets (Kelemen, 2015). Due to the fear of a downgrade in their bond ratings, when there are signs of falling performance, MS may be ready to take swift measures in order to calm investors’ worries. The enhanced monitoring mechanisms of the European Semester contribute to that behavior by spotting and sending signals of early instabilities in the national economies. Schoukens, De Becker and Beke Smets (2015) along with Zuleeg (2015) add public opinion and media exposure to the pressuring mechanisms, when referring to the implementation of the employment guidelines. From their side, Dunlop and Radaelli (2016) refer to this form of pressure by pointing to the media coverage of the CSRs, which in the cases of France and Italy enhanced the feeling of “what the Council will say about us”. Likewise, Zeitlin and Vanhercke (2014) imply that media coverage not only enhances the political prominence of the CSRs but also contributes to peer pressure and the fear of introducing sanctions (“in some countries... the CSRs make the evening news”).

Finally, external financial support refers to the EU funds and their capacity to pressure member states. With the imposition of ex-ante conditionality provisions for the release of the European Structural and Investment (ESI) Funds, the EU tries to make the delivery of the Europe 2020 goals more effective. According to the Council’s General Regulation 1303/2013, when the European Commission judges that certain conditions have not been met by the MS, it can propose the non-payment or the suspension of interim payments to their relevant programmes. But a possible funding suspension can also take place under the revised framework of the European Semester, as a mechanism linked with the SGP and the MIP. In that way, the inability of a MS to achieve budgetary and fiscal balance can trigger it, as seen with the recent example of Spain and Portugal (European Commission, 2016b). Having in mind all the above, EU funds are important instruments both as ex-ante and ex-post mechanisms of pressure.

But apart from these pressuring mechanisms of change, the Commission gradually enhanced the prominence of incentives towards the Member States (MS), as a way to increase the ownership of national reforms (e.g. Zeitlin and Vanhercke, 2014; De Streel, 2014).

A most common mechanism of voluntary change in the studies of European integration is creative appropriation. This is similar to what authors such as May (1992), Bennet and Howlett (1992) or Gilardi (2010) have described as ‘instrumental learning’, meaning that policy makers use knowledge to pursue their own political goals, rather than to substantially upgrade their understanding and re-orientate their policies. Hence, in creative appropriation national political actors use the concepts, jargon and arguments of the discussions at the EU level as means to legitimize and promote their own agenda. Similar to what is known as ‘leverage effect’ in the OMC literature (Barbier, 2005; Zeitlin, 2009), creative appropriation has been observed in an array of national cases long before the creation of the European Semester, for example during the implementation of the Hartz laws in Germany or during Berlusconi’s labour market reform in Italy back in 2003. This behavior is not limited only to state actors but can also extend to opposition parties, social partners, the civil society as well as sub-regional actors, leading to the so-called ‘democratizing destabilization effect’ (Sabel and Zeitlin, 2008): a way to enhance knowledge on best practices and to improve policy standards...
for domestic actors but also an opportunity to hold governments accountable for their own policy choices. As one of my empirical cases shows, the Belgian government referred to the CSRs as a source of ‘legitimizing discourse’ (Schmidt, 2002; Stiller, 2010) for the advancement of its own political motives, but at the same time this had a transformative effect on their policy practices.

Another mechanism of voluntary change is socialization. This differs from creative appropriation in the sense that national actors actually change their preferences as a result of contact with the EU level decision-making procedures. My concept of socialization corresponds to that of Vanhercke (2016) according to which actors adopt or even internalize European concepts, norms, targets and indicators not as a result of an active behavior in the search for policy solutions, but rather as a consequence of repetitive participatory action in a gradual and long-term perspective. A typical example of such a mechanism which dates before the Semester is the participation of national administrative actors in the various committees of the Council, for example the SPC or EMCO. Through their participation, national officials adjust their behavior to the group’s methods, jargon and practices. Likewise, the annual discursive process of producing the National Reform Programme (NRP) can affect the preferences of the policy-makers involved in it.

The issue of learning as a mechanism of policy change has been addressed from early on in the field of public policy (see for example: Heclo, 1974; Hall, 1993; May, 1992; Bennett and Howlett, 1992; Braun and Gilardi, 2006; Zito and Schout, 2009;). Learning plays a significant role in the Semester and can occur through ‘a combination’ of rising awareness of other MS performances and their standards together with a ‘reflexive self-assessment’ (or ‘mirror effect’) of one’s own policy orientation and institutional capacities (Zeitlin, 2005; Visser, 2009; Vanhercke, 2016). In a similar approach, Schmidt and Radaelli (2004) claim that the discourse at the EU level can contribute to a light form of learning for national policy-makers, showing new possible paths and providing arguments for ‘policy adjustment’ especially in times of crisis or when facing persisting policy problems (Hemerijck and Schludi, 2000). As my interviews indicate, several key-actors at the national level have understood their alignment with the CSRs as a confirmation sign, in order to proceed with their own similar agenda on pensions – thus, understood as a case of ‘mirror effect’.

More specifically, the European Semester has incorporated instruments related to knowledge and which previously belonged to the Social OMC and the European Employment Strategy (EES), namely the Multilateral Surveillance Reviews (MSRs) and the Mutual Learning Programmes (MLPs). Together with other -more quantitative- monitoring instruments, such as the Joint Assessment Framework (JAF), the Employment Protection Monitor (EPM) and the Social Protection Performance Monitor (SPPM), the MSRs contribute to mutual learning between states. But while the MLPs have the sole purpose of enhancing knowledge across member states, the role of the MSRs is not confined only to mutual learning. In fact, these latter cut across several categories of policy change, involving evidence-based bargaining and peer pressure, apart from mutual learning. Zeitlin and Vanhercke (2014) refer to MSRs as a devise for evidence-based bargaining with the Commission, since the amendments of the CSRs can be “justified by reference to the results of the multilateral surveillance reviews conducted within the committees”. To show their importance in this procedure, the authors add that : “Only issues that have been extensively discussed by Member States during the multilateral surveillance process stand a chance of securing the needed qualified majority vote within the committees”. Finally, since the early cycles of the European Semester peer reviews within
the Council’s various committees were used as an additional lever of peer pressure for the adoption of structural reforms.

3. The pension reforms in Belgium after 2011

3.1 The lingering effects of past coordination processes in the European Semester

Compared with the EES and the Social OMC, the European Semester increased the political salience of the recommendations to Member States both at the EU and the national level. Not only has its scope been extended to issues of non-direct fiscal character but also many national political actors and media have started using it more often as a point of reference. As with the regulatory framework of the SGP, there has been a clear understanding of the Semester’s hierarchical role - at least institutionally - since the budgetary monitoring became tighter and the procedures to impose sanctions re-weighted in favor of the Commission. As mentioned earlier, since the EES and the Social OMC have been incorporated in the European Semester, it is to be expected that some of their effects would linger on within the new framework. As one of Vanhercke’s interviewees pointed out “Europe diffuses slowly and calmly”, a fact that also my interviews reflect, thus indicating an evident continuity between the pre and post-Semester era:

Belgian pension reforms have been going on since before the Semester, so I don't think that the Semester has done anything more than to encourage them to go along the way they would do it in any case (COM04).

The framing effect or the recognition of current policy challenges by a wide range of actors together with peer pressure and benchmarking practices are the most prominent among them. That does not mean that disagreement on the Semester’s effects among actors is non-existent. But Belgium is a good example of the process, where political actors over the years have invoked arguments of competitiveness along with the reforms in neighbouring countries as an argument for domestic reform (Le Soir, 19 July 2012). On the procedural side, the CSRs continued to enhance vertical cooperation and horizontal coordination through the preparation of the annual National Reform Programmes (NRPs).

While referring to the Semester’s cognitive effects and peer pressure capacities one of the interviewees at the national level explained:

I do believe that the European Semester is a way to raise awareness within countries that perhaps don't come to these conclusions themselves [...] So, not only did we see in our data that we had an ageing problem that was becoming worse and worse. We also saw that other European countries, at least the countries around us, that they were already dealing with that issue. While the last 15-10 years we were aware of the problem, we knew something had to be done (BE01-CAB).

But apart from these effects, the CSRs have been understood by both governments as a sign and an extra authoritative argument that the measures taken are broadly in the right direction. As expected, a large number of actors involved in Belgium’s multi-layered political scene, both among parties and social partners, deeply disagree with the adopted pension policies. However, certain
people in key political positions have picked up the Commission’s signals as a stimulus towards a specific direction of reform. A good example is the statement of Senator André du Bus (cdH), while defending the Di Rupo reforms:

The draft law of the pension reform has been based on the necessity and a sense of responsibility and not on a random savior ideology. Necessity because the government must face important challenges. We are engaged in reaching a budgetary equilibrium by 2015. Reconnecting with healthy finances is a demand of the European Union (CPCP, p. 7).

A high official of the Federal Ministry of Social Security and member of the SPC points out the Semester’s abovementioned effect:

The fact that the European Semester actually gives us the CSRs that we have to work on that, does make it easier to explain why we take these measures. So, we take the initiative to take these measures and the fact that we see that these facts are confirmed by the CSRs is positive for us, to take the measures that are necessary” (BE01-CAB). The same official adds that the Semester’s recommendations have also been used as a source of leverage: “The pressure from the EU, the start of Europe 2020, the Semester with the CSRs, certainly had an impact and you can see it in the debate, people were referring to the CSRs as giving the argument: "we need to do something, Europe is pushing us to do something” (BE03-SPC).

3.2 The Di Rupo government

The institutional crisis of the years 2007-2011 was a tough period for the country’s political economy and contributed to the deterioration of its fiscal status. After the Federal elections of June 2007, parties could not agree on the form of an upcoming state reform: the strongest Flemish parties were pushing for a transfer of competences to the Regions while the French-speaking parties wanted to maintain the Federal status quo. After tough negotiations which lasted eight months, the leader of the Flemish Christian Democrats, Yves Leterme, managed to form a government -although short-lived. The extended political deadlock for an institutional reform combined with the politically sensitive case of the sale of Fortis and BNP Paribas, led to the resignation of the Prime Minister in December 2008. After a short stay of his successor, Herman van Rompuy in power, Leterme returned in December 2010, until the early elections of June of 2011.

After the Commission’s proposal and the decision of the European Council in 2009, Belgium entered the Excessive Deficit Procedure, which is the corrective arm of the Stability and Growth Pact (Council Decision, 2010/283/EU). According to the European institutions, Belgium’s annual deficit was almost double the threshold of 3% of GDP, prompting the country to take austerity measures of 11.3 billion in order to lower it by 2012. The French-speaking Socialists and the Flemish Nationalists emerged from the elections of June 2010 as the parties with the most votes. Due to their intrinsically contradictory positions on basic issues but also their unwillingness to cooperate, from beginning the probabilities for these parties to conclude a government agreement seemed rather odd. After Bart de Wever of the N-VA quit his mission as the first party leader who could form a government, the King appointed the French-speaking Socialist Elio Di Rupo to assemble a coalition (The Guardian, 10 December 2011). Thanks to certain politically bold acts on behalf of the Flemish Christian Democrats and the French-speaking liberals -the “Mouvement Reformateur”- the majority of political parties
managed to reach an agreement on the electoral division of the Brussels-Hal-Vilvoorde (BHV) region, an issue which back in 2007 had triggered the prolonged period of political instability (Le Figaro, 10 October 2011). In addition, the fact that Belgium’s sovereign debt credit had been downgraded the month before by the ratings agency Standard & Poor, was also a factor which pressured the actors. Thus, while excluding the Flemish nationalists (N-VA), Elio Di Rupo was able to conclude a landmark agreement -known as the “Butterfly Agreement”- paving the way for the much awaited institutional reform, the so-called Sixth State Reform (WSJ, 26 November 2011). After a world record of 541 days without an elected government, in December 2011 the Di Rupo government sworn in, including six out of the eight parties which took part in the Butterfly Agreement (PS, MR, cdH, CD&V, Sp.a, Open VLD).

In the aftermath of the crisis, the issue of reforming the pension system re-emerged on the national agenda. The number of newspaper articles during that period is indicative: for example see CPCP, 2012, section ‘Articles de presse’. The pressure put on the welfare state helped certain politicians and policy analysts to realize the urgency of some kind of pension reform (see European Commission, Joint Pensions Report 2010). With Belgium’s introduction to the Excessive Deficit Procedure in 2009 (see Council Recommendation no. 15754/09) culminating with the downgrading of its sovereign bond by S&P in November 2011 (WSJ, November 2011) the new government of Elio Di Rupo rushed to stabilize the country’s political situation and balance the state budget. Fiscal consolidation was an overarching priority as seen from the earlier statements of the Prime Minister: “We respect strictly our engagements towards the European Commission. The deficit will be 2.8% of GDP at the end of the year” (Le Soir, 19 July 2012). As mentioned earlier, the recommendations to increase employment and reform the pension system for its future sustainability had existed many years before the Semester. Already from the late 1990s, many voices, including the EU, the OECD and the IMF, which highlighted the fiscal dimension of the pension system’s sustainability (Econospheres, 22 January 2014). But within the European Semester the CSRs gained more political prominence and wider attention, while the budgetary pressure towards Belgium helped to build-up the momentum for the adoption of specific measures. As one member of the Minister’s cabinet stated at the time:

For quite a long time, Belgian parties have been aware of the challenge of the ageing population and the alarms that were mentioned by the Federal Planning Bureau in respect to this issue were becoming louder and louder so finally the government decided to do something about it (BE01-CAB).

The 2011 CSRs explicitly linked balanced public finances with the need for a pension reform and called for incentives to “make work attractive” for older workers. The next year’s CSRs followed the same direction, recommending the implementation of the announced measures on pre-retirement schemes and the effective retirement age.

Indeed, the Di Rupo government initiated a series of decisive measures as these were presented in its coalition agreement: change of the calculation of pensions, partial harmonization of the private and public sector pensions, enhancement of the second pillar as well as creating incentives for extension of working careers (CPCP, 2012). From its side, the Federal Planning Bureau and the Commission on Ageing confirmed in its 2012 Annual Report the positive effects of these measures over the next several years.
The law of 28 December 2011 – passed only a couple of weeks after the inauguration of the new government- increased the early retirement age from 60 to 62 until 2016 as well as the eligibility requirements retirement from 35 to 40 career years. In addition, it tried – although not so effectively - to harmonize these retirement preconditions between the private and public sector and increased the eligibility age and career for pre-retirement schemes for certain groups (La Libre, 15 February 2012). Finally, it restricted the assimilation of working periods for the calculation of pensions and improved the ‘pension bonus’ (already in place from 2005) for those who decided to stay longer on the labour market. The increase in the retirement age will be implemented fully by 2016, while the increase of career years will be completed by 2018 for men and by 2028 for women.

After Belgium entered the 2009 EDP and got its sovereign bonds downgraded by Standard & Poor’s, the Di Rupo government felt the pressure to put the country’s finances back on track. On this, a representative of the New Flemish Alliance (N-VA) said: “The crisis in Belgium triggered a political response to it, because indeed Di Rupo being a socialist also was urged to implement some kind of pension reform and some kind of wage moderation, although he did it in a very different way than today the government is doing it”. Overall, external pressure has been enhanced in the Semester as the Commission’s – rather symbolic- gestures indicate: its letter of January 2012 sent to the Di Rupo government which demands the adoption of ‘extra measures’ (De Redactie, 6 January 2012) or the Council’s decision of 21 June 2013 according to which Belgium was given a three-month deadline to take effective action for sustainable correction of its excessive deficit by 2013. The CSRs have framed the pensions measures as something which could ameliorate the public finances immediately and, as a result, the reforms were indispensable for Belgium’s situation.

In this perspective, the most notable effect of the Semester is the enhancement of the political trade-off mechanism according to which national measures can be taken: a ‘quid pro quo’ mechanism, one might say, between the national reforms that need to be taken and the fiscal space that member states enjoy. How does this work exactly? The national Study Committee on Ageing (CEV) which belongs to the High Council of Finances makes macroeconomic projections for the future of pensions with the technical help of the Federal Planning Bureau. These annual projections are fed into the EU-level Ageing Report, which is prepared by the Ageing Working Group of the Economic Policy Committee. The scenarios take into consideration all the parametric changes such as population and demographics and when a new reform has officially been legislated the budgetary scenarios change as well to the better. This Ageing Report is later on incorporated into the Fiscal Sustainability Report which in turn feeds into the calculation of Medium Term Budgetary Objectives (MTOs). Through this mechanism, a pension reform can automatically send a signal of sound budgetary policies and thus give more fiscal leeway to Belgium, at least for a short period of time. This less obvious and incremental development could be the real novelty of the European Semester, since it has a visible impact on the actors’ understanding and behavior. As a Commission official stated:

Look at the case of Belgium, pension reform is acted upon by the ‘reluctant’ between quotes Di Rupo government, even by that government it was acted upon, why? Because by doing pension reforms you immediately get more favorable projections of public finances and so you get more room in your budget and so whenever a recommendation is directly or indirectly linked to the SGP the pressure is on (COM01).
As expected, the orientation of the reforms but also the way they unfolded were not welcomed by all domestic actors, who appeared deeply divided. In response to these reforms, all the major trade union confederations—the Christian CSC, the Socialist FGTB and the Liberal CGSLB—have jointly called for general strikes for the first time since 1993 (Eurofound, April 2012). After several consultation rounds, they eventually managed to push for some of their own provisional measures.

Despite the gradual implementation of the announced reforms, the 2012 CSRs repeated the need for Belgium to raise its effective retirement age and curb its ‘age-related’ expenditure. It is worth noting that the relevant 2013 CSR was amended by the Council in order to replace a horizontal recommendation on raising the statutory retirement age with one which refers more broadly to the effective retirement age. Only in 2014 did the CSRs acknowledge that the country had made ‘substantial progress’ in that field. But, together with its short-term fiscal consolidation recommendations, the Commission stressed that a long-term vision should be established as well. On March 2013, the Commissioner for Economic and Financial Affairs, Oli Rehn, stated that Belgium should focus on structural reforms, such as pensions and the employment market, in addition to measures aiming to decrease the public deficit (Le Soir, 8 March 2013).

As noted by many (e.g. Graziano, Jacquot, Palier, 2008) EU-level recommendations are always ‘filtered’ through the national actors’ preferences during the implementation process. As a socialist, Di Rupo made it clear from the start that the statutory retirement age would not be touched and that his government’s measures would only focus on the effective retirement age. With regard to the Commission’s ability to pressure his government he stated: “This stability isn't due to the European Commission’s prescription of aggressive fiscal tightening, as imposed on Greece and Portugal, which caused ordinary people to suffer’. We've perfected what I call the Belgian recipe,” (referring to a mix of fiscal consolidation with social measures). “A lot of economists say you have to first cut the deficit dramatically, which will hurt a lot, but then it will be better. I don't subscribe to that theory at all, I think it's mumbo-jumbo" (WSJ, 21 January 2014). Hence, due to the pressuring circumstances the Di Rupo government was urged to implement reforms for the short-term fiscal sustainability of pensions, but at the same time it rekindled the public debate and laid the foundations on reshaping the Belgian pensions system with a long-term perspective.

3.3 The Michel government

The trade-off mechanism within the European Semester was understood also by the new government of Charles Michel, which after its inauguration in October 2014, took the pension reforms a step further. The existence of this trade-off mechanism was made clear to the national political scene as well, as reflected in the narratives of some media. It is interesting, for example, that the Belgian weekly magazine, le Vif/L’Express, argues that the adoption of structural measures by the Michel government will create a ‘budgetary cushion (“matelas budgétaire”)’ (le Vif/L’Express, 9 April 2016). The 2014 CSR on pensions, which came out just a few months earlier, was more specific than its predecessors on how to proceed: it recommended reform of the early retirement system, reduction of opportunities for early exit from the labour market and promotion of active ageing, harmonization of both the effective and statutory retirement age as well as the alignment of the retirement age with life expectancy. Even before his inauguration, Michel wanted to push for more drastic measures through “consultations at the EU level” (Le Soir, 8 March 2013). As a result, in its coalition agreement the new center-right government of Belgium - tagged ‘suédoise’ after the colors of its parties which resemble the Swedish flag: the New Flemish Alliance (N-VA), Christian Democratic and Flemish Party (CD&V), the Open Flemish Liberals and Democrats (Open Vld) and the
Reformist Movement (MR) - announced more extensive reforms in the pension system. These accelerated those taken by the Di Rupo government but they also took a step further by raising the statutory retirement age. In the words of the Prime Minister himself: “It is a strong agreement, with a strong political will to introduce important social-economic reforms” (EUobserver, 8 October 2014). Thus in July 2015 the Federal Chamber of Representatives passed an increase in the legal retirement age from 65 to 66 in 2026 and to 67 in 2030, a measure which prima facie seemed to be a response to the Commission’s recommendations. Furthermore, the law made the calculation of the civil servants’ service years stricter and fully harmonized the career years between the self-employed and salaried pensioners. Additionally, it tightened the criteria for early retirement from 2017 and abolished the pension bonus.

Finally, the new government created several new administrative and advisory bodies in the field of pensions, designed to have a consultative and scientific function for future reforms, as a spokesperson in the Cabinet of the Federal Minister of Pensions explained. First, the National Pension Committee (NPC) is an organ composed of representatives in the sectoral level, including the employers, the employees and the self-employed, aiming in engaging into a more inclusive consultation process for any future reforms. As a supporting instrument of the NPC, the role of the Knowledge Centre is focused on giving technical assistance to the suggested pension measures. In addition, the Academic Council, which is the evolution of the national Pensions Committee 2020-2040 and to which I will refer more extensively below, is designated to give its scientific opinion (Bacquelaine, 1 July 2015). These developments marked a ‘shift of mentality’ according to several Belgian high level officials and were the first true measures from an administrative perspective “to deal with the challenge of the ageing population” (BE01-CAB).

The change of government in Belgium coincided with the arrival of the Juncker Commission, which adopted a more politically flexible stance on how member states should eventually implement national reforms. The trade-off between structural measures and fiscal space existed before the Semester, but with its launch in 2011 the pattern has been further consolidated, in the sense that the actors have better internalized it. The scheme of the ‘virtuous triangle’ - or ‘omne trium perfectum’ as Juncker called it during his Investment Plan speech in November 2014 - clearly indicated this shift, according to which member states need a balanced approach between the promotion of “structural reforms, fiscal responsibility and investment”. Furthermore, after 2014 cycle the CSRs decreased in number and in scope, thus leaving more room for maneuver to national actors (Zeitlin and Vanhercke, 2015). The ‘streamlining’ of the European Semester showed the Commission’s intension to promote national ownership and grant leeway to domestic actors on how to reach the jointly set goals. In January 2015, the Commission released its communication on ‘Making the best use of flexibility within the existing rules of the SGP’. There it enumerated a list of possible ‘temporary deviations’ from the SGP’s Medium Term Objectives. For example, as the ‘investment clause’ stipulated, public investments can be considered as ‘structural reforms’ under certain macroeconomic conditions. But even then, the Commission explicitly stated that “the reforms must be implemented, adopted or presented in a medium-term structural reform plan which is comprehensive and detailed” (European Parliament Briefing, December 2015). A striking example of the Baroso Commission’s different understanding of the Semester is the stance of Herman Van Rompuy, President of the European Council at the time, who stated that “in addition to make recommendations, the EU should be empowered to make these reforms mandatory for its member states” (Amcham, June 2012). The shift is also confirmed by a Commission official: “For the
previous Commission, you had to pursue structural reforms, get your budget in order and this Commission sees it as dependent variables to some extent, like if you do this on this from you can do slightly less on this front and this flexibility communication is a symbol now” (COM01). All the above make a clear case that the new Commission represents a change of mentality in relation to the former one, adopting a more flexible but also politically negotiable strategy which could lead to more space for budgetary maneuvering for the Member States.

At the political level, the alignment of the new government’s agenda with the CSRs became explicit with the letter sent to the Commission on 21 November 2014, in which the former confirmed its determination to follow the suggestions to combat early retirement and to increase the minimum retirement age in particular. In addition, the government announced in its coalition agreement that the new measures had as a ‘scientific base’ the report of the national Committee for the Reform of Pensions (Accord de Gouvernement, 19 October 2014). Also known as the Vandenbroucke committee, this body was formed in April 2013 at the request of the previous Minister of Pensions, Alexander de Croo and the Minister for the Middle Class, SMEs, Self-Employed and Agriculture, Sabine Laruelle, in order to design a ‘profound’ reform for the long-term. Its 12 members are experts in the field and enjoy a wide consensus among social partners and political parties. The committee called for deep structural reforms which should be taken up by the next governments together with the broad involvement of the social partners and adopting a long-term perspective. Its main axis was the realization of a coherent and balanced reform, which would take into consideration both the prolonging of careers but and the extension of the retirement age (Commission pour la Réforme des Pensions, 9 October 2014). Among its most prominent recommendations was the creation of a ‘points system’ which would connect the calculation of pensions with each person’s professional income and an automatic mechanism to calculate pensions balancing the system’s financial sustainability with its social adequacy. Furthermore, the committee brought forward the issue of a longer career as well as the increase of the retirement age. In regards to the statutory retirement age, the Committee avoided making precise recommendations, but only presented several scenarios in order to show the “conditions” for its successful increase. Other suggested measures included the enhancement of the minimum pensions and the harmonization of the pensions’ family dimension. Most notably, the Committee referred to the need for workers to stay longer on the labour market as a most urgent task. Finally, it proposed the restriction of pension rights for certain categories such as survivors and at the same time suggested the extension of sectoral pensions to the self-employed as well. From a technical perspective, the Vandenbroucke Committee is supported by the Federal Planning Bureau, which feeds its macroeconomic projections into the EU-level Ageing Report. From its side, the government claimed that it has followed to a great extent the scenarios of the Pensions 2040 Committee. Nevertheless, the latter’s suggestions had a different character from the government’s new measures. Although considerable, the Michel reforms were not able to ensure the pension system’s sustainability as the Committee’s report indicated; instead they focused on parametric and medium-term reforms of the Belgian pension system. Furthermore, the Pensions Committee expected stronger social dialogue and wider participation in the decision-making process. Its suggestions on life expectancy – which were aligned with the CSRs - have been included in the government’s coalition agreement, but in reality this measure has yet to be implemented. Policy-makers both at the EU and national level are positive that this will be addressed in the near future; however, they remain skeptical whether the current government is willing to push for such a reform.
With the creation of the Pensions Reform Committee the public debate focused more on the long-term dimension of the system. At the same time, national policy-makers took better ownership of the proposed reforms, engaging in a broad debate on the system’s parametric changes. Interestingly enough, not only was the committee able to work independently from the Commission’s recommendations, but it eventually started to feed in to the EU level its plans for the future of Belgian pensions. As an official from DG ECFIN stated: “The Vandenbroucke committee’s report is far more detailed, it’s very extensive, very detailed, very technical as well which really blueprints almost everything so. Much more far than we can” (COM02).

This view was confirmed by an official from DG EMPL:

The people who make up the Vandenbroucke committee are fairly big authorities and it is on their own to make their own judgments and they come from a wide political spectrum and they reached an agreement so I think they have discussed and taken into account our recommendations. But they were perfectly able to make their own. (COM03)

As expected, there have been open channels of communication between the national committee and the European Commission – given also that its chair, Frank Vandenbroucke is a well-respected political and academic figure both in Belgium and at the EU. It is very interesting that the national level recommendations were warmly accepted by the EU institutions:

We take a lot from them as well. I mean, we have a general line of course about how pensions should be reformed in Europe, but then specifically in Belgium, I mean, we take a lot from the Vandenbroucke report to understand what is happening, where things can be harmonized and/or improved and how can the idea of linking the retirement age to life expectancy can be implemented in Belgium...We get some ideas from them, rather than the other way round. (COM01)

The pension measures of the Michel government were certainly notable developments. Nevertheless many have understood its explicit alignment with the CSRs more as political symbolism rather than a policy breakthrough and a change of mindset, since the Commission’s long-term perspective has not really been adopted. The cognitive effects of the Semester continued and the new government followed and even enhanced the existing trade-off mechanism by passing reform measures in exchange for space in the fiscal projections. A Commission official described this mechanism in clear terms: “The pension reform in Belgium is a good example of what we call a virtuous triangle, where you do structural reforms in order to get more public finance room for investment, we also advertise it as a good example. It shows a lot of good work” (COM01). So from its side, the Commission welcomed the efforts of the Michel government but at the same time it expected deeper structural measures, as this was shown also in the Belgian media (Le Soir, 13 May 2015). Having in mind the commitments of the 2014 coalition agreement at the beginning of the Michel legislature, the Commission recommended in the 2015 CSRs the completion of the pension reform by linking the statutory retirement with life expectancy. Likewise, although not included in its three concluding CSRs of 2016, the Commission and the Council repeated their request for the establishment of “an automatic link to changes in life expectancy” in order to promote the pension system’s sustainability in the medium and long-term. To underline that the issue is not closed yet, it added that these “will continue to be monitored closely under the European Semester” (2016 CSRs).
4. The tax-shift away from labour

4.1 The effects of the European Employment Strategy on labour taxation in Belgium

From its launch at the 1997 Luxembourg European Council, the EES has always referred to the decrease of labour taxation. Throughout the years the EES has gone several significant changes: in 2005 it was incorporated in the Lisbon Strategy, fusing its Employment Guidelines with the Broad Economic Policy Guidelines (BE PG) and creating the Integrated Guidelines for Growth and Jobs. With the creation of the Europe 2020 Strategy, the member states redefined their goals and set up new targets. Eventually from 2011, the EES has been part of the new coordination mechanism of the European Semester, feeding in objectives and monitoring their progress. The impact assessment of the EES in 2002 revealed that Belgium took steps to lower its taxes and burden on labour as part of the entrepreneurship pillar. The 2002 JER mentions that after an agreement in August 2002 between the federal government and the social partners, the various job creation schemes with lower SSC would be streamlined ‘into one simple and transparent system’ (p. 147). With the introduction of the term ‘making work pay’ in 2003 the European Commission together with the member states underlined the need to balance stronger employment incentives with an adequate and low-cost social security system. To this direction, the EES also called for the reduction of labour taxes – especially on low incomes- and the introduction of work benefits and tax credits. Despite the abovementioned measures which decreased labour costs for low earners from 51,0% in 1999 to 47,5%, in 2003, the EES implementation report which accompanied the 2005 mid-term review of the Lisbon Strategy deemed Belgium’s efforts ‘limited’. Several years later, the 2009 Joint Employment Report was presented together with the final implementation assessment of the Lisbon strategy. These continued to recommend “employment-friendly labour cost developments” to the member states. During that years Belgium implemented cuts in the SSC of both the employers and the employees while the measures targeting specific groups such as the low-skilled workers continued. All in all, during the period 2001-2007 taxes have been lowered for the bottom incomes and at the same time the unemployment benefits and pension were increased (Decoster et al, 2015).

During the 20 years since the EES’s creation, almost all EU member states received recommendations to decrease their tax burden on labour, seen mainly from an employment promotion perspective. Furthermore, the Commission underlined the need for more ‘employment-friendly’ tax systems and reduction of social charges for both the employers and employees with its ‘action plan for skills and mobility’ [COM(2002) 72] and the communication on ‘making work pay’ [COM(2003)842]. The vast majority of countries took measures to reduce social charges and make its tax systems more employment friendly over the years (for example see European Commission, 2002, Taking Stock of Five Years of the European Employment Strategy). Although there is a significant variation among them depending the time period, much of these efforts focused on specific groups such as the young and older workers, the migrants and the low skilled. Examples of national tax reforms abound: Denmark in 1987, Finland in 1999, Spain in 2001, Germany in 2007, Hungary in 2009 and most recently Austria in 2014, all of which had received recommendations from the Commission.

Since the European Employment Strategy has been incorporated in the European Semester, it was expected that its recommendations would continue within the new framework. From the Semester's
launch in 2011, the recommendations for a more growth-friendly taxation targeted 8 to 10 member states and persisted throughout the next years (Taxation Paper no. 49). The first Annual Growth Survey urged to “make work more attractive” by reducing labour taxation and shifting the burden to more growth-friendly fields. During the next years the CSRs remained more or less the same, with only slight variations from year to year. For example, the 2011-2013 CSRs towards Belgium underlined the need to shift labour taxation “to less growth-distortive taxes”. With the arrival of the Juncker Commission, the formulation became wider and more abstract while referring explicitly to a tax reform. The 2015 CSRs state: “Adopt and implement a comprehensive tax reform broadening the tax base, shifting the tax burden away from labour and removing inefficient tax expenditures”.

Likewise, the 2016 CSRs were also general and mentioned the simplification of the fiscal system. For many decades the OECD has been urging Belgium to lower its high labour taxation, seeing it as an impediment to growth and competitiveness. In particular, its 2010 Tax Policy Study No. 19 was well received and is considered influential as both by the officials in DG TAXUD and the High Council of Finance (HCF) pointed out: “There was this influential study of the OECD on the ranking of the different basis on taxation and which were the most detrimental to growth and I think the tax-shift came with this idea that you should shift taxes from other bases, from capital or labour towards consumption and property and this was really instrumental on that, on the broader taxation” (DG TAXUD01). The IMF had the same approach and its reports, which repeatedly recommended shifting the tax burden to areas such as consumption, environmental taxes and capital profits, gained publicity in Belgium (EUobserver, 16 December 2014). An official from the HCF commented on the above: “There are some OECD reports on tax broadening discussing the political economy (of Belgium)... If you look at the OECD, the Commission, the IMF reports about the last 10 years, it’s always the same advice that came up”.

4.2 The Di Rupo government

The CSRs to lower labour taxation “have been very precise from the start” (Strauss, 2013). From the launch of the European Semester in 2011 until 2013, the Commission’s recommendations insisted on moving taxes to less growth-distorting fields. Even after the replacement of the Barroso Commission and the inauguration of Jean Claude Juncker as its President in November 2014, the CSRs continued in the same direction. However, the framing of the Commission’s recommendations widened as they called for “a comprehensive tax reform broadening the tax base” (2015 CSRs) and a simplification of the tax system (2016 CSRs). During my interviews, officials at both the EU and national level unanimously acknowledged that the Commission has no competence on how to direct a tax shift, since this is seen as a competence which belongs to the member states and their internal political economy. However, they understood that with the arrival of the Juncker Commission, the recommendations became less precise but more politically oriented: “At the beginning, 2011-2012, this was more stringent and quoting specific ways of financing the tax shift. Since Juncker is in force, there is a political idea in the Commission not to dictate specific tax policy to member states and to tell the story in an even more broad sense, but it’s still in the political agenda” (HCF01). This change in the Commission’s stance on labour taxation reflects the general shift to a more politicized approach, showing that the EU and national actors commonly understand the political trade-off mechanism between reforms and fiscal space. Finally, at the European level, several initiatives EU Employment Committee (EMCO) organised thematic reviews on several issues, including the tax wedge on labour. Interestingly, in 2014 the Eurogroup initiated talks to coordinate the national
policies against the high tax wedge on labour, and one year later it managed to establish a relevant benchmarking tool.

The new government of Elio Di Rupo had three major issues to tackle. As the newspaper Le Soir wrote at the time, the Prime Minister had to “try to find common ground between future coalition partners in three main areas: fiscal consolidation, socio-economic issues and state reform” (as mentioned in Euractiv, 9 July 2010). After Belgium entered the EDP in 2009 and during the 2010 elections, apart from the controversial state reform the public debate extended to lowering the public deficit and the need to pass socioeconomic reforms. It was expected, thus, that any new government coalition would launch cost-saving measures to in order to fill a deficit hole which in 2011 alone accounted for 20 billion euro according to Eurostat (Expatica, 26 July 2012). In anticipation of the new wave of austerity measures, the Belgian trade unions had begun striking long before its inauguration (Euronews, 6 December 2011). It was in this constraining context that the center-left government had to make a series of policy decisions.

The task was double: apart from keeping public finance in line, the government tried to respond to the challenge of Belgium’s decreasing competitiveness. As the N-VA representative stated: “The Di Rupo government in 2012 and 2013 also became aware of the fact that we did have a competitiveness problem”. As a response to these challenges, a plan of wide scope was concluded between all level actors under the title “Pacte de compétitivité, d’emploi et de relance”. According to it, the social security contributions were slightly reduced not only for the minimum wages but also for the highest wages. Furthermore, it introduced an annual work bonus in order to reduce the high tax wedge on labour. Finally, labour-cost reductions targeting specific groups such as younger and older workers were put in place. These seemed decisive steps in the right direction but their effectiveness in the long term was not guaranteed. In fact, the measures taken were marginal in the sense that they did not reflect a shift in the policy design and mindset of political actors, which can be explained by several factors.

The Di Rupo government was facing constraints at multiple levels, so the realization of a tax-shift was not feasible. The institutional constraints were the most serious obstacle. From a governance perspective, the country had recently come out from a paralyzing institutional crisis and the government’s most urgent priority is to stabilize the political situation. The task for which the Di Rupo government was formed in the first place was to conclude an agreement, recognized by all parties on how to proceed with the devolution of competences –mainly fiscal- between the Federal and the Regional levels. An official from DG TAXUD put it in clear terms:

One of the main purposes of the Di Rupo government was to break the institutional deadlock and therefore to have this reform of the state... I mean you need to stabilize a bit the thing, it was too early... There was this big file of the reform of the state and fiscal consolidation which took some measures on just to be in line with requirements but nothing fundamental, because it was still of a fragile government . (DG TAXUD 01)

In other words, the government was formed to stabilize the situation and to tackle the country’s pressing issues via a prudent government. As a result, it was widely perceived that due to the extraordinary circumstances in which it was formed, the government lacked the democratic legitimacy to pass such an important tax reform: “There wasn’t much room for maneuver (in the political sense). And everybody thought that you need to renew the parliament under the issue of a
tax reform before you could act and as such it worked because this was the main topic of the election campaigns” (DG TAXUD 01). Equally importantly, the issue of a tax shift hadn’t gained momentum in the political debate at that time and no administrative study was undertaken for the design of a tax reform. Due to its Socialist background, the government was very skeptical in implementing measures that would transfer the burden to other tax bases and possibly also to the federated entities. In fact, later on Di Rupo was highly critical against the Michel government’s tax-shift, exactly because of that, calling it a “game of cons” (La Libre, 14 March 2016). But apart from commencing the highly complex Sixth State Reform which would rationalize the public finances in the long term, the government had the hard task to reduce its deficit in the short term. The sovereign debt crisis together with the institutional uncertainty of the years 2007 to 2011, exerted considerable pressure on the country’s public finances. Belgium’s response in the 2013 and 2014 NRPs confirm that budgetary consolidation was a constant for the government, by mentioning that each policy measure was taken always “within the available budgetary margins” (NRP 2013). So Elio Di Rupo not only had limited space to reduce labour taxes, but he was also induced to proceed to cost-reducing reforms, even if this was not in line with the traditional socialist practices.

On this, the N-VA representative stated: “The crisis in Belgium triggered a political response to it, because indeed Di Rupo being a socialist also was urged to implement some kind of pension reform and some kind of wage moderation, although he did it in a very different way than today the government is doing it”.

But also, as an official of the High Council of Finance added: “During the Di Rupo government, it was dominated by fiscal consolidation just after the economic crisis and the political stance was that if we have to increase taxes, we shouldn’t increase taxes on labour”.

But the issue of a decreasing labour taxation was present throughout Di Rupo’s government and as time went by it gained more and more attention in the public space, evolving into a wider dialogue on how to reorganize the tax system. In an interview with the WSJ several months before the 2014 elections, Elio Di Rupo stated: “We need to reduce the pressure on workers, but we also need to keep the state functioning. All the work we’re doing from now until the elections, and afterward as well, is to find a much simpler, and much fairer, tax system” (WSJ, January 2014). The representative of the N-VA confirms that the government eventually started considering issues of competitiveness, including how to do a comprehensive tax shift in the future. Finally, the fact that the High Council of Finance started preparing a report on how to fund the tax reform during the last months of Di Rupo’s government shows that the debate was evolving and reaching the high circles of policy design administration.

All in all, the Di Rupo government was unable to proceed to an ambitious tax shift. As the HCF official has put it: “it decreased some (taxes) but it was more of a fine tuning rather than a political stance”. The adverse institutional, political and fiscal circumstances were untraversable objects so the time was not ripe for a holistic plan of a tax reform to appear. “It was difficult to prepare for the evolution of some of the tax instruments at the regional level and at the same time change your system. I mean you need to stabilize a bit the thing, it was too early” (DG TAXUD).

4.3 The Michel government
With the elections of May 2014 and the formation of the government led by Charles Michel, the issue of a tax-shift gained significant impetus on the political agenda. As mentioned earlier, the problem had been repeatedly pointed out by the Commission, the IMF as well as the OECD and for years was known among national policy experts. But it seems that the formation of the right-center coalition was a decisive factor in the decision to lower labour taxation. Shifting taxes away from labour has been presented by the Flemish nationalists within the general context of competitiveness as a measure that could boost the Belgian economy. As Hendrik Vos, director of the Centre for EU studies in Ghent University wrote: “The N-VA’s economic agenda is at least as important to it as Flemish independence, so from the start of negotiations on a new governing coalition in Belgium, it refused to work with the francophone Parti Socialiste, which staunchly defends the country’s ‘old’ economic system with its high taxes and inflexible labour laws” (Europe’s World, 21 September 2015). The debate about a tax reform began to catch fire as the Federal elections of May 2014 - held together with the Regional and European elections - approached and later on became evident during the negotiations for the formation of the new government. The consensus was broad for lowering taxation on labour and suggestions came from all political sides, including the N-VA and the MR. As the HCF official puts it: “There is wide consensus on the fact that we have to cut taxes on labour”. However, he added: “there is no consensus at all on how to finance it. The significant VAT increase was blocked by the left side in the political spectrum, the taxation of income and savings was blocked by the right side”. It was in this context that the N-VA started to use the Commission’s rhetoric in order to present a comprehensive plan in the domestic debate.

The term ‘tax shift’, was consolidated in the Belgian politics during that period and started being used openly by many actors and institutions. For example, in August 2014, the Belgian High Council on Finance published a report under the title ‘Tax shifting in favour of labour and a broader tax base: Scenarios for a comprehensive and significant tax reform’, being the only time apart from a 2007 report that a comprehensive analysis has been presented in the domestic context. But also during the negotiations for the government’s formation, the then president of the New Flemish Alliance, Bart de Wever, mentioned tax shift as one of his agenda topics (see: La Libre, 27 May 2014). However the N-VA has framed it within the wider ‘competitiveness’ challenge. In the words of the party’s representative: “The tax shift was part of the same policy objective which was to strengthen competitiveness” (N-VA01). The final version of that year’s CSRs was published on 8 July 2014, pointing out once again the need for a comprehensive and wide ‘tax reform’. All these elements contributed to the creation of a ‘window of opportunity’ for policy-makers to ‘download’ the term, use it in their programme and eventually include it in the coalition agreement of the new government. From that perspective, it is likely that national actors creatively appropriated the term from the EU level, rather than simply using it as leverage for promoting their own existing agendas.

As an official from DG TAXUD stated:

The main partner (of the Michel government) is N-VA and they don’t have a view for the Federal state so they take views from others. And that also fits their general position on the political spectrum, I mean the more right than left. It’s still part of the fact that Belgium wants to be the "good pupil" of Europe. (DG TAXUD 01)

The N-VA which held the majority on the coalition government and members such as Johan Van Overveldt, the current Finance Minister, has repeated many times that the designed tax-shift will boost Belgian competitiveness. As an official in DG ECFIN stated: “The CSRs have set issues on
the national agenda. I think that the example of Bart de Wever (of the New Flemish Alliance NVA) is a good example [meaning of creative appropriation of the CSRs] because that was in summer 2014 but the CSRs were published May-June 2014. So they (the CSRs) stood fresh and it was relevant to the elections and many parties said this gives a blueprint to reform Belgium so for us (the European Commission) it was positive that in 2014 just before the elections it could be used. They all said something about the tax shift in there, it was perfect conditions [...] So in that respect the tax shift is more obvious than the pension reform because the urgency was more clear” (COM02).

But also: “The term entered the Belgian lexicon, part of it is of course linguistic complications of Belgium, but they just used English, both Flemish and French. That they used the word tax shift, this must be one of the relatively rare occasions when a country has adopted Commission-type language for a policy. So, I would say that the European Semester has been instrumental in pushing the tax shift” (COM04)

The view of the EMCO’s chair is similar: “The idea of a tax-shift has been inspired by the European level, whether this is directly through the European Semester as such or partially because it was a topic that was discussed in the Euro group at some point. Other countries were doing similar things and Belgium is not much of an island, so we know what’s happening. So, there was some inspiration from outside and the European Semester has been one of the most clearly appealing for this kind of tax-shift now” (EMCO 01).

In its coalition agreement (which has been welcomed both by the IMF and the EU institutions) together with its November letter to the Commission, the new government of Charles Michel highlighted its commitment to the Semester’s recommendations. As seen in its letter, the government explicitly revealed its stance: “The federal government will take consistent measures in order to finance the funds needed to lower the taxes on labour”, adding that it “will assess in this legislature how a further tax shift can be engineered” (Letter to the Commission, 21 November 2014).

From the first moment, the tax shift was presented among political parties, the media and the public as a development for the country’s political economy. Inextricably linked with an ambitious “fiscal reform”, the tax shift was indicated as an answer to the country’s competitiveness problems. Within a period of four years, the government aimed to raise €3,7bn by shifting taxes to health and the environment, to anti-fraud measures and to capital taxation. These would be able to fund measures to enhance the people’s buying power as well as reductions in the social security contributions (Le Soir, 24 July 2015b). The fact that certain international organizations addressed for years the heavy tax burden on labour was highlighted in order to show the government’s mindset (Hendrik Vos, Europe’s world). As the official from the HCF says: “In politics, it’s a breakthrough. It has been clearly announced in the coalition agreement, there was a clear political stance. But in policies I am not sure”.

After almost six months of negotiations between the government parties, the law of December 2015 introduced an series of measures aiming at shifting the burden away from labour towards less growth-distorting domains. Primarily, the law stipulated a significant reduction in the employers’ SSC from 33% to 25%, targeted at low wage earners. It also foresaw a further increase of the net salary through a combination of three specific measures, namely a new increase in the lump-sum deduction for professional income, a modification of the existing tax rates and a raise in the tax-
exempt threshold as of 2019. As regards tax rates, the government scheduled their reduction from 30% to 25% for incomes of 7,070 to 8,120 euros from 2019. The compensatory measures to fund such a shift increased taxes in other fields: the government decided to abolish the reduction of the VAT rate for electricity as from September 2015 (€712 millions) and to increase duties on products such as alcohol, tobacco, diesel and soft drinks -branded as the ‘health tax’- from 2016 onwards (in total €908 millions). Furthermore, it was decided that capital taxation would also be increased including dividends and interests (€150 millions). At the same time, the reductions in personal income tax in combination with lower SSC for employers have also contributed to a reduction of the overall tax burden. Besides all this, several additional measures were taken by the Regional governments, including a ‘kilometer-based road charging for heavy duty vehicles (see p. 7, NRP 2016). The personal income taxes are a shared competence of the Federal state and the Regions, while VAT belongs only to former and certain environmental taxes such as excises on fuel to the latter (Taxation Paper No. 59-2015). But this complex institutional landscape makes it difficult for the authorities to effectively coordinate the tax shift.

Despite the new government’s efforts to shift the burden away from labour (reflected in the 2016 CSRs but also in the 2015 OECD Economic Survey), the Commission assessed that this tax shift was to a great extent incomplete: the transfer of tax burden was not balanced in budgetary terms and the system remained complex, full of exemptions and administrative costs. On top of this, its fiscal impact was modest, expected not to exceed 1% of GDP and inefficient to significantly reduce Belgium’s high debt (Bloomberg, 22 October 2015). As one Commission official has put it: “The point is that we had a tax shift, we saluted it, but we haven’t had a tax reform” (COM02). That’s why in the most recent 2016 CSRs, the Commission highlighted once again that this transfer was not ‘budgetary neutral’ and called for a shift to ‘greener’ taxes which ‘presents a lot of potential’. In fact the Commission’s perspective is that its recommendations have been transformed into something new which fits the national context as well as the actors’ ideas and agendas:

“The word ’tax shift’ easily became a catchphrase but the meaning changed. What we meant was lower taxes that are growth distorting, such as labour taxes and some kinds of taxes on capital, and compensate by increasing less growth-distortive taxes. In Belgium, it quickly became a debate about taxes on labour versus taxes on capital whereas from our point of view - and we had a lot of trouble explaining that, once the tax shift debate was going on in Belgium - from our point of view labour taxes and taxes on capital - at least most taxes on capital - are both growth distortive. We had a different framework, we were talking with the same words, using the concept of ”tax shift”, but we were talking about going from taxes on labour to taxes on property to taxes on environment, to taxes on consumption, and they were talking about the same thing, ”tax shift”, but they focused the debate on taxes on labour vs. taxes on capital, which was not our intention. So, that shows you how something which originated at the European level is recuperated in a country and also transformed in a country” (COM01).

According to another DG EMPL official: “If you look at the CSRs, all we talk is about the tax reform, so the intrusion (of the Commission) has been limited to a tax shift. There are many elements which are not there, which should happen” (COM03).

As it can be seen from its constant remarks, the Commission understands a tax reform in Belgium as something much wider than the tax shift of the Michel government. That would imply not only a
decrease of the burden away from labour but also a general simplification of the tax system and broadening the tax base towards other fields as well.

But also in the domestic debate, the voices of criticism abounded. A major concern was that shifting the financing of taxes to consumption –especially by increasing the VAT- would harm the Belgians’ purchasing power. Interestingly enough, as a response to these claims the Finance Minister brought up the IMF and OECD reports, arguing that they “advocate a tax shift away from labour towards consumption, environmental taxes and property, exactly in this order” (Le Vif, 8 February 2015). Apart from that, the major opposition parties like the Socialists and the Greens stated that the tax shift should be more ambitious. This was mainly due to the fact that while negotiating the tax shift, there have been various red lines and vetoes which were left untouched, including the tax exemption of company cars, the level of taxes on capital but also property. Likewise, Dominique Berns, one of the editors of Le Soir, stated that the Michel government had too many taboos to try an ambitious tax reform, including personal income taxes and property. As his colleague, Xavier Counasse said during the same interview: “There is fear to touch the old habits...With this tax shift we are far away from a big fiscal reform” (Le Soir, 24 July 2015a). In addition, trade unions and several labour organizations claimed that the reform will affect low income houses, thus widening the gap between them and the middle range wages. According to Professor Frank Vandenbroucke of the UvA as well as to the National Bank of Belgium, the current tax shift could lead to another unexpected effect: due to the measures already in place for reduced social security contributions the people with lower wages wouldn’t benefit. Instead, wage reduction measures would apply only to higher wages, thus undermining the employment of the former (ESPN Flash report, 2015/36).

5. Conclusions

Overall, the European Semester led to significant effects on both policy fields through a combination of pressuring and voluntary mechanisms. Certainly, reform initiatives in both domains were deeply embedded in the national debates, nevertheless the enhanced coordination framework contributed to their Europeanization. To conclude with, I make a brief recap of my findings in these cases and conclude with their comparison.

The public debate on pensions dates back three decades before the launch of the European Semester, closely linked with budgetary considerations as well as the Federalist debate and inter-Regional solidarity. Even before 2011, the EES, the EPC’s Age Working Group (AWG) and the Social OMC helped to raise awareness on the issue. The EES promoted the concept of “active welfare state” as a new model for the financial sustainability of Belgian pensions and led to framing the problem within the wider challenges for the welfare state and the labour markets. At the same time, the Belgian Study Committee on Ageing used the indicators of the pensions OMC in the domestic debate while political actors took specific aspects of the OMC discourse as extra authoritative arguments to promote the minimum income for the elderly (GRAPA). The AWG framed in a better way but also enhanced the prominence of the specific fiscal challenges for pensions, backing the positions of the national Study Committee on Ageing and the Federal Planning Bureau. Equally important, the comparison of the macroeconomic and budgetary projections of other MS exerted peer-pressure on high-level officials combined with a light form of self-reflexive learning.

Since Belgium entered the Excessive Deficit Procedure in 2009 and after a prolonged period of institutional stability, the newly formed government coalition of Elio Di Rupo expressed that fiscal
consolidation was its top priority. The “fear of sanctions” mechanism, whose imposition had been enhanced within the European Semester, contributed to the adoption of fiscal reforms but along with other coercive mechanisms such as peer-pressure, the fear of the bond markets’ reaction and concerns about competitiveness. As a consequence, the aforementioned mechanism evolved into a “quid pro quo” strategy according to which the government took several decisive measures in exchange for better budgetary projections and, thus, more margin of discretion for the implementation of reforms. At the same time, there has been a significant degree of learning, as rising awareness of the performance and standards of other MS, together with a ‘reflexive self-assessment’ of one’s own policy orientation. Nevertheless, the government’s agenda, the ideological background of the leading socialist party and the limited time for long-term strategy set specific red lines; for that reason the Di Rupo government chose not to touch the statutory retirement age nor automatically link it with life expectancy as proposed in the CSRs. At the same time, it set the basis so that Belgium would take ownership of its reforms, by giving the Vandenbroucke Committee the mandate to create a plan for the future of pensions. The next government of Charles Michel went even further and continued the “quid pro quo” strategy between budgetary reforms and enjoying more space for reforms. During the same period, the Juncker Commission made this trade-off mechanism between reforms and budgetary space explicit. From the first moment, the new center-right government expressed its intention “to introduce important socio-economic reforms”. Although it gave the impression to the Commission that it was following its recommendations, aligned with these of the Vandenbroucke Committee, in reality it promoted its own agenda which dealt only with parametric changes and not systemic configurations. Thus, being more of a political communication, the pension reforms of the Michel government contributed to an nuanced case of creative appropriation.

The high labour taxation in Belgium has been a persistent policy issue. Since the beginning of the 1980s, there have been partial efforts from consecutive governments to lower social security contributions, however in overall their effects were proven limited. Since its launching in 1997, the EES proposed ‘employment-friendly labour cost’ measures, contributing to the comprehension of the importance for policy reforms. These effects lingered with the CSRs towards Belgium, which continuously proposed a shift to less growth-distortive tax bases and later on, more explicitly, called for a comprehensive tax reform. In contrast to the precise recommendations of the Barroso Commission concerning a tax-shift, the Juncker Commission became less prescriptive, adopting a flexible and more politicized approach. As mentioned earlier, the years 2007 to 2011 was an extended period of institutional instability for Belgium and after 541 days without an elected government, the socialist-led coalition of Elio Di Rupo sworn in. But the new government had to face three major challenges: fiscal consolidation, a new Federal state reform and several socio-economic issues. Pressured by the financial markets and having in mind the country’s competitiveness in relation to its neighbors, it launched a general pact (Pacte de compétitivité, d’emploi et de relance) which included the decrease of the employers’ SSCs for the low-paid, the high-paid and vulnerable groups in general. Nevertheless, this development was more of a ‘fine tuning’ and the government did not proceed in the design of a comprehensive tax reform due to several reasons: the Di Rupo coalition was formed to break the ‘institutional deadlock’, thus, lacking the legitimacy, time, and focus to deal with the issue – instead, priority was put on fiscal consolidation which was seen by the majority of political actors as contrary to the decrease of SSCs (see: Le Vif, 27 November 2012). Just before the elections of May 2014, the debate on how to upgrade the Belgian tax system grew,
involving not only politicians but also administrative bodies such as the High Council of Finance. The political consensus on the necessity to tackle the issue was wide, however there was disagreement among political actors on how this would be done exactly. Lowering labour taxation was part of the economic agenda of the Flemish Nationalists (N-VA), as a way to strengthen competitiveness, however without being too specific. But the N-VA and the Mouvement Réformateur (MR), the two majority partners in the government coalition, found in the Commission’s narrative a model to promote it as their own. As a result, the fact that the Michel government ‘downloaded’ the term ‘tax shift’ from the EU level constitutes an obvious paradigm of creative appropriation – rather than socialization and genuine internalization of the Commission’s mindset. This became evident in retrospect when the Commission deemed that the tax-shift in Belgium was a development in the good direction nevertheless incomplete, since the former was referring to a budgetary neutral tax reform. The government of Michel moved taxes from labour to capital, whereas the Commission aimed for the relocation of weights towards property, environment and consumption.

When comparing the two cases, we can draw several conclusions on the specific factors which influenced the effects of the European Semester. Fiscal pressure played a significant role both in pension reforms and the tax-shift. But while in the former the country’s deteriorating fiscal status was a reason and an opportunity to initiate a series of long-expected reforms for the stabilization of the country’s budget, in the latter case it was an obstacle which prevented the government from taking more ambitious measures. The institutional pressure exerted by the Semester’s instruments was considerable in the field of pensions, nevertheless the fear of sanctions ‘per se’ was not the only mechanism which led to reforms. Rather, this can be attributed to a combination of the internalization of the trade-off practice (“quid pro quo”) both by national actors and the European Commission along with generalized peer-pressure due to the country’s perceived loss of competitiveness. The policy agenda of the governing coalition and the ideological position of its majority parties also played a major role on filtering the effects of the European Semester. The Di Rupo government took decisive steps for a significant pension reform, nevertheless it explicitly set its limits against the Commission’s strict line of budgetary discipline. On the contrary, the rhetoric of the Michel government presented its agenda as totally aligned with the Commission’s recommendations, but in reality the next wave of pension reforms changed only specific parameters of the system, not having the capacity to guarantee its sustainability. Likewise, the Belgian tax-shift was ‘borrowed’ from the EU level but understood differently by the majority parties in the government coalition, far from being a growth-enhancing tax reform as envisaged by the Commission. Finally, the perceived legitimacy of the governments to pass reforms constitutes another factor which influenced the Semester’s effects. The Di Rupo government was seen as a ‘normalization’ body, which had the mandate to stabilize the country’s political situation and put the national fiscal performance back on track. For that reason and despite its center-left position, the government initiated pension reforms but could not pass a significant tax reform. Already having a reformist agenda, the Michel government used political communication to show its alignment with the Commission’s recommendations and the Vandenbroucke Committee, in order to enhance its legitimacy and justify its strategic choices. Especially in Belgium, in which the EU enjoys a high level of support by the elites and by the public opinion, invoking arguments of the European Commission solidifies the national actors’ position.

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