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How Europe shapes the nature of the Belgian Federation

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Abstract. European integration triggers contrasting views from Belgian political elites. Proponents of confederalism, further decentralization and separatism point to the decreasing importance of the central government level within a more integrated Europe as well as to the growing relevance of regions within contemporary Europe. Opponents of separatism generally favor a strong central government arguing that Europe will not easily accept separatism and that further decentralization may substantially weaken the European position of Belgium and its regions. This paper aims to clarify the European factor in the ‘Belgian Question’. Our argument consists of two parts. First, we discuss the political-administrative consequences of the institutional interpenetration of the Belgian federation within the EU polity. Second, we explore how European economic integration impacts upon politics within the Belgian federation. Our main conclusion is that both aspects of European integration entail a differentiated outcome; while the first triggers cooperation, the second stimulates ongoing decentralization pressures.

The Europeanization of the Belgian Federation

Over the past decades, the Belgian state has been subject to two different evolutions: while the process of European integration has pooled a large number of competences at the European level, the consecutive reforms of the Belgian state have created sub-national units with a substantial portfolio of policy competences. The combination of these two parallel evolutions has resulted in a system of multilevel governance (MLG) which satisfies two separate considerations: coping with heterogeneity within Belgium while at the same time reaping the economic benefits of a large European market. This paper deals with the relation between European integration and federalization: we address the questions whether and how European integration has an impact on the internal political dynamics of the Belgian federation. We aim to clarify the nature of the European impact by unpacking the effects of Europe into different and, as we will argue, also contrasting processes.

European integration does not occupy a prominent place in Belgian political debates on the organization of the Belgian federal state (Deforche 2012). However, despite the fact that political parties hardly use ‘European’ arguments when discussing state reforms, we can discern two contrasting views regarding the relation between the regional and the European level. On the one hand, proponents of confederalism and separatism point to the decreasing importance of the federal level and to a growing relevance and viability of regional jurisdictions within a more integrated Europe. It is argued that regional autonomy should increase in order to cope more efficiently with the impact of European integration and economic globalization. This viewpoint is most explicitly put forward by the Flemish nationalists of N-VA, the separatists of *Vlaams Belang* and the right wing populists of *Lijst Dedecker* as well as by substantial pockets of the Flemish Christian-Democrats. It is also a perspective favored by substantial parts of the Flemish Social-Democrats and the Flemish Liberals. On the other hand, opponents of separatism point out that Europe will not easily

accept separatism in Belgium and that further decentralization will substantially weaken the position of Belgium and its regions within the EU. It is argued that a strong central state is necessary to defend the interests of Belgium and its regions at the European level. This perspective is clearly the predominant position of all Francophone parties, and is also shared by a significant part of Flemish political elites across the traditional political parties (Social-Democrats, Christian-Democrats, Liberals and Greens) (Van Berendoncks 2012).

While political practitioners pay some attention to the impact of the EU on the Belgian federation, the academic literature remains remarkably underspecified and vague. The aim of this paper is to clarify the European factor in the ‘Belgian Question’. We take the perspective of the Europeanization literature as this research agenda deals with how member states’ polities, politics and policies change due to the impact of European integration (Ladrech 1994; Goetz 2000; Olsen 2002; Vink 2003; Mair 2004, Graziano and Vink 2006).

One of our goals is to disentangle the impact of various dimensions of European integration on different aspects of the Belgian polity. We will develop two – seemingly contradicting – propositions:

1. Some effects of European integration trigger a transformation of the federal state resulting in centralizing tendencies and cooperative political practices which counterweigh pressures for more regional autonomy.
2. Some effects of European integration stimulate political pressures for regional autonomy, contributing to further divergence and hollowing out of the federal level.

These two propositions clearly fit in a multi-level governance logic that focuses on the vertical organization of competencies. The idea is that jurisdictions remain nested and do not overlap (multi-level governance I in the words of Hooghe and Marks, 2003), and that different forces lead towards either more autonomy for regional entities or towards more centralization and cooperation.

Regarding the first proposition, we concentrate on how Belgium is legally and institutionally connected with the European system of governance and how this encourages a particular kind of centralizing tendency towards the federal level (*linkage adaptation* in Goetz words, 2000). Regarding the second proposition, we look at how economic integration stimulates calls for more regional autonomy and offers additional opportunities to regional political actors. Bureaucratic and, especially, economic integration concern structural causes whose effects unfold in small bits and pieces over longer periods. One consequence is that our approach in this paper emphasizes structural evolutions and developments over longer periods of time. We argue that the future nature of the Belgian federation will depend, amongst other causes, on which of the two effects of European integration – autonomy or centralization – will prevail. The extent to which European integration affects the Belgian federation will be mediated by the salience of the EU in domestic politics and by the willingness and capacity of domestic actors to make strategically use of the institutional opportunities offered by the EU. In the concluding section we elaborate on how Europe triggers domestic actors to strategically combine European and domestic opportunities in order to shape the nature of the Belgian federation. We argue that previous institutional reforms have opened the door for policy reforms at the regional level which will feed back into future institutional development. We contend that such strategic behavior may considerably affect the future of the Belgian federation whereby both Belgian and European jurisdictions become increasingly interconnected, rather than simply nested (multi-level governance II, Hooghe and Marks 2003). Before going into each of these different claims separately, the next section clarifies how we conceptualize European integration and Europeanization theoretically.

Conceptualizing European integration and Europeanization

One of the intriguing features of the so-called Europeanization literature is that it contains a large number of contradictory conclusions regarding the impact Europe has on domestic politics as well as on the specific mechanisms at play (see Olsen 2002; for an overview of Belgium see Beyers and Bursens 2006a, 2006b). One of the challenges in this literature is to define and conceptualize proper dependent and independent variables (Saurugger 2005; Haverland 2006). We conceptualize 'Europe' as a bundle of variables, some more economic, other more political or bureaucratic, some referring to causes of which effects are only visible after a long period (e.g. the enlarging scale of economic interactions), other having more immediate and proximate effects (e.g. a particular directive that needs to be implemented), some inherent to the European level itself, other rather originating at the global level (Dyson 2007).

Europeanization generally refers to the process through which European integration affects domestic policies, politics, and polities or what it is doing with domestic political systems (Ladrech 1994; Hanf and Soetendorp 1998; Börzel 1999; Harmsen 1999; Goetz 2000; Kassim, Peters et al. 2000; Green Cowles, Caporaso et al. 2001; Knill 2001; Olsen 2002; Mair 2004; Kassim 2005; Ladrech 2005; Graziano and Vink 2007). A well-known problem in research on Europeanization is - as with most 'tion-words' such as democratization, transformation or socialization - that the key concept, Europeanization, is characterized by a product-process ambiguity (Hacking 1999, 36-8). It can be both, namely 'the process of Europeanizing' as well as the result, 'being Europeanized'. This is one of the reasons why scholars such as Featherstone and Radaelli have enlarged the scope of Europeanization by insisting that Europeanization is a process and not only an outcome to be measured (Featherstone and Radaelli 2003). This dual conceptualization, however, makes it difficult, but not completely impossible, to identify and properly separate dependent from

independent variables, or domestic from European factors.

In this paper, the *explanans* is European regional integration, defined as “the formation of closer economic and/or political linkages” among European countries (Graziano and Vink 2006, 7-8). In the next two sections we make the analytical distinction between the effects of political-bureaucratic and economic embeddedness in the EU. The *explanandum* is not easy to grasp in Europeanization research because the process of Europeanization itself may result in varying and highly divergent outcomes (Olsen 2002, Dyson and Goetz 2003). First, early studies conceived Europeanization basically as a vertical and hierarchical process whereby member-states, in a top-down fashion, were expected to download EU laws and policies. Basically, many of these early studies focused on the implementation of EU regulatory policies and how these EU policies shape domestic policies. However, much contemporary EU policymaking consists of soft law, benchmarking and policy coordination. In this regard the EU-level is less an *actor* which hierarchically imposes policies on the member-states, but more an *arena* that allows member-state actors to use the EU – including the policy discourses that are prevalent at this level – in order to justify and shape domestic policies. The conception of the EU as an actor *and* an arena leads us to stress much more the impact of European integration on domestic modes of politics and political institutions (instead of only focusing on substantive policies). In this regard, investigating the relationship between European integration and domestic politics has an important added value to studies of Europeanization as until now most of this literature on Europeanization has mainly discussed how domestic policy areas have changed due to European integration (Exadaktylos and Radaelli 2009).

The adaptation of domestic politics to European integration might be driven by two forms, direct and indirect Europeanization (Sciarini, Fischer et al. 2004). First, *direct Europeanization* is most straightforward and refers to the basic fact that domestic political

institutions are increasingly connected to the political system of the European Union. The question thereby is how EU-level factors lead to changes in the modes of domestic politics. This is what Goetz calls linkage-adaptation: as domestic political systems (governments, parliaments...) become more and more embedded in European policy-making, they are expected to adapt their domestic policy-making modes (Goetz 2000). The causal importance of the EU with regard to *direct Europeanization* is relatively easy to track down; sometimes it is even trivial, for instance, when ministries establish departmental units in order to coordinate EU affairs (Haverland 2006). Second, many studies on the impact of European integration on countries emphasize the process of market creation and the enlarging scale of economic interactions. European integration has a considerable impact on the political and economic environment of the member states (Fatás 1997; Cheshire 1999; Costa-I-Font and Tremosa-I-Balcellis 2003). Other studies point to the potential of European integration that reshapes government-society relations and centre-periphery interactions within the member states (Kohler-Koch and al. 1998; Bartolini 2005). These impacts can be labeled as *indirect Europeanization* (Sciarini, Fischer et al. 2004). A problem with this form of adaptation is that it is rather difficult to demonstrate direct causation, not the least because of overlapping processes of growing economic linkages at the European and global level (Haverland 2006). Yet, such indirect Europeanization may have tremendous implications for the political autonomy of domestic governments as well as for how political cleavages get mobilized or pacified. For instance, it has been argued that European integration has a differential impact on territorial entities within member states (for instance through regional funds or differentiated investment patterns between regions) and this may put stress on the legitimacy and efficacy of the institutional set-up of federal states (Kurzer 1997, Bartolini 2005).

Institutional interpenetration triggers cooperation and centralization

One of the most tangible and visible dimensions of European integration is the entanglement of governance layers. Opposite to the popular conception of the EU as a distant level of government, the process of European integration has created a multilevel political system. Political and administrative actors' activities are no longer confined to one single arena, but take place at several levels simultaneously. Such a multilevel context requires domestic actors to adapt their organizational format as they need to coordinate national positions, determine representation at the European level and ensure compliance with EU rules. Following our earlier call to unpack the independent variable of European integration, we conceive this institutional interpenetration as a concrete variable that directly effects domestic politics. Similarly, regarding Europeanization, we conceive the political and administrative adaptation of domestic governance structures as a concrete utterance of change at the member state level. What can we expect to be the effect in Belgium, being an example of a – by constitution – dual and competitive federal system? Two rivaling expectations are possible. On the one hand, we can expect a general trend towards a separating strategy whereby regions increasingly bypass the central government in order to act beyond the existing member-state structures (Jeffrey 2000, 4-6). Such an adaptation strategy would fit nicely in the dual nature of the Belgian federation wherein the constituent entities have exclusive legislative and administrative powers within their jurisdiction (Börzel 1999). The non-hierarchical and competitive nature of the Belgian federation allows for and even stimulates autonomous and independent behavior. In addition, as the Belgian federation is designed to protect the rights and the autonomy of linguistic entities, regional political elites are generally not stimulated to seek common policies. On the other hand, however, we can also expect federal and regional actors to transcend the constitutional set-up of the Belgian federation and to seek cooperation in order to defend their interests at the European level.

Regions would then opt for a cooperative strategy towards Europe because the latter is almost exclusively open to national, i.e. member state level, actors.

Based upon empirical data, our proposition is that institutional interpenetration of the Belgian and the European level, in combination with some features of the Belgian federation does not result in the hollowing out the Belgian state, but that it rather reaffirmed, yet at the same time also transformed, the role of the central state.

Our argument starts with one of the most outspoken examples of the dual nature of the Belgian federation, namely the *in foro interno, in for externo* principle which gives Regions and Communities the right to conduct foreign policies – i.e. to conclude and to ratify treaties, and to be represented abroad and to negotiate – within those areas where they are domestically competent. Yet, it is precisely this feature which makes that cooperative features gradually slip into the dual federal system. To begin with, most international treaties and organizations deal with multiple policy areas or with policy areas that have within Belgium a mixed character. Second, many regional competencies are shared, not only with the federal level, but due to the process of European integration, increasingly also with the European level. Because EU Treaties only recognize member-states' positions in the Council of Ministers (and its sub-ordinate bodies such as the working groups and COREPER), the EU defines European competencies within federal or regionalized countries as competencies that are shared by central and regional authorities (Beyers and Bursens 2006a, 1063-4). Consequently, when the Belgian Regions or Communities want to be effective European (and international) players, they need to forge a compromise position with other Belgian Regions and Communities and often also with the federal government. These European institutional pressures result in a domestic coordination system in which a) cooperative practices, and not separating strategies, prevail and b) the federal level still plays a central but increasingly also

coordinating role (Beyers and Bursens 2006a and 2006b). Moreover, all the empirical evidence we collected during the past ten years shows that most policymakers have internalized this cooperative practice and that in this period few EU policy issues have led to political conflicts within Belgium.

We empirically illustrate this conclusion with evidence from four distinct policy domains: environmental policy, social policy, agricultural policy and the more overarching issue of EU treaty reform. Basically, what we observed is that the more competencies Regions and Communities have and the more outspoken their capabilities are, the more cooperative political practices prevail and the more the central federal level plays a coordinating gate-keeping role (see table 1). European coordination in the environmental domain clearly contains substantial cooperative elements. In Belgium environmental competencies are not one watertight compartment for which one jurisdiction has exclusive competencies. On the contrary, substantial aspects of environmental competencies are located either at the federal level or at the level of Regions, implying that no political level has sufficient and proper means to fulfill its functions autonomously. Confronted with European policy pressures, this heterogeneity needs to be adjusted by cooperative measures. For this purpose, a complex system was elaborated that allows all competent levels to take part in position drafting bodies, granting officials from each level far-reaching coordinating and representative competences by means of a consensus-reaching policy-making culture. This key role for the Regions, however, does not imply that the federal government disappears from the scene. On the contrary, we noticed the affirmation of a crucial role for the federal government. Both on the administrative level and on the political level, the central government remains an influential actor, even with respect to issues that do not belong to its competences.

With respect to agriculture, domestic policymaking has been organized according to three different models since 1988 (Beyers, Delreux and Steensels 2004). The successive

development of these models sketches a development whereby Regions became dominant veto-players. In order to be able to reach a single Belgian position within the EU Common Agricultural Policy, the Regions themselves created new coordinating institutions. Also within this policy area the central government kept important powers through its representation monopoly in the EU as well as through its direct access to negotiations with regard to the EU budget. Indeed, the federal government represents Belgium in the ECOFIN Council, the General Affairs Council and the European Council which are the three key venues for EU policymaking with regard to the EU budget. The Belgian Regions and Communities have no direct access to these venues.

European policymaking with regard to social policies is very limited and informal while within Belgium all social security policies (family allowances, pensions, child benefits, health care, and unemployment insurance), labor market policies and the management of industrial relations (social bargaining and wage policies) remain centralized at the federal level. Regions and Communities have rather limited social competencies (social housing, personal aid, health care). As a result there are no extensive formal cooperation devices in the social policy area.

Finally, also Belgium's involvement in European Treaty reforms since Maastricht did not alter its institutional set-up in the direction of more decentralization. True, the stickiness of Belgian federalism was somewhat softened by cooperative behavior of all governmental levels, but overall the central position of the federal government, and in particular of the Foreign Ministry, in the coordination process grew even stronger during the most recent treaty reforms (Beyers and Bursens 2006b).

Table 1. Degree of cooperation and federal dominance in Belgian EU policy-making

	Degree of cooperation	Degree of federal dominance	Regional capabilities	Dominant pattern	Involvement of Regions
Environment	High (especially between regions and the federal level)	Low	High	Non-hierarchical, Regions and central government are veto-players	Strong, but not an independent second level player, nested within domestic constellation
Agriculture	High (especially among the Regions)	Moderate	High	Non-hierarchical, Regions are veto-players	Strong, but still highly dependent on the central government, nested within domestic constellation
Social policy	Low	High	Low	Central government is veto-player	Rather weak
EU Treaty revision	Very low	Very high	Very low	Boundary of sub-state involvement is shaped by the central government	Very weak

It is striking that we observe no strong evidence in support of a separating strategy. Even more important, though, is the observation that especially extensive (not minor) regional capabilities coincide with high (not low) levels of cooperative behavior within Belgium. With regard to social policy and EU Treaty reform, the federal government has been able to centralize policymaking. In the area of environmental policies and agriculture, we observe that regional involvement remains largely nested within the federal state and that the Regions themselves centralize joint policymaking through the creation of specialized inter-federal agencies (Beyers and Bursens 2006b).

In short, when it comes to the political-bureaucratic interpenetration of Belgium and the EU it appears that European integration encourages both the federal level and the regional levels to install cooperation mechanisms within the conditions of the constitutional provisions of Belgian dual federalism. While Regions are becoming increasingly important players within the Belgian federation, they clearly do not dispel the central government from the theatre (Tatham 2008). Europeanization seems to mitigate the dual and competitive nature of

Belgian federalism and to stimulate a gradual development towards more cooperative forms of formal and informal governance.

Economic integration triggers divergence in preferences

Our conclusions with respect to a cooperative evolution seem to be at odds with recent political developments in Belgium which point to an increasing pressure towards more autonomy and less cooperation. In addition, some authors have established a correlation between European integration and a trend towards devolution and federalization (Jolly 2006; Schakel 2009). If Europe would indeed keep states together or would even strengthen or rescue them (Milward 1995), the question remains why we see devolution and pressure towards more regional autonomy in many European countries, not the least in Belgium.¹ The solution to this puzzle is to be found in the fact that institutional interpenetration is only one independent variable that pops up when opening the black box of European integration. Economic integration is a second crucial dimension of European integration which can indirectly effect domestic (economic) policymaking and a fortiori also (economic policy) preferences of political actors and of the public at large.

Our proposition with respect to the effects of economic integration is that it indirectly reinforces the devolution process of the Belgian state. The territorial fragmentation process of Belgium into a federation of Regions and Communities started independently from the European integration process. Our main argument is that European integration has had a profound impact on the internal processes that were already going on. What is important is how the process of European integration has mediated the international economic

¹ Moreover, the original integration project was not meant to have any effect on the political order within the member-states. Rather the opposite was expected, namely that it would consolidate the post-war European nation-state and would increase the executive capacity of central governments as basically central governments monopolize key stages in the European policymaking process (Moravcsik 1993).

environment of Belgium over the past 40 years and how this has contributed to the already heterogeneous nature of political preferences within Belgium.

The impact of European integration on Belgian regionalization is multiple. Firstly, the EU supplies all sorts of collective goods and acts as a venue which provides Regions with subsidies, political support and other benefits. In this regard, the EU erodes the monopoly of nation-states as key providers of public goods. As Bartolini writes: “It is the first time since the consolidation of the nation-state that sub-state territories have access to material resources made available by non-state sources” (2005, 260). Regionalization studies often emphasize things such as regional and structural policies, the creation of new institutional venues (Committee of the Regions), improved access to Council decision-making as well as support for trans-border and interregional policies as factors that pull Regions away from the central state. Moreover, the fact that the EU (and other international organizations) nowadays produces collective goods which were previously supplied by national governments – such as international security and redistribution policies – makes the central level less and less relevant for regional political actors.²

Secondly, European integration generates some more pervasive, albeit less immediately visible, impact through the creation of a large internal market and the decreasing importance of state boundaries. To begin with, the size of political jurisdictions does not correspond any longer with the size of the market for economic exchanges. As a result the economic advantages for small entities to be part of large states that encompass large markets and economics of scale are becoming less and less important. According to neo-classical economists this enhances the viability of small political jurisdictions (Alesina and Spolaore 2003). Thus, the trend towards smaller political entities becomes stronger as a consequence of

² Yet, the decreasing relevance of central states for regional entities is not only due to the EU. Also other things such as the possibility of regional governments to attract financial resources from the international capital market play a role.

the process of European integration and/or globalization. The same logic explains the foreign economic policies of small countries such as the Benelux-countries after (and before) the Second World War (see Katzenstein 1985; Jones 2008). In the case of Belgium, however, this also led to an international environment that indirectly contributed to internal political fragmentation .

In addition, European countries became increasingly dependent upon international trade and investments during the past decades, forcing policymakers to devise policies to remain competitive in a more open international economic environment. Historically, all nation-states have developed schemes for redistribution between populations located in different regions. However, the need to increase national competitiveness and to implement the policies established by various international trade regimes (especially the EU, but also others) constrains both the ability and the willingness to redistribute in favor of poorer regions. Moreover, the growing importance of the international economy during the past decades implies that in order to attract foreign investment and to stimulate growth, policymakers are increasingly tempted to focus on the most dynamic and competitive regions within their countries. In other words, while territorial politics in a world consisting of distinct nation-states with weak economic interdependencies is mainly aimed at redressing within-state inter-regional imbalances, territorial politics in an economically integrated world needs also to be designed to promote regional economic competitiveness (Bartolini 2003, 273).

A change in openness of the economy triggers regional political elites to shift their focus. In a weakly integrated international environment with little trade and without substantial public good production at the supranational level, it is more likely that central state governments remain the key point of reference for regional political elites. The strongly integrated economy of the EU however, becomes increasingly a point of reference for regional political elites as the European venues increasingly affect the resources (in terms of

subsidies, public goods, regulations and foreign investment) regions have at their disposal. Consequently, territorial competition and fragmentation is likely to increase not only within the EU, but also within the member-states (Fatás 1997).

All this does not explain why some regions within Europe are more eager to seek autonomy than others: why and how does European integration reinforce the devolution process to such an extent in Belgium? As Kurzer argues, the early stages of European integration have been a huge incentive for Belgian policymakers to start a program of economic modernization that strongly relied on direct foreign investment (Kurzer 1997, 37; see also Witte and Meynen 2006, 51-98). Already in the fifties a whole set of economic and tax policies were adopted in order to attract foreign capital, to industrialize Flanders and to restructure the Walloon industries. Moreover, due to the creation of the internal market and the customs union, it became not only easier for Belgian firms to trade with other European countries (and vice versa), but the size of the European market itself combined with the central location of Belgium, its skilled workforce and its dense transport network made it an attractive hub for non-Europeans to invest. These structural factors rendered Belgium into one of the most globalized countries in the world but at the same time contributed to the growing heterogeneity within Belgium. Neither European structural policies nor internal Belgian fiscal redistribution schemes have been able to substantially diminish internal heterogeneity.

Crucially, it is exactly this heterogeneity which has a large impact on preference formation. Jolly's data on regional party politics in Europe demonstrate that, as regions become economically distinct from the rest of the country – either poorer or richer – electoral support for regionalist parties grows substantially (Jolly 2006). Obviously, foreign investors do not take into account internal imbalances when they decide on the location of investment. Or, as Bartolini writes, the European integration process may impact considerably on the process of producing economic divergence as greater opportunities to locate resources without

constraints of pre-existing resource concentration emerge (Bartolini 2005, 272). For Belgium, this has entailed several effects.

Firstly, foreign investors located their activities close to port facilities (Antwerpen, Gent, Zeebrugge), to centrally located transport facilities (Zaventem airport), to important political-administrative centers (the Brussels area, including the provinces Brabant-Wallon and Vlaams-Brabant) and in areas where labor unions are generally less militant (mainly Flanders). As a result, the creation of a large European economic area has contributed to the heterogeneity of Belgium in ways that were neither anticipated nor intended. The Flemish economy did not only grow in terms of its relative contribution to the overall Belgian economy (figure 1), it became, especially compared to the Walloon economy, much more trade dependent and globalized (see figure 2 and 3).

Figure 1. Evolution of nominal GNI, standardized to population (x1.000.000 euro)
(source HERMEG, National Bank and own calculations)

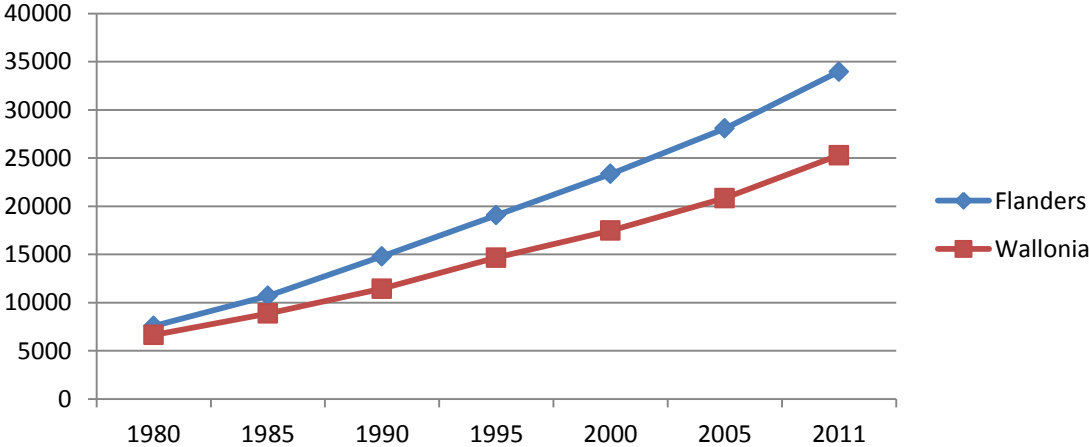


Figure 2. Relative regional share of import and export in 2011 (source FIT)

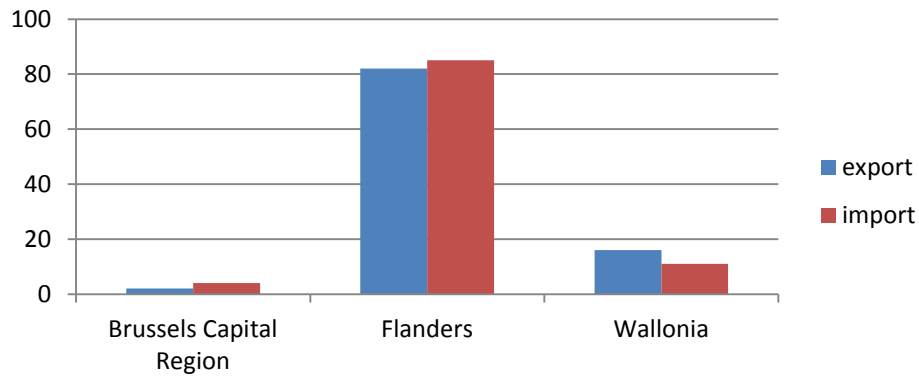
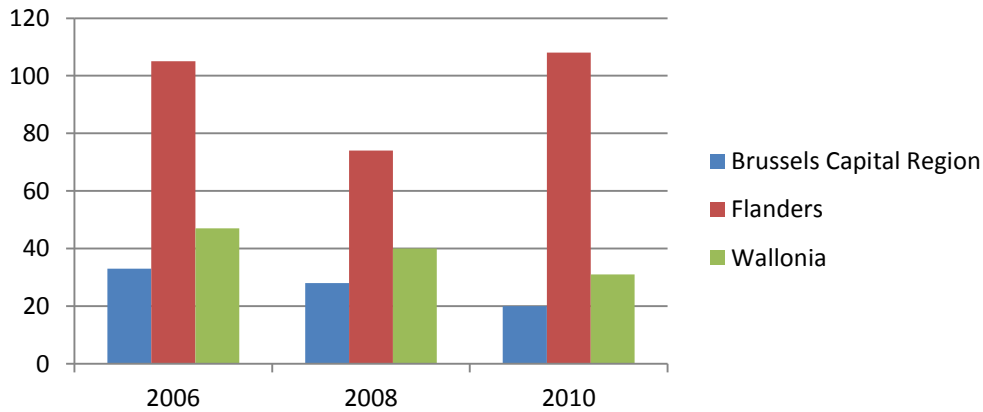


Figure 3. Number of foreign investment projects per region (source E&Y Investment Monitor 2011)



Secondly, the creation of a larger economic area coincided not only with the growing size of companies that are active in Belgium, but also with their international outlook. Almost all formerly large Belgian companies (Société Generale, Sabena, Electrabel...) disappeared or were taken over by foreign (in many cases French) companies. Of the largest companies that are active in Belgium, often in Flanders and the Brussels Capital Region (Ford, Audi, BASF...), most are foreign owned. There are almost no large industrial or service enterprises left with strongly national roots whose Belgian management might be mobilized in order to redress regional and other imbalances (Kurzer 1991). As a consequence, key business decisions are to a large extent taken outside Belgium, which is something that puts

considerable pressure on Belgium's national level corporatism (in terms of its capacity to stabilize macro-economic policies) (Bartolini 2005, 270; Luyten 2006, 365-94). In short, the differential income-basis within the country (in terms of depending on international trade) as well as the territorial differences in terms of overall income makes that the different regions increasingly tend to develop different political preferences when it comes to economic policies (Alesina and Spolaore 2003).

Territorial differences in overall income, in terms of the relative contribution to the overall Belgian economy, affect political preferences regarding redistribution. Table 2 has shown that Belgium is characterized by large differences in income distribution across regions. It can be argued that the median voter in, and within, different regions therefore develop distinct preferences with regard to overall tax policies and redistribution schemes (Bolton and Roland 1997). Overall, under the condition of limited mobility of labor, which is the case in multilingual Belgium, the median voter in a poor region will favor fiscal policies that redistribute in order to redress these imbalances. The median voter in a poor region will also prefer a fiscal regime, not at the regional level (Wallonia), but at a higher level of government (Belgium), in particular when this level has the institutional capability to organize generous redistributive policies. In contrast, the median voter in a rich region prefers more fiscal autonomy as this might result in less redistribution and lower taxes. In a unified tax regime with a high level of centralized redistributive policies, such as in Belgium, one of the problems is that the overall fiscal policies do not correspond with the preferences of a majority in each region separately. Although decentralizing a tax regime may imply efficiency losses (in large systems the tax burden can be spread over larger constituencies), under the condition of growing divergence in income distributions between regions, voters' tolerance

for such efficiency losses will increase.³ Yet, most public opinion research on voting behavior in Belgium seem to show that the motives of voters are not driven by nationalism or separatism (see table 2). We argue that it is doubtful whether explicit survey questions on voting motives really capture underlying economic motives for voting behavior. Voters indeed indicate that social, economic and fiscal policies (such as social security, unemployment and taxes in the table 2) are important incentives to vote for a particular party, more than the issue of state reform. However, such figures don't necessarily reveal why and how economic motives are important. Nationalist allegiances do not dominate voter choices, Economic preferences matter more, but the latter may as well relate to the governance level that voters conceive as the most adequate given their economic preferences. This would indicate that territorial reform plays, at least indirectly, an important role in party choice. The latter is quite plausible since it is precisely in these policy areas that Flemish and Walloon parties strongly diverge and to which they draw attention in electoral campaigns.

Table 2. Importance of topics for party choice among the Belgian electorate (percentages, reproduced from Deschouwer, 2010)

	Flanders		Wallonia	
	Very important	Most important	Very important	Most important
Financial crisis	49	32	67	39
Social security	49	23	52	14
Unemployment	41	11	59	14
Crime and Justice	38	8	54	8
Taxes	29	5	40	3
Environment	25	5	45	10
Transport and mobility	23	1	24	1
State reform	20	8	22	5
Immigration	18	4	28	3
Culture	9	1	29	1
Total	100% (N=1019)		100% (N=633)	

³ Under the condition of weak central redistributive policies, poorer regions may be tempted to seek more fiscal autonomy in order to be able to organize more redistributive policies. The case of the left-wing nationalist Scotland in the UK would be such an example. Similarly, having less centrally organized redistributive policies would temper Flemish separatism, but it may induce separatism in left-wing Wallonia (Bolton and Roland 1997, 1070).

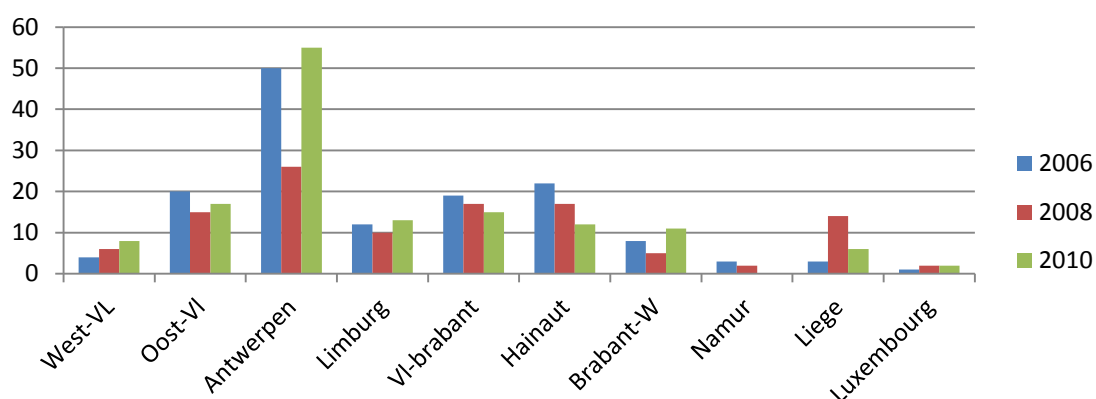
One might argue that a region cannot be reduced to one single medium voter in the sense that also within a region distinct preferences with regard to fiscal policies may exist. However, imbalances across regions may enhance unexpected political cohesion within regions as well. Inter-regional transfers, a unified tax regime and centralized redistribution imply a relative gain for rich citizens in a poor region characterized by a high degree of income inequality (the poor provinces of Wallonia such as Hainaut, Namur and Liège). In fact, sharing the tax burden with the rich region is beneficial for rich citizens living in the poor region (Brabant-Wallon) (Alesina and Spolaore 2003, 141-2). It seems that this is what is happening in Belgium, and most outspoken in Wallonia (table 3).

The poorer Walloon provinces (Hainaut, Namur and Liège) vote largely for parties (Parti Socialiste) that favor redistributive policies which are situated at the federal level and for which tax contributions by the richer Walloon, Flemish and Brussels provinces are crucial. The richer Francophone province Brabant-Wallon votes in favor of centre-right liberal parties (MR) that want to keep tax and redistributive policies centralized, but also favors lower labor costs, lower taxes and more flexible labor markets in order to improve international competitiveness. In contrast, Flemish citizens vote largely for parties which aim to reduce impact of the central tax regime on regional households and companies through separatism (Vlaams Belang) or stronger regional fiscal autonomy (N-VA, CD&V). It is also interesting to see that this voting pattern is more outspoken in the province of Antwerp, which is economically the most globalized province of Flanders (see figure 4). This divergence can also explain the different position of the social-democrats in the North and the South. The eagerness with which the Walloon socialists try to maintain central redistribution policies finds no parallel among their Flemish counterparts who are keen supporters of sub-national differentiation of new forms of social protection, labor market regulation and educational policies (see also Bartolini 2005, 275).

Table 3. 2010 Federal Elections Electoral Results – Provincial Breakdown (percentages)

	CD&V	NVA	VB	LDD	Open VLD	SPA	Groen!	MR	PS	Ecolo	CDH
Antwerpen	15,53	30,71	16,15	2,29	11,03	14,32	7,69				
Limburg	18,81	28,83	12,79	2,89	12,10	18,14	4,81				
Oost-Vlaanderen	15,40	28,15	12,33	3,19	17,40	14,15	7,36				
West-Vlaanderen	23,01	23,98	9,07	7,67	13,53	15,13	6,31				
Vlaams Brabant	16,26	27,05	9,61	3,14	14,51	19,79	9,79				
Brussels VL	6,94	12,23	5,03	1,13	7,17	4,64	3,02				
Brussels FR								19,17	16,74	7,99	8,07
Brabant-Wallon								35,79	22,48	16,33	12,89
Hainaut								17,52	48,18	11,47	9,41
Namur								24,65	32,20	9,41	11,47
Liege								22,30	35,79	13,83	13,93
Luxembourg								30,41	28,49	11,71	31,41

Source : <http://polling2010.belgium.be>

Figure 4. Number of foreign investment projects per province (source E&Y Investment Monitor 2011)

As such, this territorial cleavage structure has no direct relationship with the process of European economic integration; it also emerged, albeit in a different way, during periods in which Belgium was comparatively less trade dependent (for instance the interbellum). However, the global embeddedness of Belgian economy and how this contributes to territorial competition strengthens further divergence of fiscal and economic policy preferences. Foreign companies will invest in Belgium if their returns are profitable compared to investing elsewhere and foreign consumers will import from Belgium if the prices are competitive

compared to other foreign competitors. For small countries nominal interest rates and the price of manufactured and capital products are set abroad. The most important tool available to small countries in order to stabilize their macro-economic performance is to control nominal wages and to keep inflation under control (Jones 2008). As long as a consensus can be made between government, labor and business, small open countries can adjust and their economies may flourish. However, some sectors – in particular the public sector or less mobile sectors – might be tempted to pay higher wages as they are less subject to the competitive pressure from outside. Obviously, this wage setting will affect the general price level, i.e. will also have impact on labor costs in trade dependent sectors. Now, one of the problems in Belgium is that not all territorial parts are equally dependent on the global economy entailing that different parts of the country do not experience the same external pressure. This strengthens the territorial heterogeneity with regard to fiscal and economic policies within Belgium. If labor costs in Flanders remain high due to the Belgian fiscal regime, Flemish political leaders fear losing international attractiveness and competitiveness, which helps to explain the Flemish demands for fiscal autonomy. True, this vulnerability also exists in Wallonia, but comparatively the pressure is less than in Flanders and therefore the international pressure to keep labor costs under control is also less heavily felt.

In short, by focusing on European market integration this section showed that the implications of open markets play out differently in different regional parts of Belgium. We argued that pre-existing economic divergence between prosperous and less prosperous regions is enhanced by the impact of increasing competition, which in its turn affects policy preferences regarding fiscal and economic policies and regarding territorial reform of both political elites and their electorate: the outcome of this dimension of Europeanization eventually boils down to a pressure towards more regionalization of the Belgian polity.

Discussion: multiple EU pressures, divergent domestic outcomes

This contribution showed that two different logics of EU influence apply, resulting in seemingly opposing domestic trends. Hence, we have to conclude that the overall impact of the EU on Belgian territorial politics remains rather unpredictable. Next to administrative-bureaucratic consequences of European integration, which is a more direct form of Europeanization, there is also an indirect impact of market integration and broader globalization on the domestic environment. While the first transforms but doesn't hollow out the federal level, the second induces political preferences and political behavior that urge for further decentralization.

With regard to the bureaucratic interpenetration of Belgium and the EU, we argued that European policy areas which belong domestically to the competence sphere of the Regions, are an important defining factor for the functioning of the Belgian federation. In the late 1980s the Single European Act granted the European level institutions regulatory competences in policy areas that were domestically transferred to the newly created Belgian Regions and Communities. Environmental policy is one of the most obvious examples. Because of the almost exclusive allocation of powers and because of the absence of a legal norm hierarchy within Belgium, European regulations and directives have to be implemented in many of these areas by the Regions or Communities and not by the federal government. Thus, while Regions and Communities sometimes gained exclusive policy competences, they almost immediately lost major parts of these powers because of the continuing process of European integration. But how large is the institutional misfit between the European and the Belgian polity, and hence, how big are the consequences of European integration for domestic power constellations?

Table 4. Intersection of Belgian and European allocation of competencies

	EU	Belgium (allocation of competencies)	Belgium (representation categories)
Regulatory policies			
- movement of goods and services	4	Federal	I and II
- movement of capital	4	Federal	I
- movement of persons	4	Federal	I and II
- competition rules	4	Federal	II
- product standards	4	Mixed	II
- environmental standards	3	Mixed	III
- industrial health and safety standards	3	Mixed	II
- labor market standards	3	Federal	II
- financial services regulation	4	Federal	I and II
- energy production and distribution	3	Federal	II
Expenditure policies			
- agriculture price support	4	Mixed	V
- regional development	3	Mixed	I
- research and development	2	Sub-national	III
- social welfare and pensions	2	Federal	II
- public healthcare	2	Mixed	II
- public education	2	Sub-national	IV
- public transport	1	Mixed	II
- public housing	1	Sub-national	IV
Monetary and tax policies			
- setting of interest rates/credits	4	Federal	I
- issue of currency	4	Federal	I
- setting of sales and excise tax levels	4	Mixed	I
- setting of income tax levels	1	Federal	I
Citizen policies			
- immigration and asylum	3	Federal	I
- civil rights protection	3	Federal	I
- policing and public order	3	Federal	I
- criminal justice	2	Federal	I
Foreign policies			
- trade negotiations	4	Mixed	II
- diplomacy and IGO membership	3	Federal	I
- economic-military assistance	3	Federal	I
- defense and war	2	Federal	I
- humanitarian and development aid	3	Federal	I

Source: Hix 2005 and update of Beyers and Bursens 2006a

In table 4 we compare the intersection of the Belgian and the European allocation of competencies. For the EU we updated Simon Hix's 2005 classification to the post-Lisbon situation. A high score refers to strongly integrated policy areas (almost federal), while a low score refers to more intergovernmental modes of EU decision-making. For Belgium we make use of the representation categories in the currently operational Cooperation Agreement, which reflects the constitutional division of competences between the federal and the regional level. Category I, II and V imply that the federal level is dominant in EU-level representation, while category III and IV concern areas where Regions or Communities are the most prominent players (Beyers and Bursens 2006). In fact, there are only two policy areas where

the EU has extensive competencies and where the Belgian Regions are key players, namely agriculture and environment. In most strongly integrated areas, the federal government remains a key player (economic regulatory politics, monetary policies) while regional authorities have very little powers. In some weakly EU-integrated areas policy competencies are still centralized at the Belgian federal level (citizen politics, foreign policies, tax policies) while in other weakly integrated areas (education, public housing) the Regions and Communities are dominant.

This congruence table points to several implications. Firstly, following our argument that domestic cooperation is induced by the EU when competences are spread over several governance layers, table 4 clearly shows that EU-impact is differential. Cooperation is above all triggered in the ‘mixed’ categories while far less induced in the (quasi-)exclusive competency areas. Especially in policy fields where Communities have exclusive competences without EU relevance, cooperative devices are largely absent, precisely because there is not that much to coordinate. Secondly, this overview also demonstrates that the Belgian federal level still occupies a prominent role in EU policymaking processes. Thirdly, the nature of the competences that the EU will take on in the future, will shape the type of cooperative mechanisms that will emerge. The more the EU gets involved in mixed competences, the higher the pressure to cooperate will be. This not only applies to formal shifts of competences through treaty changes, such as in justice, police and climate policies, but also to new initiatives the EU takes within its current competence sphere. In the latter category the recent European economic policies provide us with an excellent example. The European Semester requires member states to draft national reform plans discussing the policies they intend to implement in the area of labor market, innovation, research and social policies. Many of these areas belong partly or even exclusively to the realm of the regional level, therefore also triggering regional reform plans and, important for our argument,

coordination of the reform plans between the regional and the federal level. Hence, the more the EU raises its activity in the sphere of economic governance, the more pressure will be put on the different governance layers within Belgium to cooperate and coordinate in order to comply with EU requirements.

In the second section we argued that regional political elites within Belgium are tempted to develop distinct preferences when it comes to fiscal, redistributive and social policies. Yet, as many fiscal policies remain centralized at the federal level, also after the latest state reform, regional political elites will strategically use their newly acquired political competencies in order to cope as adequately as possible with regional policy preferences. In the past, various policies of the Flemish government aimed to cope with these fiscal preferences (for instance the *jobkorting*, a tax benefit granted to everyone working in the Flemish region). The attempt of regional political elites, in particular in Flanders, to develop new social policies, such as the Flemish Care Insurance scheme, show that regional authorities seek to extend their powers within domestic legal confines, hence supporting decentralizing tendencies. Some legal scholars have even argued that the incremental process whereby regional authorities enlarge their social policy portfolio may gradually ‘mummify’ the federal social security, a policy area wherein - due to the lack of consensus - the status quo prevails and few innovative policy instruments are created (Velaers and Vanpraet 2006). The list of social benefits granted by regional authorities (in Flanders, Wallonia and Brussels) already includes student financial aid, care insurance, and public transport rebates. The coalition agreement of the current Flemish Government (July 9, 2009, see www.vlaanderen.be) envisages even more: the Flemish government explicitly aims at an elaborate decree on social protection including various schemes such as care insurance, a hospital insurance and additional child allowances. In case the Flemish Government and

Parliament realize these intentions and vote decrees installing a Flemish child allowance system or a Flemish hospital insurance scheme, it is highly likely that some Francophone political elites will try to stop these by arguing that social policies are integral parts of the federal social security competencies or that regionalizing social and fiscal policies may run counter to the requirements of the European single market (as they may distort labor mobility within Belgium). If the Court of Justice argues that new cases of policy differentiation within Belgium would jeopardize the free movement of people, the decentralization tendency would be halted. If, on the contrary, the Court doesn't want to mingle in domestic debates, Belgian Regions will be strengthened in their opinion that they can continue developing decentralized policies in order to cope with social, economic and fiscal policy challenges. In short, the impact of economic integration on centralizing or decentralizing socio-economic policies might go either way, depending on the cases at stake.

Apart from the eventual outcome, we expect that recent economic and budgetary policies by the European Commission and the European Council may aggravate the divergence in preferences between Flemish and Walloon political elites. Current EU policies introduced to fight the sovereign debt crisis, which are dominated by a monetarist drive towards austerity and expenditure cuts, are welcomed in very different ways by Flemish and Walloon political parties. Center and rightwing parties, who are dominant in Flanders, welcome EU policies and plea for unconditional compliance with EU induced austerity measures at the federal and the regional level. Clearly, a slim state, a balanced budget, low taxes, lowering labor costs and cuts in social benefits all fit nicely with the average preferences of the Flemish electorate. Left wing parties, which are more successful in the Francophone part of Belgium, are much more reluctant to accept these EU demands, which reflects the Walloon median voter's preference for deficit spending, high taxes and generous social security schemes. The impact of these EU policies will increase further to the extent

that the EU becomes a salient issue in the domestic context, especially when electoral campaigns will pick up the theme. In short, economic, monetary and recently also budgetary integration at the EU level reinforce pre-existing differences in political elites' preferences towards economic and fiscal policies, stimulating a trend towards more decentralization of policies and competences.

One of the major questions for the near future is how the Belgian federation is going to develop further. Will it fall apart, possibly in two sovereign entities, or will some centripetal forces prevent further and deeper fragmentation? In this contribution we discussed the role of EU membership in this process. Based on what we have outlined above no single trend can be dispelled, making it difficult to forecast the future of the Belgian federation based solely on its EU embeddedness. Indeed, our major conclusion is that 'Europe' has a substantial impact on the Belgian polity, but that this impact cannot be pinpointed to one single cause or outcome. What we contend is that Europe stands for multiple causes which generate various, sometimes even somewhat contradictory, outcomes. The parallel evolution of federalization and European integration has led to a complex system of multi-level governance in Belgium. Political-administrative integration transforms the federal level, leads to cooperative political practices and even to centralizing tendencies and. This trend may somewhat neutralize pressures for more regional autonomy. However, Europe also stimulates the hollowing out of the central state and the further regionalization of Belgium, because of the creation of European supranational policies and institutions which de-monopolize the production of public goods and which makes Europe an important point of reference for regional political elites. Concluding, the EU clearly affects territorial politics in Belgium, but, as the European causes are multidimensional, also the effects, albeit substantial, will be diverse.

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