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REPORT ON REGIONAL DEVELOPMENT PROBLEMS
AND POLICIES IN BELGIUM AND LUXEMBOURG

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
Paris 1993

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PRELIMINARY REMARKS

Although, on the whole, the analyses and approaches contained in this report remain valid, some major institutional changes have nevertheless taken place in Belgium since it was drafted. Parliament has recently adopted a reform which transforms the Kingdom into a federal State. This reform is the outcome of a process that began in the 1960s, giving greater autonomy to Flanders, the Brussels region and Wallonia.

In July 1993 further changes to the Constitution and statute law continued the reform of the State, Belgium is now a federal State made up of Communities and Regions. A range of provisions were introduced to set up new institutions and to finalise the transfer of authority to federal entities.

Members of the legislative Assemblies of the component parts of the Kingdom, for instance, will be elected by direct universal suffrage.

Article 68 of the Constitution states that the king conducts international relations (without prejudice to the powers of the Communities and Regions to regulate international co-operation in those areas for which they are responsible) and concludes treaties (again except for treaties concerning areas for which the Communities and Regions are responsible).

It is proposed to include a section (Title III) in the Constitution defining the powers of the federal government.

Some powers attaching to the federal State have already been enumerated in special legislation (Institutional Reforms Act of 8 August 1980, as amended by the Special Acts of 8 August 1988 and 16 July 1993) dealing with the reform process. These include: the status of persons and property, the legislative framework of economic union, currency, finances, energy production, tariffs, the entire nuclear cycle, labour law and social security, certain aspects of health policy, co-ordination, co-operation and trade promotion policies, etc.

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The constitutional changes mentioned above should be borne in mind when reading this report.

PREFATORY NOTE

This report is part of a series of country reports which the OECD Industry Committee's Working Party on Regional Development Policies is devoting to regional problems and measures to overcome them.

In order to prepare this report members of the Working Party and the Secretariat made a study visit to Belgium and Luxembourg from 9 to 14 September 1990, at the invitation of the Governments of the two countries.

After being received in Brussels by officials of the Ministry of Economic Affairs for a general briefing, the Working Party visited Flanders and Wallonia before going on to the Grand Duchy of Luxembourg.

In Flanders, the Working Party visited the Province of Western Flanders (Bruges, Zeebrugge), for briefings on the regional development policies implemented by the Western Flanders Regional Development Company in a province which has a record of under-industrialisation and had the lowest income and highest unemployment rate in Belgium in the 1950's and 1960's. The Working Party then travelled to the Province of Limbourg in eastern Belgium, which is still confronted with serious restructuring problems that have brought high unemployment and are mainly connected with the coal mining crisis and pit closures (in 1986).

The remainder of the visit in Belgium covered the Walloon Region, and mainly the Provinces of Liège, Brabant and Hainaut as well as the Province of Luxembourg. Briefings were provided on the problems in this region which is historically the most prosperous in the country but is confronted generally with serious restructuring problems because of the crisis in the traditional mining and steel sectors.

The last part of the visit concerned areas in the Grand Duchy of Luxembourg which are experiencing worse industrial restructuring or under-development problems than the rest of the country.

In the course of a final meeting the members of the Working Party commented on the main issues. In the case of Belgium that comments mainly concerned two major groups of issues. The first related to the impact on regional policies of the recent change from a centralised to a federal system of government, while the second related to each region's or province's policy initiatives. The Delegates considered that albeit on a smaller scale, the problems of the Grand Duchy of Luxembourg were more like the standard regional restructuring and under-development ones affecting countries with a centralised government system. On that occasion the members of the Working Party expressed their appreciation for the warm welcome and generous hospitality which they had everywhere received.

This report reviews the issues studied by the OECD Working Party during the study-visit and their subsequent reactions. The contents of the report are based on the proceedings of the Working Party, the findings of the study-visit, and documents provided by government authorities in the two countries visited. The report has been written by Mr. Laurent Davezies, Consultant. It has been approved by the Working Party. The report is published under the responsibility of the Secretary-General.

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REGIONAL POLICY IN BELGIUM

I

INTRODUCTION

The Kingdom of Belgium is a small and densely populated country in Europe. Belgium has a land area of 30 500 square kilometers and a population of some 10 million inhabitants. With 325 inhabitants per square kilometer in 1989, this makes Belgium one of the most densely populated countries in the OECD area, ranking it below the Netherlands and almost on a par with Japan. Belgium is also a wealthy country and its per capita income of \$14 490 (1988) means that the country ranks 13th in the OECD area and 5th in the EEC.

As a small, densely populated and wealthy country, Belgium would seem to exhibit fewer factors of regional inequality than many larger or poorer Member countries. This is by no means true, however. Regional issues have played, and indeed still play, a far greater role in Belgium today than in many other OECD Member countries. In fact, the regions have probably been the single most dominant issue in Belgian public policy-making over the last few decades. After a long and orchestrated transfer of power to the regions, the latest Act on regionalisation, adopted in August 1988, would seem to set the seal on Belgium's transition from a centralised government, to a federal system of government.

The issue of the regions -- and the numerous policy initiatives it has prompted -- is based on the existence of inequalities in the development of different geographic areas of the country, but also, and perhaps more specifically, on the fact that Belgium's regions have distinctive and highly contrasting characters which reflect the singular history and geography of this country.

To set the scene for our analysis of regional problems in Belgium, and the measures with which policy-makers have attempted to remedy them, we shall begin by briefly outlining the specific economic, geographical and demographic characteristics of this country.

The Belgian economy

Belgium has practically never had any natural resources, except for its coal deposits which were still being mined until fairly recently. Agriculture is practised on an extremely small scale (accounting for 2 per cent of GDP in 1988). Belgium's industrial output is chiefly based on imports of raw materials which are transformed into products and then re-exported. Today, Belgium is one of the OECD Member countries most involved in international

trade. In 1988, for example, exports of goods and merchandise accounted for 59 per cent of Belgium's GDP. This heavy dependency on foreign trade means that the Belgian economy is highly sensitive to movements in international markets, to which it has had to respond rapidly.

The Belgium now entering the 1990s is a country that would largely seem to have successfully adapted to the new constraints of the world economy. As a result of a programme of structural adjustment adopted in the early 1980s, the Belgian economy is now enjoying the considerable success reported in the OECD economic survey of that country (OECD, 1990a). Belgium, whose integration into the international trading system has been dictated by its size and geographical location, has demonstrated its ability to adapt to changes in the world economy and has capitalised on the opportunities offered by the favourable international economic climate. A few simple statistics provide a clear illustration of Belgium's economic success.

Belgium's GDP grew by 4.0 and 4.5 per cent respectively in 1988 and 1989, rates which were higher than the EEC average in both years. In 1989 and 1990, capital expenditure by Belgian firms rose to its highest level in ten years, thereby strengthening the competitiveness of Belgian goods and services. The higher employment generated by this increase, coupled with a lowering of direct taxation as a result of fiscal reform in 1988, generated a sharp rise in the disposable income of households.

The government's desire to maintain Belgium's competitiveness vis-à-vis its main trading partners was reflected in the 1989 Act on the maintenance of competitiveness. This act was designed to bring home to all social actors the significance of the external constraint on Belgium's economy, and to impress upon all parties the need to rein in production costs. The Act also authorised the government to intervene in the event of a downturn in the national economy, notably by restricting - subject to approval by Parliament - wage increases and by lowering the tax burden on firms.

Since 1985 Belgium has had greater success than most other OECD Member countries in reducing unemployment, and since 1987 unemployment in Belgium has fallen at twice the average rate in the OCDE area. In 1990, the official rate of unemployment in Belgium was 7.6 per cent, i.e. below the average for the 12 EEC Member countries.

It is also worth noting another interesting feature of unemployment in Belgium: Belgium is the EC Member country with the largest difference between male and female rates of unemployment (Table 1). In 1989, male unemployment stood at 6 per cent and female unemployment at 12 per cent. This wide divergence, which as the participants in the study trip noted is even starker in certain regions (in 1987, for example, the rates were 5.4 and 28.6 per cent respectively in the Province of Limburg), casts doubt on the significance of the national rate of unemployment in a country where, as Belgian officials pointed out several times in the course of the trip, there is virtually no time limit on entitlement to benefits and where 40 per cent of those registered as unemployed were married women (as opposed to 20 per cent in the EC as a whole).

A growing problem in Belgium, as in an increasing number of industrialised countries, is the shortage of skilled workers in certain segments of the labour market, a weakness which tends to fuel inflationary

pressures. In 1989, 70 per cent of the registered unemployed had received little instruction and had failed to complete their secondary school studies, with the result that they lack the requisite level of qualifications to be considered as a reserve labour force. The employment problem in Belgium cannot be seen solely in terms of creating new jobs for the unemployed, but in terms of providing firms with the skilled workers they need or encouraging firms to compensate for this lack through increased productivity.

Table 1

UNEMPLOYMENT RATES IN EC MEMBER COUNTRIES IN 1987. MEN AND WOMEN.

	Unemployment rate Total	Unemployment rate Men (1)	Unemployment rate Women (2)	Index (2)/(1)
Belgium•	11.3	7.3	17.6	241
Denmark••	6.1••4.8••	7.6••	158	
Germany••	6.3••5.4••	7.8••	144	
Greece••	7.4••5.1••	11.4••	223	
Spain••	20.8•	17.5••	27.6••	158
France••	10.4••8.3••	13.2••	159	
Ireland••	18.1•	17.7••	19.1••	108
Italy••	10.6••7.5••	16.4••	218	
Luxembourg•	2.7••1.9••	4.1••	216	
Netherlands•	9.7••8.2••	12.5••	152	
Portugal•	7.1••5.5••	9.3••	169	
United Kingdom•	14.7•	16.4••	12.4••	76
EEC 12••	10.6••9••	13••	144	

Source: Eurostat, 1988.

••

One major economic problem that Belgium has not as yet managed to resolve is the level of public debt, which weighs heavily on Belgium's economy. Public debt amounted to 125 per cent of Belgium's GDP in 1988. Although the rising public deficit has now been checked and the ratio of public debt to GDP has been steadily declining over the last few years, their burden in absolute terms still remains extremely high. Belgium is among the OECD Member countries with the highest ratio of public debt. In 1989, 22 per cent of national expenditure was devoted to servicing this debt. One of the issues raised in the government's drive to reduce these imbalances was the way in which such debt-servicing was crowding out certain public expenditures.

In the later half of the 1980s Belgium made a major effort to reduce these imbalances, notably by cutting back on government expenditure. However, this effort has been directed more towards capital expenditure than towards current outlays. The outcome has been a sharp decline in investment since the

beginning of the 1980s, falling from 3.6 per cent of GDP in 1980 to 1.4 per cent in 1989 (Table 2). This raises the question of the impact such reductions will have on the country, should they be continued, in terms of the future quality of its infrastructure.

Table 2

SHARE OF CAPITAL EXPENDITURE AND INTEREST PAYMENTS IN GOVERNMENT EXPENDITURE AS A PERCENTAGE OF GDP IN 1989. SELECTED COUNTRIES.

••	Belgium	Germany	France	Italy	Japon1	Netherlands	U.K.
••							
Capital expenditure		1.4	2.8	3.5	4.5	5.4	3.6
Interest payments		10.3	2.7	2.9	9.0	4.2	5.9
1.	1988.						

Source: OECD Secretariat. OECD Economic Survey of Belgium, 1990-1991.

Geography of Belgium

Belgium, as we have commented earlier, is a small country endowed with few natural resources. We have already seen the impact this has had on the intensity of Belgium's trading relations with other countries, as well as the need for Belgium, to a greater degree than its trading partners, to remain economically competitive.

The geography of Belgium has also influenced the economy, and particularly that of the regions, in other major respects. Belgium has no natural boundaries, apart from its north-west coastline. Furthermore, the country lies astride the historical boundary dividing the French-speaking south from the German-speaking north. Belgium is therefore an intrinsically outwards-looking country that is drawn naturally towards its neighbours rather than turned in upon itself.

One of the most eloquent witnesses to this fact is Belgium's multilingualism. Belgium has three official languages. The Flemish population (5.7 million inhabitants) speak Dutch, and the Walloons (3.2 million inhabitants) speak French. The independent Commune of Brussels (1 million inhabitants) is divided equally between Flemings and Walloons, although the majority of the population is French-speaking. A small German-speaking minority (60 000) lives in the eastern part of the country close to the border with Germany.

This division of the country, in both regional and linguistic terms, has probably been one of the major driving forces behind the development of Belgium's political and administrative system. Over the years a *modus vivendi* has been achieved between the French-speaking population, which had dominated the country since independence in 1830 through the highly centralised system of government, and the Flemish-speaking population, which had traditionally been less industrialised and therefore poorer, but which has made remarkable economic progress since the end of the second world war. The following section of this report describes how this new balance of power was enshrined in the legislation on regionalisation which led up to the introduction of a federal system of government in Belgium.

Belgium's linguistic and regional divisions are often accused of having cost the country dearly. In fact, it can be argued that these very divisions are one of the reasons for the current success of the Belgian economy. A key factor in this success, which has already been touched upon earlier, is the exceptional receptiveness of the Belgian people to foreign cultures. One noteworthy sign of this openness is the widespread use of English in the country. In some ways, English has now become the common language of Belgium, where the need to choose between either Dutch or French can sometimes lead to conflict. At school, Belgian children from the Flemish and Walloon communities are increasingly learning English as a second language rather than one of Belgium's other official languages. Foreign TV programmes - and English-language programmes in particular, for which there is strong demand - are widely available on cable transmission networks. Orders given to linguistically mixed crews on ships in the Belgian navy are generally given in English. This widespread use of English might well explain the considerable success that Belgium has had in attracting international investment. From 1981 and 1988, according to OECD statistics, Belgium ranked among the the top five Member countries in terms of per capita receipts of foreign direct investment. During this period, total foreign investment in Belgium amounted to \$8.3 billion, just slightly less than similar investment in Germany (\$8.7 billion).

Another feature of Belgium's geographical location is that most of its economic regions are also border regions. All the Belgian provinces, except for Brabant, share a common border with another European country. This particularity, as well as the lack of natural borders, explains the large number of genuinely transborder zones in Belgium: the Gand-Terneuzen area on the border with the Netherlands; the Liège-Maastricht-Aachen area on the border with Germany and the Netherlands; and the Lille-Roubaix-Tourcoing-Courtrai-Tournai area on the border with France. Yet another of these areas, shared with the Grand Duchy of Luxembourg and France (described later in this report) is currently emerging as a location for a major experiment in transborder co-operation: the European Development Pole.

This brief overview of the peculiarities of the background against which Belgian regional policies are set provides an insight into the valuable lessons to be learned from Belgium's experience. Belgium exhibits, perhaps more strikingly than other countries, several features of direct interest to the OECD Working Party on Regional Policies: i) Belgium and its regions are particularly vulnerable to international competition; ii) Belgium has

suffered, perhaps more spectacularly than any other country, a kind of reversal of the economic fortunes of its regions: Wallonia, traditionally the most highly industrialised of Belgium's regions, is currently facing a pressing need for conversion and redevelopment, whereas Flanders, which historically lagged behind Wallonia in terms of industrial development, is now emerging as the economic powerhouse of the country; finally, (iii) Belgium, which is currently facing a serious crisis with regard to the adjustment of its public policies, has firmly committed itself to persevering in the drive towards full decentralisation and the introduction of a federal system of government.

This report will not review these three items in the order in which they are listed above. Instead, by examining the various facets of Belgian regional policy, it will attempt to analyse the choices that Belgium has made in responding to these various challenges, and thus gain a better understanding of the merits and demerits of that policy with regard to the regional balance of the country. In the course of the study visit, delegates concentrated on two main issues. The first was the impact of government reforms on regional policies; the second concerned the policies implemented by individual regions or provinces. In other words, the first concerned the challenging of regional policy actions at national level as a result of the introduction of a federal power structure; the second, the regional policy initiatives launched by the regions. What we need to determine is whether or not the latter would be able to compensate for the virtual disappearance of the former by offering a higher return on expenditure.

In an attempt to answer these questions, this report will first address (section II) regional problems in Belgium before turning to (section III) the major institutional reforms currently in progress and the implications the latter hold for the regional economic balance. The discussion will then shift (section IV) to the objectives of regional policy, as exemplified in the two major regions in Belgium. The final section (section V), before concluding, will review the instruments of regional policy that have been introduced by the various Belgian authorities.

II

REGIONAL PROBLEMS IN BELGIUM

There are several ways in which to approach a map of Belgium. The first approach is to divide the country into two major regions, Flanders and Wallonia, and the capital city - and region in its own right - Brussels. Although this approach might seem to be somewhat simplistic, it has an important bearing, and one that may well become even more important in the future, on the problem of regional inequality in Belgium, given the growing economic role of the political and administrative bodies responsible for government of the regions. An alternative and more detailed approach would consist in studying the map more closely in order to identify the various types of problem confronting different economic zones. This latter approach is based on an individual analysis of Belgium's nine provinces (see the map of administrative delimitation in Belgium, map 1). Here, the province of Brabant clearly emerges as an administrative anomaly. Eight out of the nine provinces are fully incorporated into either Wallonia (Hainaut, Namur, Luxembourg, Liège) or Flanders (West-Vlaanderen, Oost-Vlaanderen, Antwerpen and Limburg). The ninth is an exception to this root and branch division. Brabant comprises the Brussels region and is a part of both Flanders and Wallonia. This curious division explains why regional disparities calculated for all nine provinces as a whole are frequently lower than those calculated for the three regions, a rare occurrence in regional analysis.

The first thing that strikes a visitor to Belgium is the fact that the country is divided into two major regions which are both culturally and economically distinct. As noted in the introduction, the history of these two regions reveals a kind of reversal in the fortunes of the two regions. Flanders, historically the poorest region in the country, has gradually been overtaking Wallonia since the end of the second world war. Before we analyse the reasons for this reversal, the progress achieved by the regions can be measured by reviewing recent changes in certain indicators: population, production, unemployment.

Regional demographic trends

Flanders is home to half of the country's population, Wallonia to a third, and the Brussels region to the remainder. Table 3 and Map 2 illustrates the demographic trends in various parts of the country. The areas where growth is strongest are to be found in Flanders (+5% between 1970 and 1985); the population of all Flemish provinces increased between these two dates. The province of Limburg, which, as we shall see, has had to contend with serious development problems, is the province where growth is highest (+12 per cent). In contrast, the provinces in Wallonia have suffered a decline that is not

Map 1

THE PROVINCES AND REGIONS OF BELGIUM

reflected in the positive rate of growth posted by the region. The increase in the population of Wallonia (+1.5 per cent) is primarily due to an exodus of people from the Brussels region (-9.1 per cent), which, like most major cities in the industrialised world, is experiencing a kind of demographic explosion that is driving its population out into peripheral areas, that is to say the Province of Brabant. The overall population of the four exclusively Walloon provinces is in fact falling, particularly in provinces with a long industrial tradition such as Hainaut and Liège.

It should be noted that, apart from the loss of population from the Brussels conurbation, these demographic mechanisms are by no means a new development and are simply a continuation -- albeit at a slower pace -- of a trend first observed at the end of the second world war.

In 1985, as shown on Table 4, it was primarily the Flemish provinces of Antwerpen, West-Vlaanderen and Limburg which reported slightly negative migratory balances. All three are provinces whose population has in fact increased. It is hard to pin down the reason for these migrations which are due, perhaps, to the expansion of other provinces, Antwerpen for example, or to strong demographic pressure from younger strata of the population leaving relatively poor provinces to study or to seek work in other provinces (Limburg), or even to foreign workers returning to their home countries. The only province in Wallonia with a negative migratory balance is Hainaut, whose population declined fairly steadily between 1970 and 1985. On the whole, however, such inter-regional migrations -- which are often considered to be a factor of regional readjustment as well as an indication of regional problems -- are relatively limited. A similar slowdown in inter-regional migration during the 1980s was observed in most industrialised countries. Nonetheless, we shall attempt to determine, in later sections of this report, whether or not this limited mobility, which can therefore contribute little to the readjustment of regional imbalances, reflects the existence of a kind of cultural and linguistic barrier between the two largest regions in the country.

Table 3

REGIONAL TRENDS IN POPULATION GROWTH: 1970-1985

...	• 1985 Population • (thousands)•	1970 Population (thousands)	Percentage change 1970-1985
Belgium...	9 858•• 9 639••	2.3	
Level NUTS 1 (regions)••			
Flanders••	5 673•• 5 403••	5.0	
Wallonia••	3 207•• 3 159••	1.5	
Brussels region••	978•• 1 076••	-9.1	
Antwerpen••	1 582•• 1 531••	3.3	
Limburg•••••731••	650••	12.5	
Oost-Vlaanderen••	1 330•• 1 308••	1.7	
West-Vlaanderen••	1 090•• 1 052••	3.6	
Total for Flemish provinces	4 733•• 4 541••	4.2	
Hainaut•••	1 280•• 1 319••	-3.0	
Liège•••••992••	1 010••	-1.8	
Luxembourg••••225••	217••	3.7	
Namur•••••412••	381••	8.1	
Total for Walloon provinces	2 909•• 2 927••	-0.6	
Brabant•••	2 218•• 2 171••	2.2	

Source: Eurostat

Table 4
MIGRATORY BALANCES OF PROVINCES: 1985.

	Migratory balance	
	Absolute value	Percentage of the population
..	.	
Antwerpen..	-694..	-0.04
Brabant...	1 237..	0.06
Hainaut...	-1 031..	0.08
Liège...	-47..	0.00
Limburg...	-871..	-0.12
Luxembourg..	248..	0.11
Namur...	923..	0.22
West-Vlaanderen..	-482..	-0.04
Oost-Vlaanderen..	717..	0.05

Source: Eurostat.

Trends in regional output

Regional disparities in per capita GDP in Belgium are not particularly wide compared with those reported in other European countries, as shown by Table 5. (The international comparison of such disparities should be approached with caution, however, given the obvious bias that results from the way in which each country is divided into regions). Over the period 1986-1987-1988 the ratio of the per capita GDP for the least favoured region (Wallonia) to that of the richest region (Brussels) was 83.4/154.2, i.e. 0.54. The same ratio for the least favoured and the richest provinces (Hainaut and Antwerpen respectively) was 77.6/124.8, i.e. 0.62. It should be noted, however, that the province of Antwerpen, which has the highest average income among the provinces, comprises both the heavily industrialised urban area around Antwerp, which is even richer than the provincial average indicates, and the Kempenland plateau which by contrast is extremely poor. The division of Belgium into three regions produces wider disparities than division of the country into nine provinces. This is due, as noted earlier, to the administrative anomalies of Brabant and the Brussels region.

A comparison of trends in per capita GDP and GDP per employee for the regions and the provinces (Table 6 and Map 3) provides some measure of the difficulty faced in attempting to interpret regional disequilibria in Belgium.

Table 5

REGIONAL DISPARITIES BETWEEN EUROPEAN COUNTRIES IN 1984
PER CAPITA GDP (COEFFICIENTS WEIGHTED ACCORDING TO POPULATION)

Country	Number of regions		Coefficient	Number of regions		Coefficient
Belgium••	3•	0.19•	9•	0.15		
Danemark•	1•	0•	3•	0.13		
Germany••	11•	0.13•	33•	0.18		
Spain••	7•	0.15•	18•	0.21		
France••	8•	0.23•	22•	0.24		
Greece••	3•	0.05•	9•	0.08		
Italy••	11•	0.23•	20•	0.24		
Netherlands•	4•	0.16•	11•	0.28		
Portugal•	3•	0.19•	7•	0.22		
United Kingdom•	11•	0.1•	35•	0.18		

Calculations based on Eurostat figures.

It is evident that the disparities measured in terms of per capita GDP are much larger than those measured in GDP per employee and that the ranking of the different regions, with regard to one or the other of these two indicators, is not the same. This means that a large portion of the disparities in output between the regions (and also the provinces) are due not so much to differences in the productivity of the labour force in employment as to the ratio of the labour force in employment to total population in the various regions. In other words account has to be taken of the weight of the inactive. Thus, in 1984 the per capita GDP of the Brussels region was extremely high (152), indeed much higher than that of Flanders (101) or Wallonia (82). An analysis of regional GDP per employee yields a completely different set of results, however. Flanders has the highest level (107), followed by Wallonia (97) and then Brussels (87). With the latter approach, based on output per employee, the inequalities are far less pronounced. This divergence between the two measurements can make analysis a problem: depending upon whether the approach to regional problems is based on either household income or productive potential, preference will be given to either per capita GDP or GDP per employee respectively. In 1984, for example, the per capita GDP of three Flemish provinces (Oost- and West-Vlaanderen and Limburg), was apparently below the national average, but in terms of GDP per employee all three provinces were above the national average. The same was true for the province of Liège. In the province of Brabant, however, the situation was reversed: the province was well placed in terms of per capita GDP, but performed badly in terms of GDP per employee.

Table 6

DISPARITIES BETWEEN PER CAPITA GDP AND GDP PER EMPLOYEE
1970 AND 1984 AND AVERAGE FOR 1986-1988

	•	Per capita			Per employee		
		1970 GDP index	1984 GDP index	86-87-88* Gross value-added index	1970 GDP index	1984 GDP index	86-87-88*
•• Gross value-added index							
••							
••							
••							
Belgium••		100•100•	100•	100	100		
Flemish region•		97•101•	101•	105	107	106	
Walloon region•		87• 82•	83•	97	97	97	
Brussels region•		154•152•	153•	91	87	86	
Antwerpen•		117•125•	124•	113	119	116	
Limburg••		77• 93•	92•	93	107	107	
Oost-Vlaanderen•		83• 93•	94•	101	105	104	
West-Vlaanderen•		91• 99•	99•	99	100	99	
Hainaut••		81• 76•	77•	96	94	94	
Liège••		100• 95•	95•	100	101	100	
Luxembourg•		72• 80•	80•	92	96	96	
Namur••		83• 78•	78•	98	95	95	
Brabant••		119•111•	111•	96	90	90	

* Average for 1986,1987 and 1988.

Sources: Eurostat and "The Regions in the 1990s", CEC, Brussels, 1991.

Map 2

POPULATION MOVEMENTS BETWEEN THE BELGIAN PROVINCES 1970-1985

Maps 3

TRENDS IN PER CAPITA GDP AND GDP PER EMPLOYEE
BELGIAN PROVINCES: 1970-1984.

The inequalities between regions or provinces in Belgium are tending to increase. Between 1970 and 1984, that is to say during the period of structural adjustment, the (unweighted) coefficient for variations in output for the provinces, per capita and per employee, increased slightly: from 0.16 to 0.17 for the former, and from 0.06 to 0.08 for the latter. However, variations in the minimum/maximum ratio would seem to indicate that this disparity is either stable (per capita GDP) or decreasing (GDP per employee). This means that although the range of regional divergences is becoming smaller, the situation in individual regions has moved them to the limits of this range. The trends in regional situations in the late 1980s were by and large the same (Table 6), with a very slight decrease in disparities in regional income.

In terms of both per capita GDP and GDP per employee, the Flemish provinces outperformed the Walloon provinces. Output in Flanders and all the Flemish provinces grew substantially, with Limburg and Oost-Vlaanderen achieving the highest rates of growth.

Overall output in the Walloon region, as measured by both indicators, either stagnated or declined, the only exceptions being the province of Liège, whose GDP per employee showed a small improvement, and the province of Luxembourg where there were slight rises in both indicators.

This very typical pattern of development, on both sides of the boundary between the two main regions in Belgium, is by no means a new phenomenon. It was first observed in the 1950s and 1960s, when growth rates in the Flemish provinces -- Limburg in particular -- far outstripped those in the Walloon provinces. The true extent of this reversal in the situation of the Belgian regions is illustrated by the fact that in 1955 the per capita output of the Flanders region was 87, compared with 101 in the Walloon region.

In short, the provinces facing the greatest difficulties or development lags are, in decreasing order, Hainaut and Namur, with the relative position of Hainaut worsening, followed by the provinces of Luxembourg, Oost-Vlaanderen and Limburg, whose relative positions are improving. These were the provinces (except for Oost-Vlaanderen) visited by the Working Party in the course of its study-visit.

Regional trends in unemployment

Analysis of the regional distribution of unemployment, which doubled between 1977 and 1987, confirms the broad pattern of regional disequilibria described above. Here too, an even clearer picture emerges of the deepening divide between the Flemish and Walloon provinces. Unemployment declined significantly in all Flemish provinces between 1977 and 1987 (see Table 7). Indeed, the only Flemish province whose rate of unemployment exceeded the national average in 1987 was Limburg, where, with an index of 125, the situation would seem to be critical. We need to bear in mind, however, the highly specific nature of this pattern of unemployment: male unemployment in Limburg in 1987 amounted to 5.4 per cent (the lowest rate in Belgium after West-Vlaanderen), whereas female unemployment amounted to 28.6 per cent, well above the rates reported in the other provinces. In overall terms, after a period during which unemployment increased throughout the country, the rate of male unemployment in the Flemish region as a whole fell to 5.2 per cent in 1987.

The situation in Wallonia and the Walloon provinces was diametrically opposed to that in the Flemish region: between 1977 and 1987, unemployment in Wallonia grew 30 per cent faster than in Flanders. Between 1977 and 1987, the unemployment growth rate in all Walloon provinces was higher than that in the Flemish provinces and in 1987 it was above the national average. The provinces hardest hit were Hainaut (149), Liège (126) and Namur (120). It should be noted that the high female unemployment is only partly to blame for the high unemployment rates in the Walloon provinces. The overall male unemployment rates were twice as high in the Walloon provinces as they were in the Flemish provinces, amounting on average to 10.5 per cent against 5.2 per cent in Flanders.

This review of unemployment rates confirms the conclusions drawn above regarding the provinces currently experiencing difficulties. The general trends in the regions are relatively consistent; the overall picture in the Flemish provinces is one of general improvement, although development varies from one province to another, whereas the situation in the Walloon provinces is one of steadily worsening unemployment.

In the more recent period, from 1987 to 1990, the economic recovery has led to a significant reduction in unemployment in all regions of the country. The rate at which unemployment has fallen, however, has not been the same in all parts of the country. The sharper decline in unemployment in the Flemish provinces has exacerbated the disparities between regions (see Table 7). In 1990, only one Flemish province experienced a level of unemployment higher than the national average (due primarily, as noted above, to female unemployment), whereas unemployment levels in all the Walloon provinces, except for Luxembourg, were well above the national average. The gap between the provinces at the top and bottom ends of the scale (West-Vlaanderen and Hainaut) widened from 1 to 2.2 in 1987 to 1 to 3.4 in 1990.

The scale of the differences in regional unemployment rates in Belgium may be placed in context by comparing them with those reported in neighbouring industrialised countries (Table 8). The disparity coefficient for a three-region country like Belgium is close to that found in France and the United Kingdom, divided into eleven regions, although it might have been expected to be closer to the relatively low coefficient reported in another small country like the Netherlands which is divided into four regions.

If the country is broken down into 26 zones, the maximum deviation between unemployment rates leaps dramatically: from 4.4 to 27.1 per cent. Furthermore, as noted by the OECD (Economic Survey, 1990a), the gap is currently growing wider.

Economists generally consider that migratory flows can help to reduce economic disparities between regions. In the case of Belgium, however, these mechanisms would seem to have played virtually no part in restoring the inter-regional balance of employment, primarily because the migratory mechanisms described above appear to be fairly limited and, if anything, have tended to decline as compared with the preceding decade (although the slowdown in inter-regional migration is a phenomenon that has been observed in many industrialised countries). What is unusual in Belgium's case is the existence of a kind of linguistic barrier between the two major regions that apparently deters potential migrants. Table 9 shows that less than 10 per cent of Flemish or Walloon migrants leaving their province or region move to provinces located in the other major linguistic area.

Table 7

REGIONAL UNEMPLOYMENT RATES: 1977, 1987 AND 1990
PERCENTAGES AND INDICES

		1977	1987	1990	1977	1987	1990
••	Total	• Total	Total	Total	Total	• Total	
••	unempl.	• unempl.	unempl.	unempl.	unempl.	• unempl.	
••	rate	• rate	rate	rate	rate	• rate	
	•	as a %	• as a %	as a %	as an	• as an	• as an
••			•	•	index	index	index
Belgium•••	5.7•	11.3•	7.6	100•100•	100		
NUTS 1 level (regions)							
Flemish region••	5.3•	9.4•	5.5	93• 83•	72		
Walloon region••	6.5•	14.4•	10.8	114•127•	142		
Brussels region••	5.3•	12.2•	9.9	93•108•	130		
NUTS 2 (provinces)							
Antwerpen••	5.4•	10.4•	6.5	95• 92•	86		
Limburg•••	8.3•	14.1•	8.8	146•125•	116		
Oost-Vlaanderen••	4.9•	9•	5.3	86• 80•	70		
West-Vlaanderen••	4.2•	7.6•	3.8	74• 67•	50		
Hainaut•••	6.8•	16.8•	13.1	119•149•	172		
Liège•••	8•	14.2•	11•	140•126•	145		
Luxembourg••	3.5•	11.3•	5.9	61•100•	78		
Namur•••	4.5•	13.6•	9.9	79•120•	130		
Brabant•••	5.1•	9.5•	6.7	89• 84•	88		

Sources: Eurostat and "The regions in the 1990s", CEC, 1991.

Table 8

DISPARITIES BETWEEN STANDARDISED REGIONAL UNEMPLOYMENT RATES
SELECTED COUNTRIES, 1987

Country	Number of regions	National rate	Standard deviation	Coefficient of variation
Belgium••	3••	11.08••	2.22•	0.2•
France••	11••	10.58••	1.7••	0.16
Germany••	11••	6.2••	2.06•	0.33
Netherlands•	4••	9.57••	0.65•	0.07
United Kingdom•	11••	10.26••	2.59•	0.25

Source: OECD, Employment Outlook, OECD, 1989.

Table 9

DESTINATION OF 100 MIGRANTS MOVING FROM
ONE BELGIAN PROVINCE TO ANOTHER: 1985

...	To	Flemish Province	Walloon Province	Brabant
From				
Flemish province••	53••	10••	37	
Walloon province••	8••	59••	33	
Brabant••••	49••	51		

Source: Based on statistics published by Eurostat.

Determinants of regional trends

Two factors are chiefly responsible for the main regional inequalities in Belgium: (i) the tardy development of certain areas of the country; and (ii) industrial redeployment in certain areas. It is mainly the northern part of the country, notably West- and Oost-Vlaanderen and Limburg, which historically has lagged behind in terms of industrial development. In the 1960s, the main seats of unemployment were to be found in these less developed areas rather than in the highly industrialised Walloon region. Over the years, however, and well before the recessions of the 1970s and 1980s and the structural adjustment crisis, disparities in regional development had begun to shrink as a result of buoyant economic growth in the areas in the less developed regions -- between 1956 and 1964, GDP expressed in constant prices

grew at a rate of 4.2 per cent in Flanders, compared with 2.6 per cent in the Walloon region -- and industrial redeployment crisis faced by areas whose economies were more dependent on heavy industries.

By the end of the 1960s, the highest economic-growth area was to be found in the north of the country along the Brussels-Antwerp corridor and also in Gand which was beginning to emerge as a major industrial area. Although the conurbations of Liège and, in the south, Charleroi remained prosperous, with economies based on iron and steel-making, textiles and coal-mining, they failed to generate enough new and more innovative industries to be able to diversify their industrial bases. Smaller areas such as the centre or the Borinage in the south found themselves facing severe redeployment problems with the closure of their coal mines. Less developed areas, such as West-Vlaanderen, Oost-Vlaanderen and Limburg, whose economies were based on agriculture and ageing industries (textiles and coal-mining respectively), and also the province of Luxembourg in Wallonia, lagged in terms of industrialisation. Some provinces had considerable ground to make up, an example being the Kempenland, to the east of Antwerp, where the government was forced to introduce special measures as far back as the early 1960s.

The structural adjustment crises, from the mid-1970s onwards, hit Belgium particularly hard owing to the fact that the Belgian economy was heavily dependent on international trade. This crisis, in both its positive and negative aspects, exacerbated existing economic difficulties and trends in the regions. Unemployment rates rose sharply: 14.5 per cent in Flanders in 1981, 17.1 per cent in Wallonia (14.7 per cent in Brussels). The recession gripping the country was felt the most keenly by those provinces already experiencing difficulty in redeploying their industries such as Hainaut (18.1 per cent unemployment) or Limburg (20.5 per cent unemployment).

By the end of the 1980s the situation had changed yet again, as shown by the figures in the tables given above, although the general trend still remained the same: despite an overall improvement throughout the country, the relative positions of the various regions in the country were confirmed. The Flemish provinces, which had previously lagged in terms of development, were by now achieving highly encouraging results, notably due to high levels of investment and a capacity for economic diversification that was often derivative (metal-working, agro-food, chemicals, petrochemicals, etc.). Historically more dependent than Flanders on traditional industrial activities, and as a result harder hit by the crises which affected those industries in the early 1980s, the Walloon region had to channel most of its energies into, firstly, restructuring and turning around its traditional industrial sectors, and secondly into restoring its industrial environment. Although these efforts have ultimately proved successful, as borne out by the regions's currently flourishing steel-making and glass-making industries, the scale of the work was such that it practically monopolised that region's resources during the first half of the 1980s, and Wallonia is only now beginning to reap the benefits of an industrial redeployment initiated at a later date than in Flanders.

It is against this regional background that Belgium is currently formulating regional policies. We have deliberately emphasised the divide between the respective situations in the two major regions, Wallonia and Flanders, rather than between sub-areas of the country. A detailed analysis

will be made in the following sections of the impact of recent institutional reforms which have given the regions a high degree of autonomy, thus decentralising most of the instruments of economic expansion, and also of the two relatively different policies that the two main regions, Flanders and Wallonia, have adopted towards combatting the sub-regional disequilibria they are currently experiencing.

III

INSTITUTIONAL REFORM IN BELGIUM AND ITS IMPACT ON THE REGIONS

Belgium, like most OECD Member countries, has proceeded with large-scale decentralisation and devolution of power to the regions over the last ten years. Although Belgium introduced legislation on the devolution of power to the regions slightly later than other Member countries, it has taken the process much further: the Belgian system of government is now commonly referred to as a "federal" system.

In 1980, and again in 1988, legislation on the devolution of power to the regions put an end to the centralised and monolithic regime which had been used to govern the country since the Belgian State was first established in 1830. An initial amendment to the country's constitution in 1970, followed by what is known as the 1974 Act on provisional regionalisation, had divided Belgium into the following regions:

- Four linguistic regions: a French-speaking region; a Dutch-speaking region; the trilingual region comprising the capital Brussels; and a German-speaking region;
- Three socio-economic regions: Brussels, Wallonia and Flanders;
- Three cultural Communities: Flemish, French and German.

By as early as 1971, the first tangible expression of cultural independence appeared with the setting up of Cultural Councils empowered to issue decrees on cultural matters. The authority of the Communities was extended in 1980 to civil affairs, and the Communities subsequently acquired their own Executive. It was not until 1988 that the Communities acquired full control over education.

The Economic Regions were longer to gain official recognition. The formation, within the central government, of Ministerial Committees for Regional Affairs was the first evidence of an independent and specific approach to the different regions. 1980 saw a real leap towards regional autonomy and the devolution of real powers from central government to the regions. The budgetary allocations to the regions remained small, however, and their share of total government income amounted to merely 9 per cent in 1983. In 1988, a new Act heralded the devolution of major decision-making powers to the Regions and the Communities. 1988 was the year in which the Brussels region was accorded special official status. In 1989, the first year following enactment of the 1988 legislation, the regions had responsibility for 40 per cent of the national budget (47 per cent of the draft budgets for 1990).

Before we attempt to analyse the implications of this major reorganisation of the country's political institutions with regard to regional disparities in Belgium, a few words need to be said about the responsibilities and powers of the Communities and the Regions.

Authority of the Communities and the Regions in Belgium

The areas covered by the three linguistic communities (Flemish-, French- and German-speaking) do not correspond to regional divisions. The Flemish Community comprises the inhabitants of the Flemish region plus the Dutch-speaking inhabitants of the Brussels region. The French-speaking Community comprises the inhabitants of the Walloon region plus the French-speaking inhabitants of the Brussels region, but not the German-speaking Community (see map 4). The German-speaking Community is limited to two small enclaves in the Walloon region.

The Communities are responsible for all "cultural" matters and "matters pertaining to the individual", which primarily means education, culture, social welfare and health policy. In terms of authority, the Communities have exclusive responsibility for certain specific areas, which means that the Regions or central government cannot override their authority in certain matters. It is worth noting, however, that in 1980 Flanders decided to merge the Flemish Community with the Flemish Region. This means that there is now a single legislative council and a single executive for the two entities, unlike the situation in Wallonia where the Region and the Community have retained separate identities.

The authority of the regions primarily extends to social and economic issues concerning their territory: the economy and employment, regional development and housing, the environment and natural resources, infrastructure, transport and public works. The regions have the right, although the legal details have not yet been fully worked out, to pursue their own international policies, to sign treaties and to be officially represented in certain international organisations. The regions have authority over the provinces -- which predate the region -- and the communes.

The Communities and the Regions have both a legislature (Council) and an executive body (Executive). The legal system is administered at national level. Decisions taken by the Communities and the Regions (known as decrees) are legally binding, except for those taken by the Brussels region (known as ordinances and rulings) which can be challenged by the central government, given the international status of the capital city.

Lastly, the State, the regions and the communities are currently harmonising their positions in a number of areas. Firstly, disputes over jurisdiction, which are dealt with the Court of Arbitration. Conflicts of interest, for their part, have to be resolved on a consensual basis by a Co-ordinating Committee made up of representatives of central government, the Regions and the Communities. Some issues such as economic and trade or agricultural policy, which have to be negotiated with the European institutions, are dealt with in preliminary discussions held between the Executives concerned.

Map 4

THE COMMUNITIES OF BELGIUM

Regional implications of the new federal system

Before we consider the implications that the reform of national institutions holds with regard to the regions, it is worth examining this issue from the opposite standpoint, i.e. the impact of this reform on the national public administration in Belgium. This issue, which has arisen to a greater or lesser extent in all OECD Member countries, has recently been discussed in two reports published by the Working Party (OECD 1987, OECD 1989c). Numerous Member countries have devolved power from central government to local or regional administrations as a result of policy adjustments and the restructuring of their public expenditure systems. Belgium, which as we have seen earlier has had to contend with large public deficits and high levels of public debt, is probably one of the Member countries that has proceeded the furthest down this path. One of the benefits that the government had hoped to gain from institutional reform was a speedier return to balanced public expenditure. The government predicted, while the reform was still on the drafting board, that it should be able to reduce the level of public funding by around 1.5 per cent of GDP by as early as 1989, and by almost 2.5 per cent over the following fifteen years. The initial figures for the 1990 budgets of the Regions and the Communities indicate that, except for the French-speaking Community, the budget deficit reported for 1990 is indeed lower than that which had been expected prior to the transfer of power.

Not too long ago, the State budget was a kind of free-for-all in which the allocation of resources gave rise to all kinds of haggling and trade-offs between the various regional entities in the country. Such haggling often meant that resources were wasted, frequently attracting bitter criticism. Whenever the government decided to carry out an essential project in one of the country's two main regions, the other would immediately demand compensation. Today, regional and community authorities are responsible for managing their own affairs and are accountable to their electorate; they must therefore pay the political price for any financial shortfalls, on the other hand they can also take the credit for efficient management of public funds.

It would be far beyond the scope of this report to undertake a comprehensive review of the impact on the regions of the recent reform of national institutions in Belgium. This reform, in its basic form, is still only in its third year, and we will have to wait several years before we gain a clearer picture of its impact on regional development and on regional inequalities in Belgium. We can, however, briefly outline some of the more obvious implications of this reform with regard to regional disequilibria within the country and in terms of Belgium's implicit and explicit regional policy.

Implicit and explicit cross-subsidising mechanisms

Studies have shown that, in many countries, implicit transfers of funds under the State budget are one of the most potent instruments available for readjusting regional imbalances: in rich regions, tax revenues exceed public expenditure, and vice versa in poorer regions. To a large extent, transfers between regions can remedy existing imbalances by substantially compensating for surpluses or deficits in the current accounts of rich and poor regions. In

this way, per capita transfers from rich regions to less developed regions can easily exceed by several hundred per cent the amounts allocated in the form of direct aid to regions within the framework of national regional policy.

The main comparative study of these phenomena in Europe, North America and Australia (CEC, 1977), which unfortunately is now quite dated, shows that, in the main, regional cross-subsidising mechanisms are more effective in countries with a centralised government than in countries with a federal structure. In the 1970s, implicit transfers of this kind reduced regional disparities in income by an average of 40 per cent in countries with a centralised government and by 30 per cent in countries with a federal system.

Another major difference between these mechanisms in centralised and federal countries may be seen in the fact that, in the former, inter-regional reallocation of resources is an "invisible" and automatic mechanism, whereas in the latter it is voluntary and thus explicit. In centralised countries, all taxpayers, and particularly those in the higher income brackets, contribute to the national budget under which funding is provided for services at more or less the same per capita level (education, for example) throughout all the regions. In federal countries, of which Belgium is now an example, numerous public services are funded and provided at sub-national level. Reallocation of resources or inter-regional support mechanisms are based more on general or specific subsidies allocated under the federal budget. In centralised countries, this reallocation of resources, which, as it happens, is often unpublicised, is to a certain extent guaranteed; in federal countries, it must be approved by parliament or negotiated by the regions.

In Belgium, which is currently moving from a centralised to a federal system of government, a major change is clearly taking place in the mechanisms for inter-regional support. The issue at stake is whether or not this change will promote balanced regional development. The answer may be expressed in terms of either (i) financial flows or (ii) the productivity of public funds.

i) Apparently there have been few official studies made in recent years of the mechanisms governing the redistribution of public funds between the regions which show how in Belgium, as in all countries throughout the world, the richer regions subsidise the poorer ones. This is what one study (Van Rompuy & Verheirstraeten, 1979) showed to be the case in Belgium in 1974. The net outcome for Wallonia appeared to be a gain of BF 90 billion (i.e. almost 11 per cent of the budget or 2.5 billion dollars at 1974 prices or, to put it another way, US\$ 800 per Walloon). Obviously these figures should be treated with caution, given that they are approximate and also quite old, but they are nonetheless of an order of magnitude that is wholly consistent with implicit interregional budgetary transfers currently being reported in other industrialised countries.

The above-mentioned study also indicates that if the two regions were to be considered as two separate countries, each with its own currency and thus with no implicit transfer mechanisms in place, then between 1970 and 1976 the value of the Walloon currency would have fallen by 8 per cent against the value of the Flemish currency.

There is no reason to believe that the scale of these transfers declined during the 1980s, or at any rate not until 1988 when the large-scale devolution of power from the central government to the regions took place. On the contrary, close examination of indicators of regional activity and income, which reflect, as we saw above, the economic decline of the Walloon region, suggest an increasing imbalance between the contributions and receipts of the two regions. We can illustrate this trend with a few statistics for 1980 and 1986, basing our argument on the reasonable assumption that the populations of the two regions has remained stable. In 1980, the Walloons, who made up 32.5 per cent of the population of Belgium, contributed 30.4 per cent of the central government's total receipts of income tax and 30.1 per cent in 1986. This means that the spatial redistributive power of the tax increased between these two dates, concurrently with changes in the respective regional economies. The difference between what Wallonia would have contributed to the national budget had the tax been levied on a per capita basis thus increased from BF 10 billion in 1980 to BF 17.1 billion in 1986 (BF 12.5 billion in constant 1980 Belgian francs).

From 1988 onwards the continued existence of some of these mechanisms was challenged by the new budgetary rules introduced by the new constitutional legislation. As stated earlier, the share of public funding devolved to the Regions and the Communities suddenly jumped from about 10 per cent to over 40 per cent of the national budget. Over BF 600 billion were thus transferred to the Regions and the Communities, which until then had control over some BF 180 billion. The largest share of this transfer was accounted for by education, over which the Communities now had full control. Within the first year of the reform, the regions received BF 170 billion in supplementary credits (whereas previously they had been allocated a mere BF 60 billion or so).

This new system is described in detail in the OECD economic survey of Belgium (1988-1989). Before the reform was introduced, the Regions and the Communities were funded by means of a dual system of credit allocations and percentage shares of the revenue from certain taxes. These regional shares were determined on the basis of where the taxes were paid. As for credit allocations to the Communities, the Flemish community received 55 per cent of the total and the French-speaking community 45 per cent. Allocations to the Regions were determined on the basis of their respective populations, land areas and income tax receipts. The new system had six major features. Firstly, during the first year the transfers were determined on the basis of fixed expenditures in the budget for the reference year (1989) for each Region or Community, although each entity was free to allocate resources as it saw fit; secondly, to avoid transferring part of the debt of the central administration, and to ensure that all levels of the administration contributed to the effort to redress public finances, the Regions and Communities were obliged to borrow money immediately in order to secure preliminary funding for the portion of the transfers that in principle covered capital expenditures and 14.3 per cent of operating expenditures; thirdly, during the eleven-year transitional period, transfers were to increase solely in line with inflation; fourthly, the Regions and Communities were authorised to borrow money and to increase or lower rates of income tax as well as regional taxes, with the national authorities retaining certain supervisory powers; fifthly, the shares

of credits transferred to the Regions and Communities were to be gradually aligned with those applicable to receipts of income tax in the course of the transitional period, except for education where the criterion was to be the number of pupils; sixthly, a mutual-support transfer was introduced to assist regions whose average per capita receipts of income tax were lower than the national average.

Thus, from 1990 onwards, any Region whose average receipts of income tax are below the national average will be eligible for assistance from a national solidarity fund. This assistance, funded under the national budget, has been set at BF 468 (index-linked) per inhabitant and per percentage point of difference with the national average. To illustrate the scale of this assistance compared with that outlined above, were this system to be applied retroactively to Wallonia for the year 1986, the sum involved would amount to merely BF 1 billion or so.

It is clear, therefore, that this system, which on the whole redistributes resources, tends, and will tend even more in the future, to exacerbate differences in regional finances, notably as a result of (i) the regions' growing margin for manoeuvre on fiscal matters, (ii) the arbitrary share-out of public debt, and (iii) the growing role of income tax as a basis for determining the size of budgetary transfers. There is no guarantee that the mutual-support mechanism will be able to achieve an equitable balance between regional economic situations with regard to public goods and services, particularly if the imbalances between regional productive systems either remain the same or grow wider.

It is clearly extremely difficult to predict how this system will evolve in the future, and what the implications will be for the regions. Factors such as the domestic economic situation of the country, and in a broader sense the international economic context on which Belgium is highly dependent, or the financial behaviour of regional authorities, which are extremely hard to predict, can have widely varying impacts on the regional implications of the new system. Some experts are pessimistic and believe that in the long term the financial situations of the regions will diverge and thus lead to increased disparities between the regions. Most experts agree with Installé and Peffer (1988) that the Walloon government's future room for manoeuvre will be far tighter than that of the Flemish government.

ii) This constitutional reform can also be analysed in terms of the productivity of public funds. Analysis on the basis of the reallocation of resources through implicit or explicit transfers between the regions provides absolutely no indication of the effectiveness with which public funding is utilised. At a more general level, as mentioned in the introduction to this report, one of the heaviest burdens that Belgium has had to bear in the past has been a haemorrhage of public funds that has resulted in an exceptionally large level of public debt. Traditionally, most of the blame for this serious crisis in public funding has been attributed to the difficulties faced by central government in deciding how resources should be distributed among the regions. The emergence of what in effect amounted to parity system, whereby one region would have to be compensated for any allocation of resources to the other, prompted the government to provide funding for highly sub-optimal compensatory projects and to respond to the pressure of demands from the regions by recourse to budgetary deficits.

The results of the first few years under this new system are that regional and community governments are now tending to rein in their current expenditures. This would seem to suggest that the devolution of power and resources from the central government has led to an enhanced awareness, at regional level, of the need to rationalise budgetary options and to improve public management. Clearly, as we said earlier, the impact of this in macroeconomic terms can only be positive. It also means that public funds will be used far more efficiently, given that decisions are taken at a level far closer to the man in the street. This is borne out by the experience of many other countries, where decentralisation (either to the private sector or to local government levels), while reducing the reallocation of resource flows, has indeed led to a general improvement in the provision of services and the effectiveness of policies. This whole issue is central to the analysis of current regional policy in Belgium: is the effectiveness of regional economic initiatives, for which the regions are responsible, adequate compensation for a possible decrease in inter-regional transfers decided by central government? This question is clearly a very difficult one to answer, and it is still too soon for us to attempt to do so; but it is in the light of its implications that the following section will examine the objectives of regional policies in Belgium.

IV

FORMULATION OF REGIONAL POLICY IN BELGIUM

Belgium has not one but several regional policies. The Walloon and Flemish regions each have their own policy for regional development, which they pursue in accordance with the rules and objectives of the European Communities. They implement these policies either under their own regulatory procedures (decrees) or by means of national legislative instruments of which they are historically the heirs. These various policies, which each have their own rationale, are more complementary than divergent and thus help to achieve balanced development at national level. Belgium is exceptionally fortunate in this respect, in that its regional problems are dealt with not only at the highest level, i.e. the European Communities, but also at the lowest level through the large-scale devolution of economic powers to the regional governments.

Changes in the general framework for regional policy up to 1980

Belgium first began actively developing policies for the regions in 1959. Prior to that date, the department for "Economic Expansion", which had been set up in 1952, had been given the task of overseeing regional or local economic problems, but was not given the resources to take action until 1959. Until then, the Belgian government had simply pursued a policy of supporting industry, but without any regional focus. This industrial policy was based on a 1953 Act that provided substantial aid to industrial investment in the form of interest-rate relief and guarantees for loans provided by public credit institutions. This instrument of overall national industrial policy, which was to become that of policy at regional level, today still remains central to the economic expansion policy of the Belgian regions.

It was in 1959 that new legislation on support for industry made provision for specific initiatives in areas of the country experiencing difficulties. These difficulties were defined in terms of structural adjustment rather than on a quantitative basis: unemployment, emigration, fluctuating migratory flows, serious economic decline. The country was divided into development areas or regions, the sole criterion being that the number of inhabitants in these areas was not to exceed 15 per cent of the total population of the country. The Borinage and Zuiderkempen were the first areas to be thus designated as development regions. The instruments for development were also set out: interest-rate relief, guaranteed loans and the option, in certain cases, of substituting capital subsidies for interest-rate relief.

In 1966 the map of development areas increased with the addition of regions coping with major industrial redeployment problems resulting from the decline of their coal-mining industries (regions around Liège, Charleroi, the

Centre, Kempenland, etc.) and regions whose industries lagged far behind those in other areas (West-Vlaanderen), Westhoek, Oudenaarde region, etc.). By now some 35 criteria were used to qualify development regions, in addition to a certain political empiricism according to senior civil servants at the time.

The policy framework was reviewed in 1970 with the adoption of the Act on Regional Economic Expansion, which still serves as the legislative reference today. This Act redefined the criteria according to which regions were designated as development areas and laid down the type of direct aid that could be granted: interest-rate relief, capital subsidies, government guarantees for loans, tax exemptions. The Act also made provision for other instruments which focused more on the environment for enterprises in terms of infrastructure, modernisation of plant, the introduction of new technologies, and training. In 1978, the system was supplemented by the Act on the economic development of small and medium-sized enterprises.

1980 was a turning point in the history of regional policy in Belgium. The Act on Regionalisation of 8 August ushered in the decentralisation of the system of regional initiatives. Under this Act, the State retained control of the legislative framework (Acts on Economic Expansion), and the two principal regions were given the task of interpreting and implementing the legislation.

Before we proceed with a detailed description of the mechanisms which are currently in place, and which are broadly based on the 1970 and 1980 Acts, it might perhaps be useful to take a quick look at the initial years of regional policy in Belgium. Table 10 provides a breakdown by province of state-aided investment during the period 1962-1975, and the number of people who thus found employment. Of the BF 49 billion provided by the government between 1962 and 1975 under the Act on Economic Expansion, BF 39 billion were channelled into regional aid.

Table 10 shows that government initiatives between 1962 and 1975 were divided almost equally, to within a few million francs, between the two regions. It is worth noting that sectoral, and not regional, industrial aid granted to the Port of Antwerp area, for example, played a major role in attracting investors from the private sector, thus undermining regional policy to a certain extent. On balance, for equivalent amounts of aid, the Flemish areas receiving support, i.e. Limburg, part of the province of Antwerpen (Kempenland) and part of West-Vlaanderen (Westhoek), achieved better results than their counterparts in the Walloon region, where aid was concentrated chiefly in Hainaut and the province of Liège. The reason for these diverging results was that most of the aid directed towards Flanders consisted in investment related to new businesses, whereas the aid given to the Walloon region was focused far more narrowly on actions designed to consolidate existing industries.

Current role of the central government in the formulation of regional policy

In 1980 the regions were entrusted with the role of implementing, and therefore formulating strategies for, regional policy. The funding for regional expansion, which hitherto had been divided equally between the two principal regions by central government, was now fully devolved to the regions. Power thus shifted away from central government towards the regions. The centre did retain some prerogatives, however, notably those relating to the

Table 10

IMPACT OF THE ECONOMIC EXPANSION ACTS ON INVESTMENT AND EMPLOYMENT
IN INDIVIDUAL PROVINCES, 1962-1975

	• •	••Investment ••BF millions	State incentives BF millions	Persons employed
Antwerpen••	103 255•	6 034••	66 295	
Oost-Vlaanderen••	94 930•	6 730••	54 619	
West-Vlaanderen••	35 765•	2 867••	38 597	
Limburg•••	54 050•	6 019••	49 342	
Flemish Brabant••	22 245•	1 334••	18 792	
Flanders••	309 705•	22 985••	227 645	
Hainaut•••	95 169•	12 837••	56 389	
Liège•••	61 785•	6 444••	35 213	
Luxembourg••	5 806•	796••	3 478	
Namur•••	16 528•	1 997••	8 575	
Walloon Brabant••	17 709•	1 267••	5 970	
Wallonia••	196 997•	23 343••	109 625	
Brussels••	10 550•	383••	9 641	
Belgium total••	517 252•	46 711••	346 911	

Source: Cited by OECD, 1976, on the basis of statistics provided by the Ministry of Economic Affairs.

scope of action afforded the regions and certain areas of sectoral policy such as social or agricultural policy which have a strong regional component. At a higher level, the central government has retained full control over areas relating to the economic and monetary unity of the country: monetary policy, credit, competition or labour law, unemployment benefit policy, etc.

The role played by central government in the formulation of regional policy is now restricted, as a result of agreements negotiated with the European Communities, to enforcing compliance with certain regulations concerning subsidies, notably the legal ceilings for economic aid. The central authorities no longer have a formal role to play in formulating regional policy objectives and strategies. In terms of objectives, however, there have been no

major changes in the policies initially formulated by the government prior to 1980. As we look at the current objectives of the regions in greater detail, however, we shall see that they are basically the same as the original objectives of the Belgian government -- which at that time coincided closely with those of the European Communities -- when it was responsible for formulating regional policy strategies. The goal is still to redevelop the old industrialised basins and to support the development of rural or less industrialised areas, notably by playing to the latent intrinsic strengths of the regions.

In terms of instruments, the central government in Belgium still has influence over regional economies. Firstly, through the sectoral policies for which it is responsible: introducing legislation on unemployment, for example, amounts to supporting the regions in that unemployment levels vary widely from one region to another. The same is also true of other sectoral policies which touch upon sensitive regional issues and which until recently remained within the purview of central government such as industrial policy vis-à-vis the coal mining, steel-making or textile industries. Secondly, the central government can intervene directly in targeted areas of the regional economic fabric by granting exemption from national taxes or by guaranteeing loans taken out by firms. The central government has therefore designated two types of area in which it can exercise direct control over regional policy: the so-called "employment zones" and "redemption zones".

i) Employment zones. The measures introduced by the Belgian government in the early 1980s with regard to employment zones are an example of direct intervention by the central government. In 1982, the government decided, with the approval of the Commission of the European Communities, to lend its support to the promotion of high-tech activities in certain areas of the country then experiencing economic difficulties. Six zones, known as T-zones, whose total area was not to exceed 150 hectares in any one region, were chosen in collaboration with the regions and approved by the CEC (a seventh in the Brussels region was rejected). T-zones were thus set up in Tessenderlo-Beringen, Geel-Diest and Ieper (i.e. 150 hectares in Flanders), Liège, Marche-en-Famenne and Hainaut (i.e. 140 hectares in Wallonia). The State granted substantial benefits to firms which decided to set up operations in these zones and which met certain criteria relating to type of activity (high technology), job creation (10 employees) and maximum size (no more than 200 employees). These firms were granted exemption from most forms of corporation tax, interests and dividends and property tax. In addition, work permit requirements were waived for foreign researchers and an abatement granted for income tax payable by foreign workers (this latter benefit was in fact applicable to Belgium as a whole). Benefits were granted for a period of ten years. This ten-year grace period for the employment zones expired in March 1990. The employment zones are managed by public authorities regulated by the central government which has sole authority to grant, or as the case may be withdraw, the benefits offered to firms within these zones. No other form of public aid other than the benefits described above, from whatever subsidising authority, may be granted within these zones beyond those provided for. During the study visit, the Belgian authorities, without mentioning specific details or figures, indicated that these employment zones had not been quite as successful as they had originally hoped.

ii) "Redeployment zones" were designated development zones approved by the EEC. Within these zones the government can offer tax benefits to firms changing their activities in order to encourage investment: partial exemption from dividend tax, exemption from stamp duty on start-up capital and stock issues. These benefits were granted for a period of ten years. Since July 1990, it is no longer possible to set up new reconversion companies.

In 1985 the Belgian government authorised the creation of a European Development Pole in collaboration with the French and Luxembourg authorities. The joint declaration on the European Development Pole, issued on 19 July 1985, was one of the first international agreements to be entered into by the Executive of the Walloon Region, which was a co-signatory to this agreement along with the central governments of the three States concerned.

Lastly, to complete this overview of the role of central government in the area of regional policy, it should be noted that, as a general rule, when negotiating with European authorities the central government acts as spokesman for the regional authorities and co-ordinates negotiations between the regions on the allocation of European funds. Until now, such funds have been allocated on the basis of population, land area and income, which effectively ensured that funds were evenly divided between the regions. In future, however, the criteria used to decide how funds should be allocated will reflect the reality of regional problems more accurately and will be aligned more closely with the criteria used at European level for the designation of zones eligible, under objective 2, for support from European structural funds, a measure clearly aimed at regions experiencing serious economic hardship.

Regional policy goals of the governments of the Walloon and Flemish regions

Since 1980 the regions have had main responsibility for formulating and implementing regional policy, which includes but does not encroach upon national economic expansion policy. The devolution to regional bodies of certain areas of Belgium's economic policy does not mean to say that all the economic policies developed by the regions are regional policies. For example, the regions operate numerous support schemes whereby firms receive direct aid for scientific innovation or R&D activities. Such schemes are not perceived as regional policy, in the sense in which the term is understood by the Working Party, in that such instruments are not restricted to a specific geographical area. The same is true for most forms of regional aid to small and medium-sized enterprises, which are provided for under the 1978 Act on the economic development of small and medium-sized enterprises and which are administered by regional governments throughout the country.

The regional policy objectives that the Flemish and Walloon regions have set themselves are aimed at reducing sub-regional disparities. We saw in section II that some areas of the country are experiencing major difficulties or lags in their development. It is the very nature of these problems which determines the policy objectives required. We have divided these objectives into six categories.

i) Development zones. These zones, which are referred to as development zones by both regional administrations, coincide, as it happens, with what the CEC has defined as zones in difficulty where intervention by the public authorities is authorised at European level (zones 1 and 2 on map 5). This is the general term that has been applied to areas such as these which are experiencing problems with their development. These problems vary widely from one area to another, and this is reflected in the many different policy objectives and strategies that have been developed to deal with them. The geographical boundaries of zones eligible for regional aid gave rise to protracted negotiations with the CEC which felt that the zones were too large. Further to the agreement signed in 1982, development zones were restricted an area comprising 36.3 per cent of the population of Belgium (25 per cent of the Flemish population and a third of the Walloon population), compared with 39.5 per cent prior to signature of the agreement. Following amendments to this agreement in 1983, 1985 and 1988, the area encompassed by these zones was slightly reduced, particularly in Flanders, and now comprises 33 per cent of the population. Between 1983 and 1985, the percentage of the Flemish population benefiting from such aid fell from 25 to 22 per cent.

Development zones are divided into two main categories, 1 and 2, according to the gravity of the problems encountered there.

The breakdown of the Belgian population living in development zones within the two regions (as a percentage of total Belgian population) is as follows:

	Flanders	Wallonia	Belgium
Zone 1••7.3•	14.7•	22	
Zone 2••5.6•	5.4•	11.1	
Zone 1+2•	13•	20.1•	33.1

The province of Limburg in the Flemish region, which is currently facing a lag in industrial development and problems with the redeployment of its coal-mining industry, is the sole province which is at present deemed to have serious economic problems justifying its classification as a category 1 zone (the Flemish authorities are predicting that a further 15 000 jobs will be lost in the province between 1987 and 1992). However, the classification of this province, whose absolute and relative position vis-à-vis other European regions is steadily improving, will probably be reviewed in 1991.

In Wallonia, the steel-making centres of Liège, Charleroi, Mons and La Louvière are classified as category 1 zones.

Category 2 zones are zones where the rate of industrial decline is less severe. In the Flemish region they include certain areas in the provinces of Antwerpen (Kempenland) and West-Vlaanderen. In Wallonia, they encompass the entire south-east portion of the region, that is to say half the land area of the region.

Map 5

Development zones in Belgium, 1988 and prior to 1988

The two regions also make use of other types of zone in pursuing their objectives. They have both adopted a similar strategy in designated zones in accordance with the objectives of European regional policy established in 1989 following the reform of the Structural Fund. The object of this reform was to double the amount of funding allocated from the structural funds between 1987 and 1993 and to narrow the geographical focus of the aid provided.

ii) Zones targeted by European Structural Funds. The two principal regions in Belgium each contain zones which qualify as target areas for European regional policy (under objectives 2 and 5b) and which are therefore eligible to receive funding from the European Structural Funds (see map 6).

The Commission of the European Communities defines zones meeting the requirements of objective 2 as areas where (i) the official rate of unemployment has exceeded the Community average over the last three years, where (ii) the share of the total labour force employed in industry is higher than the Community average for any given year of reference since 1975, and where (iii) employment since that reference year has declined. The number of people living in zones designated under objective 2 amounts to 2.2 million (22 per cent of the total population). The areas in Flanders which satisfy objective 2 criteria are the Kempenland and the province of Limburg (1 million inhabitants representing 18 per cent of the population of the region). The areas in the Walloon region which meet these criteria are the districts of Liège and Charleroi, the border commune of Aubange in the south of the Luxembourg province, and the central region (La Louvière), which with a combined population of 1.2 million inhabitants account for 37 per cent of the population.

Objective No 5b covers designated zones in rural areas. The CEC criteria for these zones are far less specific than those given above and are primarily as follows: (i) a high rate of employment in agriculture, (ii) a low level of income from farming, (iii) a low level of socio-economic development measured in terms of per capita GDP. The population of zones designated on the basis of objective 5 amounts to 266 000 inhabitants (2.7 per cent of the Belgian population). The sole designated zone of this type in Flanders is Hageland, which has 138 000 inhabitants, i.e. 2.5 per cent of the population of the region. In the Walloon region, zones classified under objective No 5b include the districts of Bastogne and Marche in the north-eastern part of the province of Luxembourg, and the southern part of the district of Dinant. The population of these zones amounts to 128 000 inhabitants or 4 per cent of the regional population.

The last areas covered by this section are zones receiving aid under the European sectoral programmes RENAVAL, RECHAR and RESIDER. The Flanders regional authorities have successfully applied for aid for a shipbuilding zone, Antwerp-St.Niklaas, under the RENAVAL programme, and part of the province of Limburg (11 coal-mining communes) under the RECHAR programme. The authorities in the Walloon region have successfully applied for support for the steel-making areas around Charleroi and Liège and the coal-mining areas around Charleroi under the RESIDER and RECHAR programmes.

Map 6

OBJECTIVE 2 AND 5B AREAS IN WALLONIA AND IN FLANDERS

In addition to these two types of zone, which exhibit the same characteristics in both Flanders and Wallonia, there are also special zones with specifically regional objectives. These additional zones all delimit areas whose problems are not sufficiently serious to qualify for EEC regional support schemes or for consideration for support from structural funds. Our discussion here will be limited to areas that are the subject of regional policy and that are located within regions experiencing economic difficulty, which therefore excludes, for example, the R&D zones that the Flemish regional authorities have designated in the vicinity of major university towns with a view to promoting research links between universities and industry.

iii) Depressed agricultural zone of south-east Wallonia. The depressed farming areas of south-east Wallonia, which have not been designated as areas satisfying the criteria of CEC objective 5b, have been singled out for special treatment by the regional and national authorities who are implementing programmes aimed at stimulating the endogenous potential of the area and at diversifying its agricultural activities (with support from EEC integrated programmes). The zones concerned are in rural areas with structural handicaps (soil, income, climate). This zone covers the following agricultural regions: Ardennes, Famenne, Condroz, the Jura Region and part of the Hesbaye plateau region of Liège.

iv) "Regions d'impulsion" (regional impetus areas) in Flanders. The regional impetus areas set up under Flemish regional policy are areas experiencing serious employment problems, in terms of both existing and future employment, which are not included within development zones approved by the CEC. In collaboration with the social partners, the regional authorities have designated eight impetus areas on the basis of significant socio-economic criteria. These areas are mainly located in the centre of Flanders, although some are located on the coastline of West-Vlaanderen. From 1991 to 1993, selected measures will be introduced in these areas to meet the specific requirements of the different areas (support for new projects, industrial plant, etc.).

v) Unemployment action zones in Flanders. The Flemish government has introduced a system of unemployment action zones in an effort to combat long-term unemployment. After designating an initial four zones, a further eight were established in early 1990. These zones, where special worker-retraining schemes have been introduced, are mainly located outside the boundaries of development zones (except for Hasselt, Turnhout and Tongeren).

vi) Cross-border co-operation zones. A glance at a map of development zones in Belgium reveals the startling fact that most of the country's border regions are experiencing development problems. As noted earlier in the description of the geographical features of Belgium, many of the peripheral centres of employment in the two regions are in fact cross-border areas. The regional authorities in Belgium, which are legally entitled to enter into international agreements, have introduced cross-border co-operation programmes designed to provide a comprehensive solution, on both sides of the border (or borders) to the problems encountered in these areas of employment. There is no formal designation of zones under these programmes, which have been developed on an individual basis whenever such interests coincided with those of the

foreign regional authorities concerned, although such projects would currently seem to be attracting growing interest and support from national, regional and European authorities. Initiatives are currently being developed in economic, social and cultural areas between Flanders and the Nord Pas de Calais region, and between Hainaut and the French Champagne-Ardenne region ("Champagne-Ardenne" co-operation zone) and the Nord-Pas de Calais region ("PACTE" co-operation zone). The regional authorities have established the Meuse-Rhine EUREGIO area as a trial cross-border co-operation zone: comprising some 3.6 million inhabitants, this region extends from the south of the Dutch province of Limburg to the districts of Liège and Verviers in Wallonia, the Flemish province of Limburg and the German-speaking areas of Aachen, Duren and Eskiren.

Under the European INTERREG programme, cross-border co-operation initiatives are currently being developed between Oost-Vlaanderen and the Dutch province of Zeeland (EUREGIO Scheldemond).

The largest project currently in progress is that of the European Development Pole launched in 1985 by the Belgian, Luxembourg and French authorities in an area encompassing Aubange, Rodange and Longwy, which at the time was facing serious redeployment difficulties. The PED zone, which the working party visited, is a national business park on a 450-hectare site straddling three borders that has been the focal point for major incentive schemes at regional, national and European level (no ceilings have been placed on aid going up to 30 per cent net subsidies) and initiatives aimed at improving the business environment (shared services for firms, creation of a European technology college, substantial urban development, etc.). The aim is to create 8 000 jobs in this zone within ten years (1 500 in Belgium, 1 000 in Luxembourg and 5 500 in France). By 1990 there was every reason to believe that this objective would be well within reach, as shown by the Working Party's Report on Special Zones (OECD, 1990b) which in 1990 reported that 3 200 jobs had already been created: 800 in Belgium, 400 in the Grand Duchy and 2 000 in France.

REGIONAL POLICY STRATEGIES AND INSTRUMENTS IN BELGIUM

The regional policies pursued by OECD Member countries in the 1980s, as the working party has reported on several occasions, have on the whole prompted a general shift towards a more decentralised and co-operative model with a greater emphasis on qualitative and discretionary aspects, geared more towards investing in the business environment than in providing funding for individual firms. Belgium would seem to have significant advances in all these areas in devolving power to the regions and setting up a federal system at national level. The regional authorities still rely heavily on the use of direct aid. However, any analysis that attempted to appraise Belgian regional policy simply in terms of the credits allocated under incentive schemes would only provide an incomplete and increasingly partial account of the facts, as the various authorities we met in the course of our study trip explained to us.

Two complementary strategies for regional development have been adopted in Belgium. The first is the conventional strategy of reducing costs vis-à-vis factors of production, which in this case means reducing the cost of capital by extending interest-rate relief and by subsidising investment or facilitating access to capital by offering public guarantees. The second strategy, which is fast becoming the norm, is to adopt an integrated, structural approach to regional problems and their solution. The objective of this strategy is to enhance the productive potential of the regions by improving their infrastructure in the broadest sense of the term: infrastructure, access to services, training, urban development, quality of the natural environment, etc. The first strategy is basically a matter for the regional authorities; the second is far broader in scope and calls for co-operation between decision-makers in both the public and private sectors.

For the sake of clarity, these two strategies, and their implementation, will be considered separately. In practice, however, the dividing line between the two is not quite so distinct, inasmuch that the discretionary nature of direct aid in Belgium allows the regional authorities to ensure that the two strategies are mutually consistent.

Direct aid provided under regional government policies

Public aid supplied under the regional policies of regional governments, in accordance with national legislation on economic expansion, primarily consists in financial and fiscal incentives to encourage investment by major firms. Employment aid and investment incentives offered to small and medium-sized enterprises, notably the assistance provided under the 1978 Act on the development of SMEs, are not restricted to specific localities and therefore cannot be considered to be regional policy aids.

The incentive schemes basically comprise: (i) interest-rate relief for investment funded by means of a loan; (ii) capital grants for firms funding their investment by means of equity. In the case of mixed funding plans, i.e. a mix of loan and equity-funding, the aid will be proportionate to the share of funding instruments utilised. Other aid mechanisms laid down in the 1970 Act on economic expansion supplement the above by allowing the regional authorities to provide guarantees for firms that have difficulty in securing loans. In zones designated under such aid schemes, the regional authorities can offer guarantees covering 100 per cent of loans obtained from public lending institutions and 75 per cent of loans obtained from other sources. The 1970 Act also authorises tax benefits: exemptions, accelerated depreciation (solely in category 1 development zones), exemption from stamp duty for new stock issues.

The maximum rate of support cannot exceed 20 per cent net subsidy-equivalent (discounted and tax-adjusted gross rate) of the cost of aided investment in category 1 development zones and 15 per cent in category 2 zones. (Map 5 indicates the location of development zones and authorised aid rates).

The Flemish and Walloon regions have different procedures for the allocation of direct regional aid, although the legal framework and constraints are the same in both regions. As a general rule, aid in the Flemish region is granted on a discretionary basis following individual review of the projects concerned. In the Walloon region, aid is also granted on a discretionary basis following a review of the project, but a distinction is made between different rates of aid on the basis of quantitative criteria (which can qualify a project for automatic entitlement to aid) and qualitative or strategic criteria which make the allocation of aid discretionary. Another difference lies in the minimum amount of investment that firms must make in order to qualify for aid.

Wallonia alone offers firms the possibility of deferring the depreciation of low-interest loans for two years. In contrast, capital subsidies are only granted if the firm finances over half of the investment from internal sources.

The firms receiving aid under these incentive schemes are major firms planning investments. In the Flemish region, in order to qualify for such aid firms must meet the following conditions: (i) over 50 employees (40 for commercial enterprises and 70 when the firm satisfies certain requirements regarding capital structure); (ii) an annual turnover of over BF 300 million; (iii) an investment project worth over BF 120 million.

The two regions have linked entitlement and the rate of aid granted to job creation, making the rate of aid proportionate to the number of jobs created. The Belgian system of regional incentives, which historically has primarily stressed investment, thus resembles the model adopted in many other Member countries such as the United Kingdom or France where investment and job creation are included as criteria for the allocation of direct regional aid to enterprises.

Table 11

INVESTMENT AID GRANTED BY REGIONAL GOVERNMENTS
(CAPITAL SUBSIDIES AND INTEREST-RELIEF)
BF MILLIONS, 1981-1988

Year	1981	1982	1983	1984	1985	1086	1987	1988
Aid granted•								
Flanders•	5 055•	4 283•	7 714•	4 637•	3 881•	3 041•	5 240	
Wallonia•	1 065•	1 238•	1 660•	2 061•	1 751•	2 312•	2 336•	6 729
Total••	6 120•	6 143•	9 795•	6 388•	6 193•	5 377•	11 969	
GDP Growth*	-0.9•	1.5•	0.4•	2.1•	0.9•	1.8•	2.0•	4.3
Associated investment (BF millions)								
Flanders•	•	22 982•	36 818•	29 613•	28 042•	17 345•	45 872	
Wallonia•	•	12 233•	13 292•	10 929•	15 840•	14 766•	41 991	
Total••	•	35 215•	50 110•	40 542•	43 882•	32 111•	87 863	
Leverage on investment: BF investment/BF aid								
Flanders•	•	5.4•	4.8•	6.4•	7.2•	5.7•	8.8	
Wallonia•	•	6.6•	6.4•	6.2•	6.9•	6.3•	6.2	
Total••	•	5.7•	5.1•	6.3•	7.1•	6.0•	7.3	
Number of jobs created								
Flanders•	•	4 689•	1 710•	4 049•	1 840•	1 370•	3 464	
Wallonia•	•	1 150•	966•	924•	543•	607•	1 682	
Total••	•	5 839•	2 676•	4 973•	2 383•	1 977•	5 146	
••								
Leverage on employment: BF aid per job								
Flanders•	•	0.9•	4.5•	1.1•	2.1•	2.2•	1.5	
Wallonia•	•	1.6•	2.2•	1.9•	4.3•	3.9•	4.0	
Total••	•	1.1•	3.7•	1.3•	2.6•	2.7•	2.3	

* At constant 1985 prices.

••
Sources: Data provided by the Flemish and Walloon governments, cited by K. Allen, 1987, 1990. The 1988 data for Wallonia were given directly by the Walloon government.

The discretionary nature of this aid may be seen in the number of aid applications by firms that are turned down. In 1988, the Flemish government rejected 13 per cent of the total number of applications it received for aid, and the Walloon government 12.5 per cent. In 1988, the Flemish regional authorities granted BF 5 240 million in aid to development zones (in the form of subsidies or interest-relief) for a total of BF 45 872 million in associated investment. In the same year, the Walloon region granted aid worth BF 6 729 million for a total of BF 41 991 million in associated investment (it should be noted that until the end of 1988 aid to the steel-making industry was supplied by the central government). The leverage that this aid exerted on investment amounted to 8.8:1 in the Flemish region, compared with 6.24:1 in the Walloon region (see table 11). We should remain cautious, however, in our interpretation of comparisons between the two regions or between the present and the former system whereby the central government maintained an artificial balance between the two regions with regard to the allocation of investment subsidies. The strongest leverage exerted by such aid was in the Flemish region from 1962 to 1975, a period during which massive investments were made in industry in Flanders. The relative effectiveness of Flemish aid would now seem to be much closer to that observed in the Walloon region. The reason for this would seem to be that many areas in Flanders that were previously eligible for regional aid have been removed from the aid map, yet continue to attract the lion's share of industrial investment to the detriment of zones experiencing greater difficulties.

The changes in the volume of aid granted by the two regions is fairly difficult to interpret. During the ten years in which the responsibility for administering aid has been progressively devolved to the regions, there is no clear upwards or downwards trend, but rather a series of wide fluctuations, particularly in Flanders. The volume of aid would seem to be a function of growth in GDP rather than time. The factor determining the volume of aid granted would seem to be the number and size of eligible investment projects, rather than the amounts set by in budget forecasts. In years when growth has accelerated, such as 1984 and 1988, the volume of aid has also risen sharply: +80 per cent in Flanders and +40 per cent in Wallonia in 1984, +72 per cent in Flanders and +188 per cent in Wallonia in 1988.

The effectiveness of this aid, in terms of its leverage on investment, has steadily increased in both regions over the period as a whole.

It should be noted that investment aid has had relatively little impact on employment, despite the fact that job creation is one of the criteria for the allocation of aid. The reason for this is that the incentive mechanism is aimed solely at major firms, whose overall contribution to job creation is smaller than that of small and medium-sized enterprises. As we noted earlier, aid to SMEs is not restricted to specific localities, but is available throughout the country. By way of example, employment subsidies granted by the Walloon government in 1988 under the 1978 Act on SMEs produced 5 300 new jobs for a total of BF 274 million in aid (i.e. BF 52 000 per job created).

Improvement of the environment for regional economic activity

The direct incentives developed by the two regional governments, in the form of investment aid for major firms, are the more traditional manifestations of Belgian regional policy. The objective of these incentives is to artificially lower the relative cost of capital in certain areas, by means of subsidies or interest-rate relief, in order to compensate in part for their handicaps in terms of comparative interests. Furthermore, the discretionary nature of this aid allows the regional authorities to upgrade the quality of the industrial environment by giving priority, or larger subsidies, to technologically innovative projects or projects deemed by the regional authorities to be of "strategic" importance. Such quantitative, direct-aid mechanisms alone are not sufficient, however, to alter the structure of regional productive systems.

In the early 1980s, with the advent of a second recession deeper than that of the mid-1970s, the Belgian authorities, like those in most other OECD Member countries, realised that regional development lags would not be remedied by simply adopting a strategy of attracting mobile productive capital. There were at least three reasons why such a strategy could not work. Firstly, the volume of mobile capital had fallen dramatically during this period, due to a sharp slowdown in the national and international economies. Secondly, the cost of factors of production, and notably that of labour, had become less significant a factor in determining sites for activities, whereas other factors, deriving more from the quality of the labour force and the environment for activities -- infrastructure, availability of services, research centres, etc. -- were tending to assume greater importance. Lastly, small and medium-sized enterprises accounted for the largest share of new activities and jobs. In view of these considerations, the Flemish and Walloon governments decided to develop a more qualitative approach to their management of economies in difficulty. This strategy, which was widely adopted in many other Member countries, was aimed at promoting and mobilising the endogenous potential of development zones.

By the end of the 1990s, this approach based on endogenous development, initially conceived as a response to the difficulty of attracting investment to the development zones, has not been vitiated by the fresh inflows of international productive capital that Belgium has been receiving since the economic recovery in 1984. On the contrary, the policies of endogenous development developed by the regional authorities are now seen to be contributing to exogenous development strategies rather than replacing them. As one of the representatives of the Walloon authorities commented during the recent study trip, endogenous development strategies should continue to have the upper hand over exogenous development strategies for the time being since, although financial aid may be successful in attracting investment from outside the region, it is the nature and diversity of the economic fabric which has the power to retain it. It is by improving the environment and endogenous development potential of regions in difficulty that regional expansion programmes are thus able to retain investment from external sources (or secured by the missions abroad maintained by the two regions), as the working party was able to observe during its visit, not only in West-Vlaanderen, but also in Limburg, the conurbations of Liège and Charleroi and the European Development Pole.

These initiatives pursued by the Flemish and Walloon governments vary widely in scope and thus encroach upon all of the two governments' sectoral policies: employment, education (in collaboration with the Communities), infrastructure, environment, etc. Despite this diversity, however, a measure of co-ordination has also been brought to bear on such initiatives, notably under integrated programmes.

The initiatives taken by both regional governments consist in: (i) mobilising local actors; (ii) strengthening the economic fabric by improving both the qualitative and material conditions under which firms operate through the creation of business parks and the development of services to firms and the promotion of firms' technological capabilities; (iii) improving the physical environment of firms.

i) Mobilising local decision-makers. The working party was highly impressed by the large-scale mobilisation of local actors observed in the two regions. This mobilisation had manifestly been aided by the strong sense of cultural identity prevailing in both regions, but also by the fact that the governments were newly formed entities. The working party had already observed on previous occasions that new sub-national administrations in Member countries (OECD, 1989c) had a greater propensity to innovate than traditional forms of local government. Even though the two regional governments have limited scope to employ new officials, they have managed to develop administrative or para-administrative instruments with the right skills for economic promotion (most regional officials are civil servants who were transferred to the regional government during the successive stages of power devolution, and new officials, unlike those, for example, in the United States, are recruited mainly by the national government, not by regional authorities, and are thus recruited into the national civil service).

The two regional governments have allowed much decision-making power to remain in the hands of local administrations. Despite the fact that the devolution of power to the regions set the seal on a downgrading of the role of the provinces, which are now under the control of the regional governments, the provinces have retained considerable scope for initiative. The planning and implementation of development projects (as well as EEC programmes) have been largely delegated to sub-regional bodies, which are thus the focus -- backed up by their formal independence -- for co-operation between the various authorities at regional, provincial and communal level: the five Regional Development Authorities in Flanders and the eight Intercommunal Associations in Wallonia.

The Regional Development Authorities in Flanders are not a substitute for Intercommunal Associations which are also to be found in this region, but whose role is limited to intercommunal co-operation in certain areas of funding and physical planning. The Regional Development Authorities are an economic planning and programming authority, receiving equal funding from the regional and provincial authorities (although initiatives are mainly funded under the regional budget). In the Walloon region, the Intercommunal Associations have responsibility for both economic programming and physical planning. The method of funding is not the same for the two types of body, however. For example, IGRETEC, the Intercommunal Association for Charleroi, receives 60 per cent of

its funding from the commune of Charleroi and fifteen peripheral communes, and 40 per cent from employers' associations and the Chamber of Commerce and Industry, together with some direct funding from certain local industries. Nonetheless, like the Regional Development Authorities in Flanders, the Walloon Intercommunal Associations also have responsibility for implementing economic programmes financed primarily under the regional budget.

The creation of local bodies with a high degree of autonomy vis-à-vis the administration, in both Flanders and Wallonia, bears the imprint of private-sector organisational methodology. Bodies such as these are able to identify problems and to take action rapidly by working in direct contact with firms, thus ensuring that public and private decision-makers share the same objectives. Working in concert with these bodies, the Flemish government lays down an overall strategy and chooses the areas in which efforts are to be focused.

Decision-makers are also pressed into action by regional economic actors involved in the implementation of regional development strategies, either through the Walloon Intercommunal Associations or through the management boards of socio-professional associations for which direct funding is provided by industry, as in Charleroi where some twenty firms have provided financial support for development programmes launched by the Intercommunal Association and where a large steel-making plant has sold the Association 100 hectares of land for a single symbolic Belgian franc. The "strategic plans" adopted in Flanders, for which the initial impetus came from actors in the local economy, are another example of how local actors have assumed a role in the area of development policy. The same objectives lie behind the creation of co-operative societies such as the Associations for Economic Promotion in Limburg or West-Vlaanderen, which were set up in 1985 by local businessmen to allow them to play a role in promoting the economy of their region.

ii) Actions aimed at the economic fabric. The authorities in the two regions have introduced numerous measures designed to stimulate the business development potential of their regions. Literally hundreds of programmes have been launched throughout the country, combining specific regional funding packages, expenditure on infrastructure and dozens of sectoral aid schemes for businesses (there are also fifty or so schemes providing direct aid for industry, most of which small-scale and have much smaller budgets). The fact that it is so difficult to present a summary overview of these initiatives reflects the degree to which these programmes have been so precisely tailored to specific requirements by highly decentralised bodies. Moreover, many of these programmes do not have specifically regional objectives and, although administered by the two regions, are applicable throughout the country (such as measures designed to encourage the recruitment of personnel for innovative projects, to stimulate transfers of technology between universities and industry, export incentives, etc.). The common thread linking these measures is the attempt to secure qualitative improvements in firms' factors of production.

Improving services to firms is a major component of current policy-making. The 1970 Act on economic expansion made provision for interest-free loans to firms located in development zones which hired consultants to help rationalise their internal management, to prepare new

commercial or industrial strategies and to reorganise their working methods. Such aid can amount to 75 per cent of the expenditure on consultants' fees. Furthermore, indirect incentives are offered to stimulate demand for business services in the form of subsidies granted under the Acts on economic expansion for certain types of intangible investment such as R&D expenditure, purchases of patents, market surveys and reorganisation studies.

The RIT programme in the Walloon region, funded by the EEC, is open to Walloon SMEs in the provinces of Liège, Luxembourg and most of Hainaut. The funding provided under this programme covers much of the cost of product or process innovation studies undertaken by SMEs (the breakdown of costs for a study lasting two and a half months would be as follows: 20 per cent for the firm, 10 per cent for the Walloon region and 70 per cent for the EEC).

The Regional Development Authorities in Flanders have specialised in supplying consultancy services to firms and have set up agencies on firms' premises, as, for example, in the Aalst-Oudenaarde or Windhoek areas in Limburg. The RDAs offer SMEs in the zone a direct advisory service, provided either by staff experts or outside consultants hired by the board, on technological innovation, products, processes, management, access to financial markets, etc.

The new FEDER ruling, introduced in 1984, provides funding for measures aimed at supplying services to SMEs and allowing them to expand their activities and tap into new technologies. The Belgian regional authorities have modelled their initiatives on this programme, notably in the case of their Integrated Programmes, through the creation of "business centres".

With support under the FEDER programme, a number of business centres have been set up since 1984 in both Flanders and Wallonia. These business centres, which are open to both newly created and existing firms, provide shared services (telex, documentation, computer facilities, etc.), market surveys, training and advice on technology or management, temporary accommodation (Charleroi) and permanent premises. These business centres are also based upon collaboration between local industry and firms just starting up. Established firms provide funding, know-how and experience, and also act as financial partners by securing loans; in West-Vlaanderen, for example, managers from major firms hold monthly meetings with managers from half a dozen SMEs to lend them the benefit of their experience.

Open days provide another way of passing on useful information to firms located in development zones. Examples include the "Project Days" and "Technology Days" held in Flanders and the "Athena Days" in Wallonia on the theme of new technologies; such events are also designed to foster links within the economy and to promote collaboration and sub-contracting between firms located within a given zone.

iii) Improving the physical environment. One outcome of the large-scale devolution of power to the regions in Belgium, and the significant role played in this process by local bodies (RDBs in Flanders and Intercommunal Bodies in Wallonia), has been a closer integration of economic development policy into other sectoral policies. The account taken of regional attributes, and notably the quality of the environment for which the regions have full responsibility, in the formulation of economic expansion strategies is an increasingly important component of general programmes for economic development.

In Flanders, the current programme for water quality, which is aimed at improving the quality of the water in inland waterways, the water consumed by industry and household drinking water, is an integral part of the region's economic strategy. The concern - as noted by the working party in Oost-Vlaanderen - to maintain the quality of the environment and the "quality of life", and to improve cultural facilities or medical services, is beginning to assume the same proportions as programmes of a purely economic nature.

Industrial wastelands, notably on the site of disused steel mills in Wallonia, are currently being reclaimed for urban development. Local authorities are well aware of the poor impression that "industrial blight" conveys to outsiders of their ability to get things done and are undertaking programmes to reclaim such sites. Accordingly, in Charleroi the Intercommunal Association has launched a programme, financed by the Walloon region and the EEC, to reclaim 100 hectares of disused steelworks located close to the town centre (at a cost of BF 10 million per hectare). Given the cost of this operation, the first 25 hectares currently being treated are those located closest to centres of population and to main roads, so as to ensure the highest possible impact on the image of the area at the very beginning of the project. In Charleroi, too, a publicity campaign has been launched on motorway hoardings which is based on Spirou, the famous cartoon character from Charleroi, to project a more positive image of the conurbation. Measures to improve the environment, through the reclamation of industrial wasteland, is also a major - and extremely expensive - component of the project to redevelop the site of the European Development Pole.

REGIONAL DEVELOPMENT POLICY IN THE GRAND DUCHY OF LUXEMBOURG

I

INTRODUCTION

It might seem odd to speak about regions and therefore regional policy with regard to the Grand Duchy of Luxembourg, a country which has a land area of only 2 586 square kilometres and a population of barely 375 000 inhabitants, whose citizens all speak the same language, whose various areas have always formed part of the same State, and which has no levels of government, with separate budgets and responsibilities, between the central government and the communes. Luxembourg's regional problems, in terms of both their nature and their severity, are clearly not comparable in scale to those of other Member countries.

The overall strength of the Grand Duchy's economy ranks Luxembourg among the wealthiest Member countries (per capita GDP, at current prices and exchange rates, amounted to US\$ 16 138 in 1987) and its average annual growth rate of 4.5 per cent during the period 1983-1988 and 6.2 per cent in 1989 confirmed its standing as one of the most competitive economies in the OECD area during the 1980s. Luxembourg has one of the lowest rates of unemployment in the OECD area -- over the last ten years it has never risen above 2 per cent of the active civil population. These results were the outcome of a major effort to diversify the country's economy, notably by reducing the traditional dependency on iron- and steel-making activities (Table 1), which has allowed the Grand Duchy to cushion the impact of the decline in world demand for steel caused by the recessions of the last fifteen years.

The diversification of Luxembourg's economy has largely been based on policies designed to attract foreign firms and to encourage productive investment. The increase in GFCF has been particularly marked in the textiles, rubber, plastics and financial services sectors. Industry (energy, industry, building and civil engineering) accounted for 55 per cent of the country's value added in 1970, compared with 42.5 per cent in 1984.

This redeployment of the country's industry, which resulted in substantial job losses in the steel-making parts of the country and which benefited the central regions of the country more than peripheral agricultural areas, altered the regional balance and made it necessary for the government to introduce some kind of regional policy.

Table 1

BREAKDOWN OF TOTAL EMPLOYMENT BY ACTIVITY: 1970-1984

•	•••••	Total employment		
•	•••••	1970	1984	
•	•••••	As a %	As a %	
Agriculture	•••••	8.6	4.4	
Energy	•••••	1.0	0.6	
Industry	•••••	34.0	24.5	
{of which mining/steel-making}	••	18.3	11.0(a)	
Building and civil engineering	••	11.9	9.4	
Services	•••••	44.5	61.0	
Total	•••••	100	100	
(a) Salaried posts				

Source: Eurostat.

The situation in the regions will be examined in section II of this report, followed in section III by a discussion of the policy goals and instruments that the Luxembourg government has adopted in its efforts to remedy regional imbalances within the country.

II

REGIONAL PROBLEMS

The Grand Duchy basically consists of two contrasting geographical regions: the Oesling and the Gutland.

The Oesling region to the north -- covering about a third of the country -- is an extension of the Ardennes Massif. The terrain is extremely hilly, consisting of lower Devonian formations at an average altitude of 450 m. The southern part of the country, known as the Gutland, is twice the size of the northern part and more recent in geological terms. The terrain is also lower and flatter, lying at an average altitude of around 250 m.

Luxembourg has virtually no commercially exploitable natural resources other than its iron-ore deposits along the border with Lorraine. Mining on the Luxembourg side of the border, however, was abandoned in 1981 due to the poor quality of the iron ores.

Since the end of the second world war, Luxembourg has developed its water resources through construction of the Moselle canal and dams on both the Our and the upper Sure (where the main drinking-water reservoir for the country is located).

Farmland and forests cover respectively fifty and thirty per cent of the country's land area. The Moselle forms the border between Luxembourg and Germany for a distance of about forty kilometres; the valley on the Luxembourg side is planted with about 13 square kilometres of vineyards.

The regional distribution of the population reflects the natural geographical divide between the northern and southern parts of the country. The population of the Oesling has declined steadily since the last century, while that of the Gutland has increased in both relative and absolute terms.

If economic and social factors are combined with the above natural and demographic factors, however, the country may be divided into four regions: the North, the East, the Centre and the South.

The North obviously comprises the Oesling which has a declining population, an economy traditionally based on farming, a well established tourist industry, some new industrial centres and a few much older centres which have successfully developed new activities. For the purposes of analysis and regional policy-making, the North is generally considered to include neighbouring areas in the Gutland, notably the industrial corridor of Bissen-Colmar-Ettelbruck-Diekirch which represents an invaluable development pole for the Oesling.

The Gutland is sub-divided into three regions.

The eastern region comprises the Moselle valley, which is treated as a separate entity in view of its geographical location and the highly specific nature of the area's activities: inland waterway for international trade, ground-water resources, wine-growing, tourism, etc. Neighbouring communes further inland are often considered to be part of the eastern region, despite the fact that, in terms of services and employment, these communes largely fall within the sphere of influence of Luxembourg city.

The central and southern regions, although treated as separate areas, differ in much the same respects from the other two major regions in that they both have higher densities of population and much larger urban centres than the northern and eastern regions.

In addition, Luxembourg city, in view of its specific attributes (administrative and political capital of an independent country, European centre, international financial centre, main tourist destination of the country), its cultural and demographic predominance (22 per cent of the population in 2 per cent of the country's land area), its highly developed tertiary sector and thus its power of attraction, is treated, along with neighbouring communes, as a separate region.

By the same token, the mining basin or southern region, due to its high level of urban and industrial development and particularly its importance since the last century as a steel-making centre, is also treated as a separate entity.

Regional planners have adopted the same division of the country into four regions. The distinction drawn between the regions in terms of geography and specific economic strengths therefore provides the framework for regional policy-making.

The regions do not have any representative bodies, nor do they have any budgetary, administrative or policy-making powers. The organisation of the country into three administrative districts, twelve cantons and one hundred and eighteen communes is completely unrelated to the regional divisions adopted by regional policy-makers. This three-tier division is used solely for public administration: the districts, cantons and communes are simply the areas served by administrative departments of central government or branches of government agencies.

The communes, however, have full responsibility for the management of communal services or local government agencies. Government therefore operates at two levels: communal and national. Map 1 shows the division of the country into four regions and their respective activities; it also illustrates the distinction between regions and the administrative division of the country into regions, districts and cantons.

Map 1

THE FOUR REGIONS AND THEIR MAIN ACTIVITIES

III

OBJECTIVES AND INSTRUMENTS OF REGIONAL POLICY

The Grand Duchy of Luxembourg has adopted a specific policy towards the regions. This policy takes account of the specific attributes of the regions and attempts to maintain, if not restore, inter-regional balances while meeting the constraints imposed by other objectives of economic development, town and country planning and protection of the environment.

It would generally be accurate to say that Luxembourg's regional policy consists in implementing, with varying degrees of regional emphasis, policy measures drawn up at national level. Initially, the main target for these policy measures was the Oesling in the north of the country, a rural and relatively underdeveloped area. In the early 1980s, however, the government's attention was drawn to growing industrial problems in the south of the country along the border with France, where it was proving difficult to diversify an economy that had previously been too dependent on steel-making, and also in the Moselle region in the east where a number of major industrial plants had been closed down.

Luxembourg's regional policies are based upon (i) measures to encourage regional development and (ii) industrial incentives. The first type of measure is narrowly targeted on specific geographical areas, whereas the second type of policy measure simply amounts to a far more spatially restrictive variant of the industrial aid policy applicable at national level. Later sections of this report will address (iii) the growing role played by European regional policy, as well as (iv) measures to promote the development of rural areas in the country.

Regional development

In accordance with the general guidelines set out in the overall national development plan of 11 July 1986, regional development plans must take account of existing structures and regional areas of specialisation. The aim is not to equip each region with the same type of infrastructure, but rather to allow each region to shape its development according to its own possibilities and preferences. The objective of achieving an inter-regional balance must be seen in a national context in which the regions are part of a coherent whole. This approach must therefore be reflected in the planning and implementation of development projects.

The development of public services and facilities is co-ordinated under a special programme designed to promote a network of development centres for infrastructure relating to education, training, culture, health and social services, administration, justice, sport and leisure activities.

Under the terms of this regional development policy, the Luxembourg authorities are attempting to strike a balance between the benefits of centralisation and the disadvantages for users who must travel long distances to gain access to services. As far as possible, the authorities are trying to avoid locating too many government departments in Luxembourg city.

Where it is necessary to preserve regional life, the authorities must maintain an appropriate network of branch offices in order to afford the public in the regions ready access to public services.

Mergers between communes might have an important role to play in helping to improve and harmonise living conditions throughout the country by allowing the highest possible standards to be set for public services in the regions and by maintaining an adequate level of activity. Where this is not possible, communes should be encouraged to set up intercommunal associations.

In terms of transport infrastructure, the government's policy aim of achieving an inter-regional balance is reflected in projects such as the "Southern Highway" project and in the development of regional economic zones.

Whereas all major highways in Luxembourg are routed either to or from the capital, the Southern Highway will be an expressway linking the urban and industrial centres in the south of the country to the international highway network. The highway will be routed east-west across the country and will thus improve traffic flows within the southern region, allowing users there as well as in neighbouring regions across the border to gain access to international highways without having to transit via the centre of the country and the capital.

This new road may be seen as a regional policy measure. First, it will undoubtedly stimulate the recovery of the traditional industrial centres in the southern region which had been hard hit by the large-scale reorganisation of its principal industry, steel-making, and by the explosive expansion of the capital city and the central region as a whole. Second, it will help to relieve traffic congestion in the capital and surrounding areas.

The proposals to set up national industrial zones and regional economic zones, and the decision to go ahead with the creation of a number of them provide a further illustration of the how regional considerations are shaping national policy. This development is discussed in greater detail below.

Industrial policy measures

Luxembourg's regional development policy is intimately bound to its national industrial policy. The general framework for government aid to industry is set out in the 1986 Act which superseded that of 1973. However, in

view of (i) the industrial specialisation of the regions, (ii) the freedom with which the government can determine the scale and discretionary nature of support schemes, and (iii) the government's explicit desire to make use of these general elements in order to harmonise regional development within the country, national industrial policy has a strongly regional bias. The European Communities also have an important role to play in shaping the country's regional policies.

Faced with the decline in several traditional industrial sectors (including leather and textiles) during the 1950s and 1960s, as well as with the need for radical reorganisation in the agricultural sector, the government made economic restructuring and diversification a priority and introduced a number of incentive measures to achieve this objective. Since most of the declining industries were located in the Oesling, which also happened to be a primarily agricultural region, the government's economic restructuring and diversification policy had a strong regional content from the outset. Measures introduced under this policy included the setting up of a number of industrial firms, notably at the Wiltz site, to provide work for redundant workers who wanted to stay in the region and to guarantee a future for small towns in both the Oesling and the region as a whole.

The need to pursue this policy of restructuring and diversifying the economic fabric of the regions was powerfully underlined by the global recession of 1970s which was accompanied by a similar deep recession in the steel-making sector. The need to provide sectoral aid for the steel industry thus led on naturally to development of a policy for the steel-making areas in the south.

The government decided to lend national support to efforts to restructure the steel-making industry in accordance with EC policy goals; it also decided to maintain the existence of the five existing steel-making sites, despite the calls at European level for drastic cuts in steel-making capacity. There was therefore a broad consensus on the need to give priority to the south in locating new activities that might help to diversify the pattern of industry and even that of the national economy as a whole.

This policy rested on the provision of adequate infrastructure; in 1978-79, the government drew up a partial development plan that set up national industrial zones in the south of the country. The novelty of these industrial zones lay in the fact that the State, by purchasing the land, reserved final say on which industries would be allowed to use it. Investors were vetted by the government which, as a rule, only authorised new firms or industries to locate in these national zones which were therefore used, and are still used today, as instruments both to attract and to select new activities.

By the early 1980s, the government had also set up national industrial zones outside the southern region with the same two-fold objective of improving the industrial potential of a region or traditional industrial centre and of strengthening and diversifying the economic structure of the country.

The idea of setting up regional economic zones was first proposed in the 1980s. They were originally designed for a few specific cantons whose economies were primarily based on agriculture/wine-growing and tourism, which had practically no industry worth speaking about, but where there was

nonetheless some demand for industrial work. The type of firms the zones were designed to attract were mainly small and medium-sized enterprises whose activity did not necessarily have to be industry-oriented. These zones are set up and managed by an intercommunal association representing all the municipalities in the canton.

The provision of such zones is also designed to rationalise the use of industrial land and to avoid dispersion by encouraging neighbouring communes not to set up excessive numbers of zones, but rather to concentrate industrial activities within a strictly limited number of sites where charges and revenues can be shared out.

In addition to national and regional zones, Luxembourg has also created communal zones. Although the communes are responsible for setting up and managing such zones, applications must be submitted to central government, not only for environmental reasons but also to ensure that projects comply with regional and national policy measures designed to safeguard intra- and inter-regional balances.

While economic zones are an indispensable instrument of regional policy, the new system of direct aid for productive investment, set up under the General Industry Act of 14 May 1986, plays an equally important role.

The main innovation introduced by this Act was the specific reference made to the regions in the economic development policy pursued by the Ministers for Economic Affairs and Finances. Under Article 1 of the Act of 14 May 1986, investment or restructuring investments are to be reviewed in terms of their impact on the regions. If they improve the geographical distribution of economic activities they will qualify for higher rates of subsidy, i.e. rates of aid higher than the ceilings on aid applied under the general aid system.

Under the 1986 Act, the aid distributed consists in investment aid in the form of capital subsidies, interest-rate relief, tax exemptions, loan guarantees and subsidies for use of consultants. In practice, the form of aid most currently used consists mainly of capital subsidies and tax exemptions. Aid is granted on a discretionary basis.

A new targetted system reflecting regional policy provides for graded aid ceilings of 17.5 per cent, 20 per cent and 25 per cent, depending upon the severity of the problems in the zone or location where the investment or restructuring operation is targeted, as against the general system ceiling of 15 per cent (the same as under the previous outline law). Beneficiaries are not allowed to claim aid under both the general and the targetted system for the same investment or restructuring programme.

Development areas and sites, for their part, are eligible for aid under the Act of 14 May 1986, provided that approval is obtained from the Commission of the European Communities. New areas may be added to the list by means of a ruling by the Grand Duchy should there be a significant deterioration in the economic or demographic situation of a region or area currently covered by the general system.

At present, the regions and sites earmarked for development are as follows:

- the south of the country, including the cantons of Esch-sur-Alzette and Capellen as well as former industrial sites;
- the canton of Luxembourg;
- the north of the country, including the cantons of Wiltz and Clervaux;
- the east of the country, including the canton of Grevenmacher.

The aid and policy measures applicable to future operations in the southern region are aimed at stimulating industrial redeployment by encouraging the creation of new production units and the development of substitute economic activities. Investment or restructuring operations in the cantons of Esch-sur-Alzette and Capellen are eligible for subsidies of up to 20 per cent, or even as high as 25 per cent should they be located at former industrial sites (the steel-making basin covers a large part of the area of these two cantons).

The aggregate ceiling for aid for eligible investment projects in the Luxembourg, Grevenmacher, Wiltz and Clervaux cantons is 17.5 per cent of the cost of the investment.

Table 2
CAPITAL SUBSIDIES DISTRIBUTED IN 1986-1988

	•	•••••	1986•	1987•	1988			
Capital subsidies distributed•••	676•	664•	899					
Related investment		10 656	8 122	11 225				
Related employment•••••	648•	400•	850					

Source:• Ministry of the Economy, quoted by K. Allen (1990)

Influence of EC regional policy

The influence of EC regional policy is to be seen in the regulations that must be respected by the Luxembourg government and in a number of specific programmes with which the EC is involved in the country.

The system of regional aid established under the General Act of 14 May 1986, as well as all the provisions of that Act, were submitted for approval to the Commission of the European Communities to ensure compliance with Treaty of Rome rules on competition. In a letter of notification sent on 30 October 1986, the Commission informed the Luxembourg authorities that, in deciding to approve the areas chosen on the grounds of their regional importance, it had taken into account the fall in incomes and worsening unemployment that the country had experienced over the last ten years, as well as the imbalances in the country between predominantly agricultural areas where industry needed to be developed and areas with established industries which now needed restructuring.

The European Regional Development Fund (ERDF) is involved in the selection and funding of regional development plans through projects and programmes.

Following the slump in a number of traditional industrial sectors, the EC has established a number of special redevelopment programmes for regions hit hardest by the decline of these industries. As part of this drive, the Luxembourg government implemented, with help from the EC, a special programme to redevelop its steel-making region. This programme, which ran from 1984/85 to 1988, included the following measures: development of two new industrial zones at Rodange and Differdange, innovation incentives to encourage the development of small and medium-sized enterprises, consultancy services and co-funding of the support scheme for productive investment in the southern region, construction or renovation of social housing in workers' estates, and the conversion of two disused industrial buildings to cultural and business activities.

The aim of this pluriannual programme was therefore to help preserve a substantial industrial potential, to stem a loss of population and to restore the quality of living conditions in the southern region.

This special programme will be replaced by a second generation of Community measures aimed at regenerating steel-making areas, collectively known as the RESIDER programme. While the main thrust of the programme still remains focused on the development of SMEs in order to generate the positive knock-on effects that prosperous and dynamic businesses can have on a region, the RESIDER programme for Luxembourg also attempts to secure the improvement in the environment that must necessarily accompany industrial redeployment.

Luxembourg is concerned only to a limited extent by the European Development Pole (EDP), which takes in a very small area of land in the south-westernmost tip of the southern region. The novel feature of the EDP is that it is a cross-border project aimed at regenerating three neighbouring towns in three different countries, namely Longwy in France, Aubange-Athus in Belgium and Rodange in Luxembourg.

The EDP initiative was a direct outcome of the crisis in the steel industry, on which all three towns had traditionally been dependent. At Athus and Rodange, one steel plant actually straddled the border between Belgium and Luxembourg. The scale of the task of redeveloping this cross-border area

became all the apparent when it was realised that the restructuring of the steel sector called for elimination of the casting shops on the Longwy and Rodange side and even the demolition of all the shops located in the commune of Aubange, thus posing very serious problems regarding the redeployment of redundant workers and the reclamation of industrial wasteland.

The aim of the EDP programme is to reclaim the wasteland and attract new industrial development to the area in order to provide work for the local population and to breathe new life into the region. In terms of numbers, the aim is to create 8 000 new jobs by the year 1995, of which 1 000 on the Luxembourg side of the EDP.

From the very outset, the Commission of the European Communities lent its full support to this experiment in cross-border co-operation in regional redevelopment. Its backing took the form of financial support from the ERDF for an initial period of five years (1986-1990). The ERDF thus decided to co-finance investment in new firms on the Luxembourg side of the Pole.

Given that investors tend to steer clear of economically depressed regions, whereas it is exactly the opposite effect that is both desired and necessary, the Commission, which is responsible for enforcing competition rules within the EC, has exceptionally allowed the customary aid ceiling in each of the three EDP zones to be raised in order to help overcome for this handicap.

Furthermore, the Commission has agreed to finance this supplementary aid from EC funds, at least during the initial five-year period of the EDP plan. In another innovation, the supplementary aid has been set at a level equivalent to the combined maximum rates of subsidy applicable in all three countries, and is thus equivalent to a 30 per cent net subsidy.

The EDP cross-border programme also makes provision for close co-operation between the authorities of the three countries in the area of training through the establishment of a European Technology College whose objectives are to co-ordinate initial education, vocational training and retraining, research, innovation and transfers of technology, thus fostering economic and social development in the EDP area by encouraging co-operation between training and research institutions in the three countries concerned, with the active support of the Commission of the European Communities.

Co-operation under the EDP project also addresses other areas in which joint solutions are sought to specific problems which could potentially hinder the regeneration and development of this cross-border area.

The reform of Community structural funds should guarantee that support will be provided in the future for the EDP experiment -- the first phase of the project is now nearing completion -- through the provision of aid, notably funding, from the European Community. The three areas of Aubange, Longwy and Pétange will thus be eligible to receive aid for a further three years under objective 2 of the reform of the structural funds, namely the redevelopment of regions experiencing severe industrial decline. On the Luxembourg side, the entire land area of the cantons of Esch-sur-Alzette and Capellen, in the southern region, has been declared eligible.

It should be noted that, unlike the situation described above, the reform of EC structural funds means that potential aid to Luxembourg from the ERDF is restricted to just two areas: one area under objective 2 in the southern region, i.e. the cantons of Esch and Capellen, and an objective 5b area (promotion of the development of rural areas) in the northern region, i.e. a few communes surrounding the Lac de la Haute-Sûre.

Both types of region are eligible for support, other than aid supplied under national programmes, provided under national or Community schemes such as the INTERREG programme, which allows the national authorities to supplement, in collaboration with the Communities, aid to the EDP.

Rural development measures

Although agriculture, in the broad sense of the term, is practised in all parts of the country, even in a region as highly industrialised and urbanised as the South, it plays a much greater role in the economy of the northern and eastern regions of the country, which are primarily rural areas.

The present government, which took office in July 1989, has set up a department within the Ministry of Agriculture and given it the specific task of promoting rural development and lending support for measures aimed at restoring the economic, social and cultural health of rural regions, in order to raise standards of living and working conditions of those living in such areas to match those found in the rest of the country.

The government will soon be adding the finishing touches to a policy on rural development. The European Communities, however, have already agreed to provide support for areas within Luxembourg eligible for aid under objective 5b of the reform of structural funds. These areas consist of seven communes in the north-west part of the country which have a total population -- that is rapidly declining -- of 3 400 inhabitants spread out over an area of 164 square kilometres. The area consists of wooded mountains and narrow valleys and is a particularly sensitive area in environmental terms owing to the fact that it encompasses the Lac de la Haute-Sûre, the main drinking-water reservoir for the Grand Duchy. The principal natural resources of the area are agriculture, forestry and the reservoir.

In view of the strengths and weaknesses of this area, the Community has offered to lend its support to a rural development policy whose objectives are to:

- support small and medium-sized farms, in order to stem the loss of population and to preserve the rural heritage of the villages;
- develop large-scale management systems in order to protect the environment and maintain the quality of water resources in the area;
- develop the area's forestry resources;

- ensure that the development of tourist activities is properly managed and will not lead to pollution of the Lac de la Haute-Sûre reservoir;
- provide the inhabitants with a standard of living equivalent to that found in other areas of the country, notably in terms of adequate provision of infrastructure, services and shops, while focusing on protecting and creating jobs in these sectors.

Achieving these objectives will require a major training effort in the sectors concerned, to which the Community will lend its support. The programme will run for a period of five years (1989-1993).

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END-OF-TEXT