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Conference Paper

The Opportunities and Limits of Regional Policy-Making - some Critical Remarks on the Belgian Case

45th Congress of the European Regional Science Association: "Land Use and Water Management in a Sustainable Network Society", 23-27 August 2005, Amsterdam, The Netherlands

Provided in Cooperation with:

European Regional Science Association (ERSA)

Suggested Citation: Blomme, Wouter; Boucké, Tine; Devos, Carl; Staelraeve, Sofie; Verstraete, Tom (2005) : The Opportunities and Limits of Regional Policy-Making - some Critical Remarks on the Belgian Case, 45th Congress of the European Regional Science Association: "Land Use and Water Management in a Sustainable Network Society", 23-27 August 2005, Amsterdam, The Netherlands, European Regional Science Association (ERSA), Louvain-la-Neuve

This Version is available at:

<https://hdl.handle.net/10419/117430>

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*The opportunities and limits of regional policymaking.
Some critical remarks on the Belgian case.*

Paper presented at the 45th Congress of the European Regional Science Association
23-27 August 2005, Amsterdam

by

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Abstract:

In our paper, we deal with the dynamic and consequences of the federal structure and the dual party system for the policy capacities of Flanders, one of the three regions in the Belgian federal state. Since 1993, the Belgian constitution officially states that Belgium is a federal state. The process of state reform began in 1970, after the birth of linguistic parties in the sixties. One of the main characteristics of the Belgian party system is the absence of Belgian political parties and the asymmetry of the regional party systems.

The specific functioning of political parties in ‘Belgium’, in other words in its regions, has some important consequences for the scope for policymaking of those regions. The differences between the regional party systems are the product of the region-specific social and economical features. In spite of the unequal economic performance of the two main regions, the Flemish North and Walloon South, and the different economic challenges and possibilities, the Belgian federal level still retains several of the main economic competences and instruments. Therefore, the regionalised parties must, on the one hand, work together while in the cooperative federalism context, on the other hand, need to fight each other because of limited (federal) resources. We will consider the consequences of the elasticity and duality of the party system: does it enable or impede regional policy making, in particular when it concerns the switch of the unequal regional economies to a ‘new economy’?

I. Introduction

In some way, this paper deals with the complicated relationship between politics and economics. The central question concerns the implications of some of the main features of a party system for the management of economic policy. In this paper, we look into the effects of the party system in Belgium on the capabilities and difficulties of Flemish policymaking. In particular, we deal with the relevance of the Belgian party system to the opportunities and limits of the Flemish government to take up the challenges posed by, and to use the possibilities offered by the ‘new economy’.

The influence of the economy on politics is no longer a matter of discussion but an established fact. On the contrary, all political scientists will acknowledge the fact that some of the main determinants of the political game have to do with the characteristics and performance of the economy. Not only the agenda of political issues (input) at stake, but also the resources available to state officials for answering (output) societal needs is a result of economic structure and performance. Furthermore, the positions and strength of several political actors, as well as their specific agenda and strategy are, among others, influenced by the economic situation of their community. So, the relevance of economics for politics is beyond debate.

On the other hand, the opposite direction of this fundamental interaction seems, now less than ever, not that evident. What can national governments do, in the era of globalisation, to manage economic processes? Especially, what can regional governments do? Since ‘*Small states and world markets*’ (Katzenstein, 1985) it is an established wisdom that small states are not without means for the management of global economic developments. This not implying that political authorities can control these forces, on the contrary. Using welfare policies, some modest channelling of economic impact is possible, but more important, politics can make a difference when it comes to picking up opportunities, e.g. the Scandinavian countries, in particular the Nokia-case. Politicians can influence the economic performances or structure of their territory. Today, that influence – which is softer than power – is less directive and demand based. In contrast to the fifties and sixties, in the age of globalisation political instruments are chiefly directed at the creation and maintenance of a competitive climate for investment. So, even in 2005, political actors still have an important

influence on the economic performance of their political community. However, since this implies an extended reasoning that falls far beyond the scope of this contribution, we will not elaborate on this stimulating debate.

Avoiding such a theoretical contribution, we will add some modest elements to the general discussion on the possibilities of political management of economic performance, based on a particular case-study. We will not look at the specific economic variables of the case under consideration, nor will we go into the specific contents of Flemish policy. Instead, we deal with the (lack of) instruments Flemish policy makers have at their disposal and with how a particular political-institutional context could be used as an incentive for creative policy making and inventive policy learning.

The context is the very complex institutional structure of Belgium. This paper is not about Belgian federalism, nor do we want to take up positions pro or contra regionalisation or re-federalisation. In what follows, we overplay the economic aspects of this complex setting. Notwithstanding the fact that this paper is not intended as a theoretical contribution, our approach is rather abstract and general. That is due to the fact that, in this limited space, we cannot do justice to the subtlety and particularities of the issue at stake. The main objective of this paper is to question a popular representation. In Flanders, the current division of competences is often presented as a limit for economic development. In our paper, we indicate that precisely the specific division could also be seen as an opportunity structure, with the federal social and fiscal system as an incentive for creative policy making.

In the next section we will deal with the party system. In section three, we consider the limits, in section four the opportunities of the Flemish policy towards the transformation into a ‘new economy’. What are the restrictions and possibilities that result from the particular party system? In section five we conclude, in contrast to a popular ‘regionalisation thesis’, that a transfer of competences from the federal to the regional policy level – is not that indispensable in view of the ‘new economy’ policy.

II. The Belgian (federal) party system

In Belgium, a bicultural country with a small and open economy and an extensive collective welfare system, public policy is complicated by its *sui generis* centrifugal federal structure. The main characteristics of its federal system are: (1) the lack of Belgian political parties (in other words the absence of parties defending or representing the federal – Belgian – level). (2) The bipolar setting (Flemish speaking versus French speaking communities, no third party available for changing coalitions). (3) The absence of hierarchy (federal and regional laws are of equal value) between (4) mainly exclusive competences. Shared competences are exceptional. This does not imply that policy areas are clearly separated. For instance labour market policies: education and employment finding is a regional, unemployment acts are a federal competence.

The Belgian political system is also defined as consociationalist and neo-corporatist system. These systems of conflict management caused a complex arrangement of negotiation arenas and collective bargaining. Belgium was a centralized state until 1970, but in several rounds of constitutional reform it has been transformed into a federation. Since the constitutional reforms of 1993, Belgium is a federal state with three Regions (Flanders, Wallonia and Brussels-Capital) and three (Flemish, French and German) Communities. Communities are cultural- and language-based and are mainly responsible for education, cultural affairs and certain social services, etc. Regions are territorial-based and are mainly responsible for infrastructure, transportation, industrial policy, certain aspects of economic policy and elements of labour policy, etc. The federal or national competences are defence, justice, social security and the tax system, in particular those competences that relate to the maintenance of the Belgian economic and monetary union. The division of competences on the fiscal and financial level is complex. Regional fiscal competences are increasing – in Flanders from almost 750 million euros in 1996 to 2890 million euros in 2004 (Budget of the Flemish government) but are still considered limited. Financial responsibilities are well established.

Although there seems to be (two times) three components, Belgian federalism actually is bipolar, placing the Flemish speaking and French speaking groups against each other. Despite the fact that the Brussels-Capital Region is mainly French speaking, the

relationship between the Walloon part and Brussels is neither that simple nor harmonious. The real dynamic behind the state reforms and still one of the central cleavages in Belgium is the tension between the Dutch and French speaking community. Belgian federalism is asymmetrical: the institutions of the Flemish Region and Community have merged, in contrast to the French speaking institutions of Region and Community who remain separated, partly because of tensions between Francophones in Brussels and Walloons. In other words, the Flemish government (parliament) is at the same time the government (parliament) of the Flemish Community and the Flemish Region. This means that all Flemish competences are concentrated in one executive and legislative.

The Belgian federation is asymmetrical in another way: the unequal economic situation leading to, with some abstraction, a North (Flanders) - South ('Wallonia') division, is an important element in understanding Belgian politics. This is referred to as the so-called, and somewhat exaggerated, two-speed model: a high-speed Flanders (less unemployment, more economic growth and investment, sound budget) and a low-speed Walloon economy.

The Walloon part still has to face up more problems of restructuring its old branches of traditional industry (e.g. steel). The Walloon governments have done relatively less well than the Flemish part in setting up high-tech sectors. (Witte, 1992:109-110) This is the result of the economic history of Wallonia, to which we will turn later, but it also has to do with political factors, such as the great amount of social security beneficiaries who predominantly support parties defending these social benefits. The success of the *Parti Socialiste* is amongst others based on their policy to avoid drastic social security reform. Anyway, the economic performances of the Walloon part are still less than those of the Flemish economy, and that since the 1960s when the Flemish GDP/capita exceeded, for the first time, that of the Walloon region. This is one of the classic arguments in the plea for more regional autonomy as it is defended by all Flemish politicians. Flemish parties demand more regional autonomy in order to cope with different and diverging regional social and economical conditions.

Let's have a look at the particular aspects of the party system. As we already mentioned, there are no national *Belgian* political parties nor a *Belgian* party system. Generally

speaking, one can say that each political ideology consists of a Flemish and a Walloon *branch* and that there is a double party-system. We will now have a brief look at the history of the party system and on the consequences of this particular situation for policy-making and decision-making.

Until the sixties, the Belgian party system can be categorised as what is called a ‘two-and-a-half-party system’: a (unitary) large christian-democratic and (unitary) socialist party and a smaller (unitary) liberal party. A first big change occurred with the elections of 1965. The liberal party progressed while the other two traditional parties declined. More important was the breakthrough of the regionalist parties. In Flanders the ‘Volksunie’ doubled its score. Also the *FDF* in Brussels and the ‘Rassemblement Wallon’ in the Walloon part obtained a very good electoral result and challenged the power position of the traditional, established parties. Several reasons can be found for the sudden success of these regionalist parties. According to Deschouwer (1996), an important element is the consociational system itself. This is “a very closed system, with a small cartel of elites arranging things the way they want. It locks out those who at a certain moment would like more and better participation.” (Deschouwer 1996, 298) Therefore these new parties will react strongly to the traditional parties. A second reason is the nature of the traditional parties. “They lack the flexibility to adapt themselves easily to new challenges, or to incorporate new questions and new movements. These have then to go and create new movements and parties outside the existing ones.” (Deschouwer 1996, 298)

The new challenge would then be the demand for more regional autonomy. We should ask ourselves why regional autonomy had suddenly become a political theme. This has much to do with the changing economic situation in Belgium. From 1960 onwards, the economic centre of Belgium shifted from the Walloon parts towards Flanders (Gaus 2001, 60). In 1967 for instance, the economic growth in Flanders was twice as high as in the Walloon part. The main reason for this big shift was the unequal economic situation in both parts of the country. The old industries (coal, steel, etc) were mainly concentrated in Wallonia. Just like in the other European countries, these flagging branches of industry were struggling to survive. The decline of the steel and coal industry provoked structural unemployment in Wallonia. In Flanders on the other hand, the automobile and chemical industries flourished. Multinationals invested particularly

in Flanders, for instance near the port of Antwerp, where the demographic and environmental conditions were more favourable than in Wallonia.

Next to the unequal economic situation, the politicians in both language groups held different views on the economic policy they wanted to pursue. The Walloon part opted for subsidization of the old industry and called for more government intervention. In order to do so, they needed regional competences in order to pursue such a demand-based policy in the Walloon region. Flemish politicians were relatively more oriented towards 'new economy' approaches. This could suggest a clear-cut division and diametrically opposite visions. Reality, of course, is more subtle and nuanced. The different positions are a matter of relative importance, not absolute matters. Neither Flanders nor Wallonia is a monolithic bloc lacking internal differences.

Both economic situation and different policy views strengthened the call for regional autonomy, so that each region could pursue policies according to their own vision and adjusted to the regional social and economical characteristics. The Walloons pleaded for economic regionalisation so they would be able to save the old industries and uphold public investments. Since many Flemings thought that regional decentralization would establish more cultural autonomy – the most important Flemish demand – both groups, although they had opposite demands, became allies. (Mommen, 1994)

Traditional parties could no longer neglect the regional parties and their call for more regional autonomy, nor the unequal economic situation. So, they tried to incorporate this into their party program. Since they had opposite views on the economic policy, it was almost impossible to reach a compromise between the Flemish and Walloon faction in the traditional parties. Finally this led towards the split of the three traditional parties in Belgium, the Christian-democrats in 1968, the liberals in 1971 and the socialists in 1978.

The break up of the Socialist Party in 1978 marked a new era in Belgian politics. The Belgian party system did no longer exist and was replaced by a double party system with two separate electoral arenas. From now on, each party only competed with the parties in its own language group. So, the Flemish parties did not longer compete with their French-speaking counterparts or had to give account to the Walloon voters.

This new situation had an important impact on the policy formulation of the parties. “Once liberated from the electorally unprofitable politics of compromise within their former national parties, the linguistically homogeneous wings of the traditional parties gradually took up most of the regionalist parties’ issues. Each regional branch rapidly moved towards the extreme position on the linguistic-regional division, leaving a large vacuum in the centre.” (Dewinter 1999, 198)

This view is also shared by Pieter van Houten (2000), who argues that a focus on electoral incentives and regional party competition can not only explain the variation in regional assertiveness as such, but also the variation in the particular nature of demands. He concludes that when there is a dominant regional party that competes with national parties, there is an incentive to only demand more control over how to spend revenues obtained from the centre. By contrast, when there are several regionally organized parties and no strong national parties in a region, more radical demands for tax powers are more likely. Since in Belgium there are no national parties, Flanders serves as an illustration of strong regional assertiveness.

Besides the fact the Belgian party system was split into two systems, we should be aware that both systems have different characteristics. In Flanders, the Christian-democrats are the strongest party whereas the Socialists are the largest party in Wallonia. Hence, the Flemish party system is more oriented towards the centre while the Walloon party system is more left-wing. Although several reasons can be found for these differences, once again the unequal economic situation in both regions plays an important role.

In theory, the divided party systems should not be a problem, if the parties did not have to cooperate in the government. However the federal governmental level is the place where the parties from both language groups meet each other. The absence of federal parties is one of the most important features of the Belgian federal party system. In the electoral arena, parties are self centred, only concerned with regional interests. Consequently this leads to a very centrifugal pattern of party competition: all parties plead for greater regional autonomy, while there is no party left to defend the opposite. However, Walloon parties fearing that the federal level will be cut down to the bone and

will be dismantled defend a stop in regionalisation. According to Flemish politicians, this is not a matter of ideology or principle, but mere self-interest since the Walloon part needs the federal financial transfers in order to finance Walloon policy and benefits in the Walloon part. In the federal governmental arena, parties have to cooperate and find compromising solutions for both language groups. Hence, the Flemish and Walloon parties, especially the governmental ones, are in a schizophrenic situation: at the one hand, firm confrontational discourse towards one another in the own electoral region, at the other hand, at the federal level they have to collaborate with each other in order to form a Belgian government. This combination of firm confrontation and unavoidable collaboration is the dynamic of the complex Belgian politics. For each important decision on the federal level, for instance on social security matters or justice affairs, both language groups have to co-decide, because in the federal government both language groups are veto players. So, every decision, including further federalisation can only be the result of a compromise between the two groups.

In other words, Belgium federalism is not only bipolar but also cooperative. As a result of a complex system of decision making, both partners of this Living Apart Together relation have veto instruments on the federal level. The Belgian art of compromise and ongoing dynamic of give-and-take does not only generate, but also resolves ethnic conflicts in a peaceful way.

One can say that politics and institutions do matter. Political differences are not only the result of different economic features, political decisions can alter some elements of the economic system. This dynamic can certainly be found in the Belgian federal party system. On the one hand, the double party system and the federal state is a result of the unequal economic situation. On the other hand, the different policy views and particular organisation of the federal state, influenced the economic environment. We will elaborate on this when we consider the limits and opportunities of the federal system.

III. Limits to Flemish policymaking

According to a recurrent ‘complaint’ in Flanders, this region lacks several relevant competences now locked at the federal level. Since Flemish actors cannot always convince their Francophone partners at the federal level of a more ‘market oriented’ approach, economic arguments strengthen the traditional devolution arguments first put into words by the cultural Flemish movement in the 19th century. The disagreements at the federal level between the Flemish and Francophone parties, in almost all policy fields, are numerous. A popular catchword, symbolising the conventional thinking, in Flanders is ‘what we do ourselves, we do better’. Since no federal agreement is fully compatible with the point of view of the Flemish partners and since this divergence is the result of the Walloon politicians, the mechanism of ‘jumping of scales’ is a popular instrument of conflict settlement. If Flemish politicians are dissatisfied with federal measures, they can always suggest the jumping of the ‘federal’ competence towards the regional level. This is a never ending story and since regional politicians strive for ‘homogenous competences’, the federal competences deemed suitable for regionalisation are endless.

This also relates to the economic policy, in particular to the strategies and instruments that should enable the regional economies to remain or become attractive in the global economy. However, since even in the political debate objective, neutral arguments are more convincing than emotional pleas for the splitting of the federal social security, the advocates of regionalisation referred to the literature of ‘fiscal federalism’ and subsidiarity (Deschouwer, 2002:55). This literature essentially indicates that the appropriate location of competences should reflect the balance between costs and benefits of (de)centralization. Subsidiarity is here a popular topic. Subsidiarity is not a blanket recommendation to decentralize, but is usually understood as a presumption that operates unless a clear case can be made for centralisation. Subsidiarity is not the same as decentralization, in essence it is a principle for allocating power upward as well as downwards, but it incorporates a presumption in favour of decentralisation, especially in case of doubt. (CEPR 1993)

In Belgium, the ethno-linguistic conflict is primarily about the appropriate balance of power between the federation and the states (regions/communities). Since 1970, the

management of this conflict led to federalism. Since there was no one defending, convincingly the centre, the arguments of fiscal federalism are popular. Decentralised systems are deemed more effective at gathering more specific information and decentralised governments are considered more responsive to the interests of their citizens. Both elements lead to the conclusion that decentralised governments may provide a more credible way to differentiate policies according to the differing needs of local populations. It is not just a matter of efficiency in the allocation of resources, regional governments are also more accountable, and should therefore pay more attention to equity, or the fairness in distribution. According to the same argument, indeed, coordination is unavoidable, but it does not imply to centralise neither power nor competences. In a decentralised construction, with more competences to Flanders and Wallonia, both governments are in closer touch with the wishes, needs of their population and they are more flexible and responsive to local conditions. Therefore, and because of the dynamic of the party system, intellectual arguments in favour of more regional competences have tail wind.

However, notwithstanding the fact that the Belgian regions are among the strongest in the EU, some essential competences are still 'locked' or 'saved' at the centre. The Walloon and some Flemish parties are against their decentralisation. One of their arguments is that this would lead to the end of Belgium, that solidarity should not be broken. Because of the unequal economic performance of both regions, a regional social security would probably be less extensive in the Walloon part than a federal one, which is also financed by the more prosperous Flanders. According to conventional interpretations of the literature on fiscal federalism, the federal labour policy and the federal fiscal and social security systems – symbolic and economic important federal core business – are to be regionalised. The Flemish parties are amongst the regional most assertive ones, so this claim is very loud and clear in Flanders.

In Flanders, the federal level is often seen as slackening the Flemish economic development. Flemish politicians try to maximize their policy possibilities within the limits of the regional competences. This 'stretching' of the division of competences creates tension with Wallonia. It is mostly linked with a Flemish demand for more autonomy in labour policies and fiscal policies. But these demands are blocked at the federal level because of the 'joint decision trap'. As the Walloons see the macro-

economic tools in their best interest at the federal level, the transfer of federal competences to the regional level cannot be decided. It takes two to tango. Because of this powerful position of the Walloons in the federal institutions, it is not likely that the shared pedestal of competences, social security and fiscal competences, will be cut down in favour of the regional governments. The fact that decisions cannot be taken without the agreement of both regions frustrates certain Flemish policy makers. They see the federal level as a millstone around the neck of Flanders. The one sided and antagonistic picture that some Flemish groups create is that of a fast running horse (Flanders) that has to pull a heavily loaded car (the Walloon part), and therefore goes too slow. But the car and the horse cannot be detached.

One example is the reform of the system of sabbatical leave. That system was changed by the federal government. The Flemish government wanted to give an additional bonus to the employees who went on sabbatical. But the Walloon representatives did not want the other region to have a more attractive system. A similar example is the Flemish insurance for non-medical costs of senior citizens. It was the first time that a (small) part of the social security system was installed by a region on its own. Walloon representatives demanded that this particular insurance was organised on a federal level. Not because that system itself was not good, but it was seen as a first step in the disintegration of the federal social security.

Another illustration is the politically sensitive management of the federal railways. In the discussion for the new plan for the Belgian railways, new investments were asked around the port of Antwerp, in Flanders. This economic need was blocked because the division of investments was based on a political distribution code. This kind of political division of economic resources is one of the features of the Belgian balance between the regions. This so called 'waffle iron politics' was/is the use of compensating every investment on one side of the regional border with an investment on the other side. For example: a bridge was built in Bruges, as compensation a part of the highway in Charleroi was renewed. This system of political 'peacekeeping' led inevitably to economically inefficient investments.

Inertia and the high costs of the federal policy are arguments used in the debates for more decentralization. But the argument that Flanders has not enough tools to build out

a new economy policy is a political one. It is part of a never ending demand for more regional competences, as a result of regional competition between political parties and since no one defends the centre. But is it an economical necessity?

IV. Opportunities to Flemish policymaking

In the former section, we stated that the competences for Flemish policy making are not unlimited. Flanders cannot autonomously decide on its macro-economic policy or on social security issues. However, the current division of competences can also be considered, not as a limit, but as an opportunity. Due to its limits, Flanders is urged to maximise its efficiency in the areas where it does have power. Let's now have a look on this rather paradoxical statement.

In several EU-member states, the (multi-level) classic Keynesian Welfare State (KWS) is disintegrating and is slowly and gradually being replaced by a (weak or stronger) version of the '*competition state*', e.g. the Schumpeterian Workfare State (SWS). This version of the '*competition state*' is a different kind of state than the KWS. The basis of the '*competition state*' or the post-fordist SWS is flexibility¹: "rather than attempt to take certain economic activities out of the market, to '*decommodify*' them as the welfare state in particular was organized to do, the competition state has pursued *increased* marketization in order to make economic activities located within the national territory, or which otherwise contribute to national wealth, more competitive in international and transnational terms." (Cerny 2000:122-123)

The '*Schumpeterian*' element refers to the idea that political authorities should concentrate less on demand-side measures, such as full employment or a redistribution policy, should less try to preserve old industries but instead focus on the encouragement of promising activities, on the construction and management of a favourable investment climate (supporting '*creative destruction*'). In other words, political authorities should focus more on a supply-side policy (e.g. education, R&D, infrastructure, re-skilling processes, etc.) stimulating the international attractiveness of the local – especially the immobile – production factors. '*Workfare*' – the '*activation*' and thus heightened selectivity of social benefits – refers to the greater responsibility of the individual, both

¹ Post-fordism can be defined as a flexible production system based on flexible machines or labour systems and an appropriate workforce. As a stable mode of macro-economic growth, post-fordism is based on the dominance of a flexible and permanently innovative economic accumulation. As a social mode of economic regulation, post-fordism involves supply-side innovation and flexibility in each of the main areas of regulation. The predominance of micro-electronics-based information and communication technologies, flexibility and permanent innovation are the solicitudes of the SWS.

for its own success or failure (e.g. policies encouraging, in several ways, the unemployed to make great efforts and to take initiatives in order to improve their chances on the labour market). Workfare is based on a claim of reciprocity, on the view that social rights are conditional on labour obligations, since rights (to income) should be matched by duties (to labour or learn). Workfare – the ultimate policy of labour control – has been spreading in Europe, in part through the tightening of conditionality and the drift to means and poverty tests: “workfare represents a movement away from the insurance principle of social security without strengthening the right to work or income security. It is the outcome of the move away from universalism, and the drift to ‘targeting’ and selectivity (...).” (Standing 1999:334) So, the post-fordist SWS stands for an important change of (regional) state responsibilities and for a different method of operation in order to achieve these central aims.

In our view, due to the particular setting of a small and open economy, Flanders has few alternatives but to follow at least some way the track towards this post-fordist SWS. Bottom line of this economic and political programme is the advancement and maintenance of an attractive climate for investment. Since regions are not able to pursue their own macro-economic or fiscal policy, they have to concentrate on supply-side policies. The successive constitutional reforms gave the regions more competences in the field of education, R&D, etc. So, in order to increase productivity or attractiveness to foreign investments (globalisation), Flemish enterprises or politicians cannot simply choose ‘the easy way out’: lowering labour costs or taxes. In view of the high minimal social standards, including highly institutionalised labour-capital negotiations, an increase of profits and competitiveness cannot be realised by the traditional short term solutions of labour cost reduction. An important tax reduction or reductions of the social security costs on the regional level is impossible due to the Belgian political system. So, therefore, a more innovative and creative solution is needed. In order to make up for these high labour costs, productivity and attractiveness for foreign investment should be based upon HRM, high quality and knowledge based production, R&D, education, an efficient administration,... These factors are also mentioned in Richard Florida’s *‘The rise of the creative class’* (2002). In his best-selling book, this professor on regional economic development links creativity to economic development.

The Flemish government and the Flemish social partners elaborated several measures and plans in order to make the labour market and labour regulation more flexible and the deployment of labour more attractive: the extension and financial support of day nursery enabling, the modernisation and reorganisation of the Flemish employment office which must, amongst other objectives, enable to ‘activate’ some difficult categories, such as the older and low-skilled unemployed. The introduction of what is called ‘service cheques’, in order to give people time for further education. The (regional) state can provide (or subsidise) all sorts of education programs or useful activities that can be part of, or support, the economic activities of that region.

The switch towards some (regionally specific) kind of SWS emphasizes the importance of (regional) policies concerning the ‘human capital’. These and other competences, such as culture and education, have often been seen as soft and not that economically relevant. Today, their economic importance increased impressively. Since regions are entitled to regulate aspects that became of huge importance for the competitiveness of its economy, and of its immobile production factor ‘human capital’, regional authorities have – even in a post-fordist accumulation regime – an important, be it a changed, part to play in the maintenance and improvement of the welfare and well-being of their inhabitants in the global market. Amongst other priorities, this implies an extensive and flexible investment in education oriented towards the changing needs of the market and the promotion of life-long learning programs. Special attention in the educational policy is paid to the (ICT-)skills which are considered essential in the knowledge economy (computer sciences and informatics). These measures are additional to the promotion of e-commerce and internet-applications in small and medium business, the development of regional programmes of employee participation in profits and enterprise results (e.g. stock-options for employees), the support of (new) growth sectors by the Regional Investment Agency of Flanders and the Regional Development Agencies (RDA’s) or the construction and growth of (e.g. speech or bio-) technology ‘valleys’, islands and networks of concentrated and specialised know-how, infrastructure and capital.

V. Conclusion

So, politics can have an important influence on the regional economic policy. The constitutional limits of regional policymaking forces the Flemish government to get the most out of existing competences that allow to pursue a post-fordist SWS. Fortunately, the competences available to the regional governments are utmost suited for a course towards some kind of SWS-version. What first looked as a limit now looks like an opportunity. Today, the specific existing regional competences are of strategic value for the adjustment to global market challenges. Additional, due to specific economical and political conditions, those policies are more accepted in Flanders than in the Walloon part, although things are changing rapidly in the southern region. For many decades, the dominant Socialist Party in the Walloon part was mainly concerned with large public employment and the preservation of the old industries instead of investments in the new economy, since the main part of its voters can be situated among the old labour class. Since a few years, the modernised *Parti Socialiste* under president Elio Di Rupo changed profoundly and tries to modernise the Walloon economy. Recently, Di Rupo and other Walloon and Flemish politicians and economists were engaged in a polemic on which road to follow to create economic growth and combat unemployment in Wallonia. Di Rupo incited the federal government and the socio-economic partners (included all trade unions and employers organisations) to create a ‘Marshallplan’ for Wallonia (De Standaard, 13 juni 2005). However, Di Rupo also states that he is well aware of the fact that Wallonia ought to do it itself: ‘*Il faut se faire aimer*’.²

In Belgium it is easy to find more arguments for further regionalisation. However, in this plea the challenges posed by new economy can hardly serve as deciding arguments. The contemporary regional competences already make a Flemish new economy possible. Furthermore, since there is an extensive and, from a regional perspective, unchangeable federal ‘minimum’ programme of social welfare provisions, the regions have to compete, with each other and with the rest of the European and global economy, on the basis of a high cost structure.

² The same message, articulated more sharply however, is proclaimed by Alain Destexhe, member of *MR*, the Walloon liberal party. He dropped a bombshell by writing an extreme critical report on the economic

The principle of subsidiarity, although not explicitly present in the Belgian debate, claims that when in doubt decentralisation should be preferred. It is the expression of a political judgment in the absence of a conclusive and clear-cut criterion that could decide which competences should be scaled on which policy level. What is needed for the transition towards a new economy could be an alternative or at least additional criterion for the distribution of competences in the Belgian federation. The federal social and fiscal system is a common framework protecting, on the basis of federal solidarity and loyalty, all Belgian citizens. It offers all citizens, irrespective of their place of residence, a protection against failure of regional policies towards the SWS. On the other hand, as a consequence of the high costs that result from the social security system, regions are forced to maximize all existing competences and to use them in a creative and intelligent way.

So far, this has worked rather well for Flanders, one of the richest regions in the EU, but until now not so much in the Walloon part. This has not to do with the different set of competences, which are the same, but with the institutional element: a very different economic situation and different political preferences. These preferences do make a difference in the economic development of regions. So, politics can influence economy. The popular idea that, in this era of globalisation, politics has lost its grip on economy, is over-simplified. Even a political system that seems limiting the transformation of regional economies towards a kind of SWS is, when one takes a closer look, offering opportunities for the regional governments to pursue these policies.

situation in Wallonia. He criticizes a.o. the ‘Contract for the Future’ of the Walloon government, a blueprint for economic restructuring conceived by Di Rupo.

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