'Formateur' Di Rupo's note: the N-VA's assessment

INTRODUCTION

As you know, we have been very thoroughly studying EDR's note over the past few days. A great deal of work was clearly put into this note, and this commands respect. Our study department and our technical colleagues have analysed all of the 'formateur's' proposals in great detail and - to the extent possible - put figures on their impact. I am going to explain our conclusions to you today.

When I heard and read the first coverage about the note, I have to say that I was hopeful. Of course, I realised that the truth was probably not as rosy as some people had led to believe and that there might be hidden meanings in the note, but I still believed that we would at least be able to go for a 'yes, but'. I'd hoped so, anyway.

But, alas. After reading the note in detail and looking at the technical analyses carried out by my colleagues, it became clear to me that, for the N-VA, this note is really not a good basis for further negotiations. As the 'formateur' rightly remarked a few days ago: whoever says 'yes' to this note must genuinely believe that negotiations can succeed. I must admit: with the best will in the world, I really don't believe that negotiations based on this note could lead to a successful outcome.

I will soon explain to you our objections in detail, but I shall start by briefly outlining them for you.

1. **Regarding the budget**
   The 'formateur's' budgetary operation is in fact a massive tax increase. It affects anyone who works hard, anyone who is enterprising and anyone who has savings. With this note, we are given the doubtful honour in Europe of being the country that reduces expenses the least and looks most for resources in extra revenue, while we are still the current champions in terms of government taxes, and the tax burden in Belgium is already sky high.
2. **In social-economic terms**
   Almost all recommendations made by the European Commission (as well as the IMF and the OECD) have been disregarded. These concerned the vital reforms needed with regard to social security and the labour market. The 'formateur's' note considerably raised expectations in this regard, but on further reading, it does nothing to meet these expectations. The measures concerning unemployment, pensions and healthcare have little or even no impact whatsoever.
3. **Financing Law and fiscal autonomy**
   The new Financing Law offers very little real autonomy and barely has an effect on raising accountability. In fact, existing personal income tax contributions made to the federated entities have simply been converted into additional percentage taxes. It is not possible to also really execute one's own tax policy except for linearly increasing or decreasing personal income tax. Furthermore, a solidarity mechanism that wipes out all differences remains. For the Communities, the state funds, based on need, will simply remain as they are, except for

the fact that Flanders will be 600 million short because of the stop to the 'Lambermont turbo'.

4. **State reform**

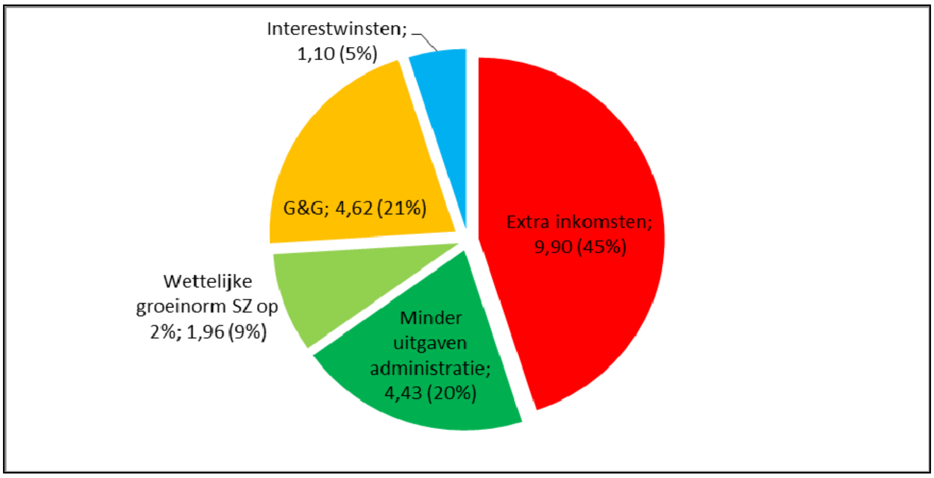
   In terms of the state reform, the note does not contain much news. It is perceptibly under the level of the Vande Lanotte note. Billions will indeed be moved around, but there will not be many real policy levers. Furthermore, it is not an exercise in homogenisation, but rather an *n*th piecemeal reform that will not improve administrative efficiency.

5. **Brussels & BHV**

   The proposals concerning Brussels are disastrous for Flemings. The legal bilingualism of the capital is pretty much done away with, and the political guarantees for Flemings with regard to Regional government are being eroded. In spite of this, Brussels gets an extra 600 million a year. On the other hand, there is not a single commitment to make the Brussels administration more efficient. We are, however, supposed to accept that Brussels is given more competences and becomes a federated entity in its own right. In the six 'facility communes' in the Vlaamse Rand (Flemish Periphery), the facilities have been de facto reinforced.

CENTRAL SECTION

1) Regarding the budget

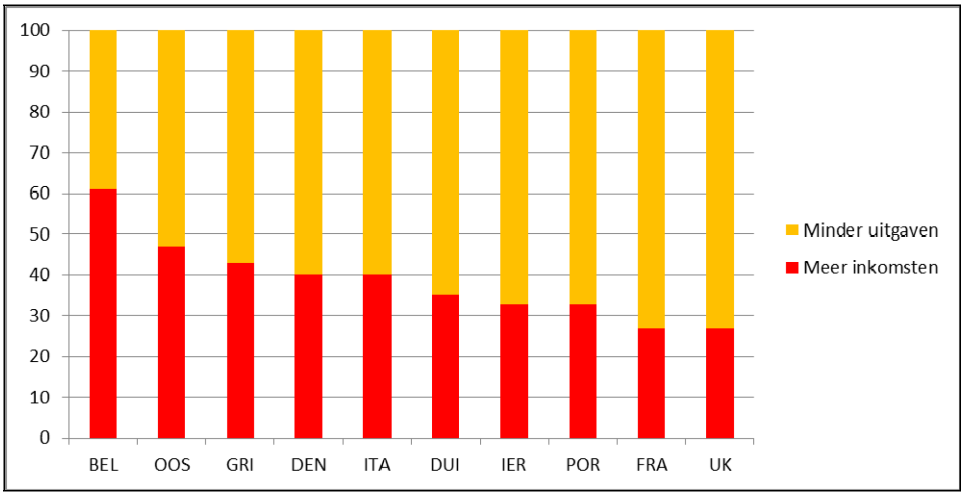


Repartition of financial reorganisation according to EDR's note

- 4.6 billion euros, or 20% of the reorganisation efforts, will be transferred to the Regions and Communities, and on top of that, they have to foot the bill again for the pensions of their employees (without being allowed to have any say in their retirement age) and for commuters in Brussels. This would mean that Flanders would have to save in total at least an extra 2.5 to 3 billion euros, i.e. 10% or more of the total current Flemish budget, although Flanders already saved 8% of its budget over the past two years. This means that Flanders is being punished for its previous financial reorganisation. Because those who had not yet done anything are now required to reorganise their finances (and it is really doubtful whether they will actually do so), while Flanders would have to start on a second reorganisation. In other words, should the good pupil be punished for his exemplary behaviour?

- At federal level, EDR's note focuses as a matter of priority on tax increases. The note mentions 37% of savings on spending, but in fact it is even less than 30%, i.e. 6.8 billion euros from a total of 22 billion euros. Getting rid of tax rebates, for instance, does not constitute a saving on spending, but rather higher revenue from taxation. Furthermore, EDR is overestimating the savings he is imposing in terms of healthcare because he is artificially comparing the new growth standard of 2% with the former 4.5% growth standard, whereas the actual growth amounts to 3.1%. This means that the effective saving amounts not to 3, but 2, billion euros. Apart from this new growth standard, no savings are made at all with regard to social security as a whole. Almost all of EDR's third category, the so-called 'miscellaneous' measures, also seem, on closer examination, to be extra revenue.

- This tsunami of tax increases is in complete contradiction with what Europe is recommending to us. In view of the tax burden, which is already very heavy in our country, the International Monetary Fund, the OECD and rating agencies are also recommending that Belgium carry out a reorganisation on the spending side. EDR's note does the exact opposite. If we look at the savings of the Federal Government, then it can be seen that no other European country raises as much money on the revenue side as Belgium, and we have almost the highest tax burden in Europe! We are the only European country in which more work is done on the revenue than on spending. In our opinion, this is totally irresponsible.



European comparison financial reorganisation efforts 2014/2015 revenue - spending

- The proposed measures weigh heavily on entrepreneurship (approx. 4.6 billion euros of tax increases = 43% of the revenue from corporate taxation), for new companies, SMEs and large companies. They are causing irreparable damage to the investment climate, and the encroachment on the 'notional tax rebates' is a form of breach of contract. Furthermore, the administrative burden is not going to get lighter, rather it is going to become much heavier.

- The note will also directly affect families, with a tax increase of 4.3 billion euros (= 10% of the revenue from personal income tax). The middle class and people who work will be the most affected. They will be squeezed even harder than is already the case today. For an average family, this works out at a tax increase of 1,000 euros per year! For young people, this means that, over their entire future career, they will receive a year's salary less and have to hand this money over to the government.

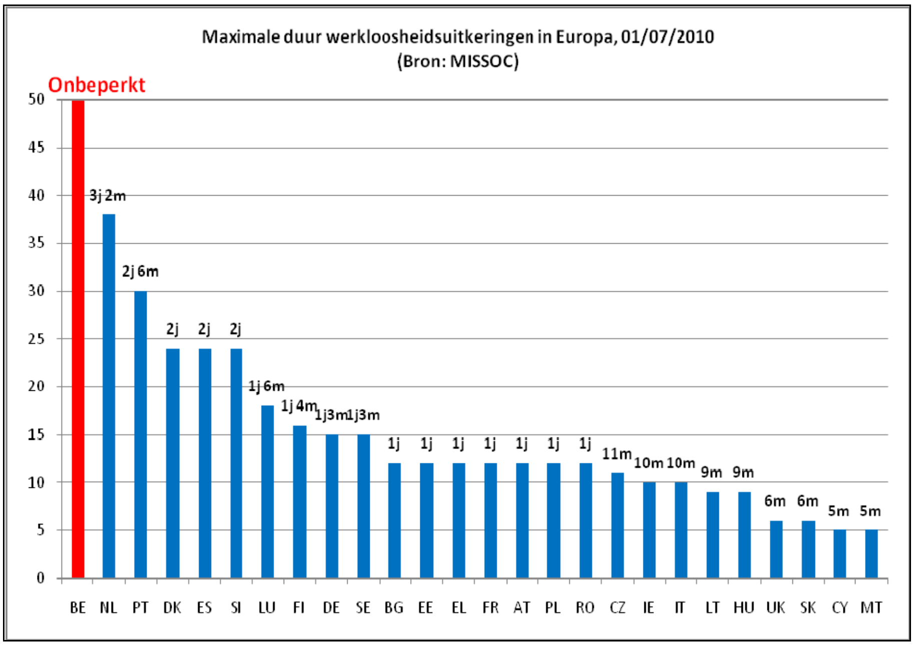
More highly priced service cheques + scrapped tax benefit	240 million euros
Harmonisation of withholding tax on incomes at 20%	1,160 million euros
Introduction of a tax on surplus value, whereby small private investors will be affected	1,000 million euros
Stricter rules regarding benefits of a company car	1,200 million euros
Reduced deduction of group insurance and fine in case of early claim	150 million euros
Tax rebate on low incomes	-500 million euros
Other (fraud, large fortunes, etc.)	1,090 million euros
TOTAL BURDEN ON WORKING POPULATION	**4,340 million euros**

2) In social-economic terms

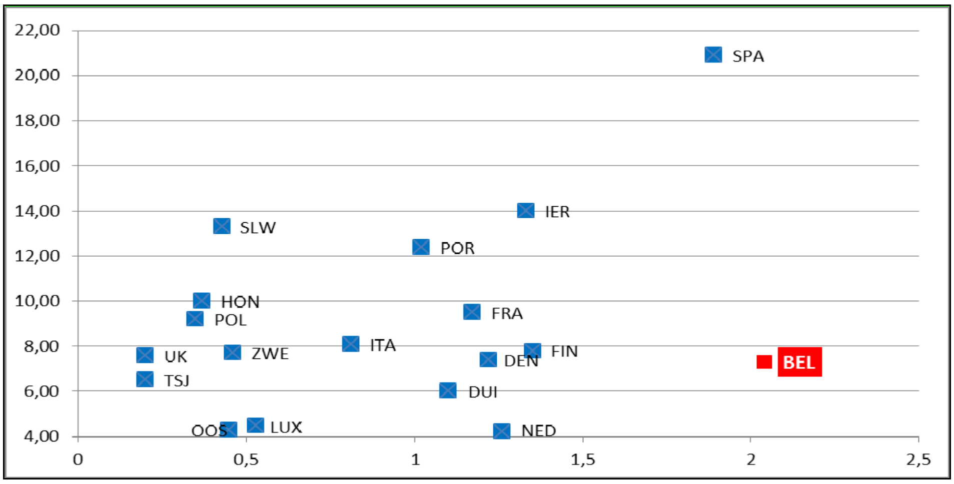
Social-economic reforms were announced with much ado, but in fact, EDR's note only contains very minor changes to existing unemployment and pension schemes. If we compare this with European recommendations, then it appears that only two of the six recommendations are observed. This means that the 'formateur' is taking a very sceptical stance against Europe; and that Belgium is isolating itself more and more from the European mainstream.

UNEMPLOYMENT

- The **degression** of unemployment benefits is mentioned, but in fact, the benefits will first increase to only subsequently decrease very gradually. It is not clear if there will ever come a point when the benefit will be lower than is the case today and, if so, how long it will take before that point is reached. This cost price of the scheme therefore threatens to increase rather than decrease.
- The benefits will also not be **limited in time**. They are limited in time everywhere in Europe, most generally from six months to two years. In the aftermath of the financial-economic crisis, a number of countries limited this period even further. It was reduced in Denmark, for instance, from four to two years (even though it is a country with a strong social system). So Belgium is now the only country in the world in which you can receive unemployment benefits forever.



- The **interim allowances** [for school/higher education leavers] are not done away with. It will therefore remain possible in this country to receive unemployment benefits throughout a person's entire lifetime without ever having worked for a single day.
- In other words, this note does not include the necessary stimuli to encourage unemployed people to look for a suitable job.
- The budgetary effects of the tentative reforms regarding the labour market are also very limited. No other European country is currently spending more on labour market policy (including benefits) than Belgium. Not even Spain, even though unemployment there is over 20%. The 'formateur's' proposals will not make any difference in this respect.



Unemployment rate (vertically) and spending on labour market policy in EU/OECD countries as% of GDP (horizontally)

WORKING FOR LONGER

- Early retirement is barely touched upon. Even in cases of restructuring, it is still possible to pension people aged 55 off early and shift the costs onto society.
- The age to qualify for early retirement will also only be raised extremely gradually. The minimum age will be increased by two months each year. At this rate, the effective retirement age at the end of this parliamentary term will rise from 60 to 61 years, and it will take us 30 years to reach 65….
- It is proposed in EDR's note to increase as of 2013 the age at which job seekers must be available for work from 50 to 55, and as of 2016 (i.e. in the next parliamentary term) to age 58. In Flanders, however, the VDAB (Flemish public employment and professional training service) will already actively help job seekers, up to the age of 58, find work.

BETTER CLIMATE FOR ENTERPRISES

- The approach to 'notional tax rebates' is extraordinarily tough. However, I remember that, when Prime Minister Leterme was visiting various American investors, loud and clear requests were made that the 'notional tax rebates' be left untouched and that a stable tax climate be created in our country. If this reform of the 'notional tax rebates' is implemented, we will suffer a huge loss of face in terms of credibility with regard to foreign investors.
- A number of positive measures are taken for SMEs, but they are offset by many tax increases and extra administrative burdens: the erosion of the 'notional tax rebates' and indexation are maintained and not reformed as Europe is requesting, employer contributions for early retirement are increasing, increased tax on income derived from securities, tax on surplus value, etc. These are all tax increases that have a negative effect on employment. The 'formateur' wants to create 250,000 jobs, but it will definitely not happen this way.
- Moreover, the note also includes a whole list of troublesome measures:
    - Is it up to the government to decide that listed companies may only make 30% of the salary variable?
    - Is it up to the government to decide that listed companies must reduce the gap between the highest and the lowest salaries?
    - Is it up to the government to determine that companies must select people from all age categories in cases of collective redundancies?
- Many difficult decisions are being shifted to the social partners (and since the 'generation pact', we know that maybe nothing will change).
    - Assessment of early retirement
    - Definition of general second pillar and consolidation of first pillar
    - Employment plan for older workers
    - Introduction of a mechanism whereby the recruitment stimuli, which remain at federal level, can be linked to the effective creation or maintaining of jobs
    - Improvement of the quality of employment in the temping sector

3) Financing Law and fiscal autonomy

- The Financing Law proposed by EDR offers very little autonomy and has little effect in terms of accountability. In effect, the Regions are not given any more autonomy than the municipalities currently have: They can levy tax percentages or grant tax percentage rebates, but they have no real tax autonomy because they must strictly operate within the existing graduated framework. Tax allowances for dependents and income substitution benefits remain exclusively federal. This is basically a taxed allowance.
- The amount of the transfer is also very limited, i.e. only a quarter of the current revenue from personal income tax.
- A kind of 'oversolidarity' remains in the financing of the Regions. Resource allocation will also not develop in the long term into an allocation in terms of tax capacity, but mainly in terms of needs and population figures. The new solidarity mechanism is therefore more beneficial for Wallonia and Brussels than the current system.
- Furthermore, Flanders pays a high price in the financing of the Communities as the 'Lambermont turbo' has been scrapped (600 million euros in 2030).
- In short: no culture of financial accountability is being introduced here, and the federated entities are still not being given sufficient incentives to cut their coats according to their cloths. Consumption federalism remains unchanged.

4) State reform

- With regard to the **labour market**, EDR's note confirms what was already included in Johan Vande Lanotte and Wouter Beke's attempt at conciliation:
- A transfer of mainly the target group deductions and the service cheques, for a value of around 4.4 billion euros.
- I regularly hear and read that in this way, labour market policy 'as a whole' would be transferred.
- Naturally, nothing could be further from the truth. With this system, only a third of the full labour market budget is transferred. Of the 10-million-euro RVA (National Employment Office) budget, barely 0.5 billion euros will be transferred. And this is where the major levers for implementing policy lie. The criteria regarding what a suitable job is and which job seekers must be available for work also fully remain at federal level. That we are given these target group deductions is all very well (see earlier conflict of interests), but this is not the Copernican revolution that most Flemish parties want.

- In terms of **healthcare**, EDR's note suggests a transfer of around 5 billion euros to the competent bodies, but this will lead to considerable fragmentation, which will not be beneficial for the policy.

<u>Care for the elderly</u>

YES: Resting homes and the like

NO: Home care
RESULT: Impossible to implement own policy focussing on people who want to stay at home as long as possible

People with a disability
YES: The integration contribution and the contribution for help for the elderly
NO: The income substitution compensation
RESULT: People with a disability will still have to go to two authorities to receive what they are entitled to.

Primary healthcare
YES: Support for medical practices
NO: The fees of the caregivers and the number of caregivers
CONSEQUENCE: The attractiveness of the profession of general practitioner cannot be improved upon and the future shortage of GPs is not addressed.

- Naturally, we think that the transfer of **child allowances** is a good thing, but since in the case of Brussels they are going to the Common Community Commission, this is a *de facto* regionalisation. The same applies to the healthcare resources, which also go to Brussels via the CCC.

- **Justice and security:** The transfer of youth justice is a good thing, the federated entities can set up administrative courts and be given a positive right of injunction within the scope of their own competences, but the organisation and functioning of the judicial system is not transferred to the federated entities, there will be no first-line courts instituted and the police zones will not be rationalised. All in all, a meagre result.

- **Coinciding elections:** This completely goes against the logic of increasingly autonomous federated entities. Will the federal level once again arrange which Flemish parties may be part of the Flemish Government?

- There will be a **federal constituency**, but without respecting the logic of a federal constituency, i.e. with a guaranteed representation for French-speakers. Either we are 10 million Belgians and we are one constituency, or this country is made up of a Flemish Community and a French-speaking Community, and then there are two constituencies.

5) BHV & Brussels

- BHV is split, but the compensations go far beyond what is acceptable. Furthermore, the target is not reached, i.e. bringing to an end once and for all the linguistic/cultural conflicts in the Vlaamse Rand (Flemish Periphery) around Brussels. The N-VA wanted a definitive pacification, but it is not happening now. This note solves nothing, the source of the conflicts will continue to exist:

  - The Peeters circular is not anchored in federal law; on the contrary. The Constitutional Court is made competent (instead of the Council of State) for all proceedings concerning facility municipalities. The Council of State expressly sided with the Flemish interpretation of the linguistic legislation. For this reason, the French-speakers wish to replace these judges because they pronounce judgments that the French-speakers do not like. They hope that the Constitutional Court will rule against the Peeters circular, which will inevitably lead to conflicts. This system therefore does not solve problems, it creates new ones.
  - The burgomaster carousel is also not solved; however, the Flemish Government finally loses custody. From now on, the Constitutional Court can appoint burgomasters in the Vlaamse Rand (Flemish Periphery) contrary to the decision of the Flemish Government.

- Brussels is increasingly becoming a third Community because it is now being given competences with regard to tourism, professional training, sports infrastructure, child allowances, healthcare, etc. In addition, everything that is moving to the federated entities is going, in the case of Brussels, to the Common Community Commission. Consequence: Flanders has less and less of a say with regard to Brussels.
- The creation of a metropolitan community, with the possibility for municipalities to join it, opens the way for a future expansion of Brussels. The Brussels Region and the Walloon Region are also competent for the ring all around Brussels, which is 90% Flemish territory. Whereas the Octopus note clearly states: “The Flemish Government rejects any initiative that runs counter to our request for respect for the Dutch-speaking character of the Brussels periphery and the territorial integrity of Flanders.”
- Taking into account all concessions, the six facility municipalities are being de facto detached from Flanders. Inhabitants can vote for Brussels candidates, judiciary cases are handled in French, as are all contacts with the municipal authorities. Inhabitants will no longer notice at all that they live in Flanders.
- In exchange for the fact that Flanders is given less and less say in Brussels, we are however expected to pay more and more for that same Brussels. EDR mentions 461 million euros, but on top of that there are the 125 million euros of the Beliris fund, which are definitively anchored in the Special Financing Law. In this respect, a political agreement will from now on have to be reached each year.
- In exchange for this huge budget increase for Brussels (amounting to around 3 billion euros in total), do we get a better policy, such as the integration of the six police zones? Not at all. Do we get better compliance with linguistic legislation in Brussels? On the contrary: linguistic legislation is further weakened, we get bilingualism of the service instead of that of the civil servant, and then there is absolutely no guarantee that even this weakened linguistic legislation will be observed. There are even monolingual municipal services, and contractual employees (currently half of all recruitments in many municipalities) are completely exempted from any knowledge of Dutch. Whereas the

Octopus note clearly states: “We resolutely reject an even more far-reaching relaxation of linguistic legislation in Brussels.”

- To cap it all off, the bilingual lists in Brussels will mean that, from now on, the French-speakers will be able to determine which Flemings will get a (good) place on the list. In other words, Flemish candidates will have to toe the line.

CONCLUSION

You might be wondering: isn’t the N-VA being too critical? Isn’t it better to go to the negotiating table and discuss this criticism during negotiations? We don’t think so. Whoever accepts the ‘formateur’s’ note as a starting point cannot achieve an honourable compromise. And this assessment is not even based on the N-VA’s programme.

- I notice that the **Octopus note**, about which almost all Flemish parties are in agreement, is, in terms of substance, only realised for a third. Furthermore, many passages of it have been mutilated, regarding Brussels for instance.
- I notice that nothing, or hardly anything, has been done to satisfy the **European recommendations** for a reform of our social-economic fabric.
- I notice that, in Community terms, this note is worse than **Johan Vande Lanotte’s note.** What we liked about that note at the time is now often watered down. What we didn’t like back then has now often become even worse. And there is hardly anything positive in its place. It would therefore be particularly inconsistent if we were to say ‘yes’ now while we said ‘no’ then.

We are of the opinion that it is more honest to clearly say ‘no’ to this note than to express a tactical ‘yes’ to then enter into negotiations that are bound to fail. Who, after a year, needs endless negotiations without a chance of success?

Let me be very clear: the N-VA remains available to try and form a government, but only if the substance of our fundamental objections is met. I shall leave it to the ‘formateur’ to evaluate whether he thinks this is possible or not.

I do not believe in the ‘formateur’s’ project. It is a bad thing for all inhabitants of this country. And it is especially a bad thing for Flemings because they in particular will have to foot the bill. In politics, I observe one golden rule: if I can’t convince myself that something is good, then I can’t convince anyone else of it.