Brussels terror attacks cost the Belgian economy almost 2.4 billion euro

report by Emmeline Van Lent
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On March 22 2016, three coordinated suicide bombings occurred in Belgium; two at Zaventem airport, and on at a metro station in Brussels. 32 civilians were killed and over 300 people were severely injured. Not only was there a great deal of human suffering, but the cost of the attacks to the Belgian economy this far has amounted to over 2.4 billion euros.

Belgium is a small country in the heart Europe with a population of 11.35 million. Its capital, Brussels, is home to a large number of European and international institutions, making it one of the richest countries in Europe with a GDP per capita of 41,096 USD compared to the European average of 23,534 USD. In order for Belgium’s economy, as with any modern industrialized economy, to thrive it must deal with components such as unemployment, inflation, economic growth and equity.

After these bombings, the country’s underlying economic situation changed significantly and a number of sectors felt the impact of the terror attack. First of all, the number of passengers at the airport decreased considerably and still to this day has not yet fully recovered. With less individuals using air travel as a method of transportation, there was less demand for any airport services causing many staff members to lose their jobs, leaving them unemployed. Economically unproductive people will not contribute to a countries overall GDP and will not earn wages that contribute to consumption which makes up around 70% of aggregate demand, which caused a serious problem.

This is an example of cyclical unemployment, or demand-deficient unemployment, as a reduced aggregate demand (AD) in the economy caused a decline in business revenues and forced firms to lay off workers in order to maintain profit margins. (Fig 2) This type of unemployment usually occurs during periods of slow economic growth or periods of contraction in the business cycle. (Fig 3)
A number of hospitality industries and companies that are responsible for organizing events were also affected by this unfortunate event as Belgium's tourism rates fell. The hospitality industry consists of casual work and its employees earn lower wages when compared to full-time, university educated business executives. Therefore, it would not be simple for them to cover the costs of living if their working hours were reduced or stopped completely, as with the airport staff (see figure 2). The chronic underutilisation of labour in Belgium is rooted in a number of structural factors affecting both the demand and the supply side of the labour market and the total negative impact for this sector of the economy was estimated at 300 million euros.

If there is a high unemployment, wages will fall in the long run and employment and output will return to full employment. From point A to B, there is an increase in aggregate demand causing a higher inflation and a lower unemployment in the short-run. In the long-run, the economy will move from point B to C as workers see their real wages fall and demand higher nominal wages. As they do, firms reduce employment in order to raise prices which returns unemployment back to its natural rate (NRU) but at a higher inflation rate.

However, recently, the number of people claiming unemployment decreased and this fall is evident in all parts of the country, Flanders, Wallonia and Brussels. At the end of 2017, there were just over 480,000 people that were unemployed which is down 8.5% on the figures that end 2016. RVA, the Federal Employment Service has indicated two factors which may have caused the decline in unemployment. The first being the surge in economic growth these past 2 years and second is the slowed increase of people within the active labor force. Fewer people unemployed means that there is less money being spent on unemployment benefits which allows the government revenue to increase. In 2017, RVA spent 554 million euro less than in 2016. The job market is forecast to continue developing favourably with employment growth of above 1% in 2019. As a result, the unemployment rate in Belgium is expected to fall to 6% in 2020.
The Belgian economy strengthened in 2017 though previous years of stagnating activity have left their mark. Belgium has entered a slow-moving recovery with GDP growth expected to accelerate from 1% in 2016 to 1.2% in 2018 thanks to company investments and external trade. Due to Belgium's unemployment, around 9,000 fewer jobs were created which in turn lead to a slower economic growth.

Economic growth is defined as an increase in real output over time and is measured by changes in real GDP. Belgium is known for its chocolate and waffles and heavily relies on tourism. Tourism can greatly impact positive economic activity as it causes an increase in household incomes, government revenues and stimulates a nation’s investment. It drives improvements in infrastructure which leads to the development of restaurants, bars, cafes and stores which help improve the quality of life and collectively benefit tourists, local residents, as well as the wider economy. The tourism also provides residents with opportunities to benefit from the cultural heritage of their country and develop merchandise, local foods, and guiding services which are sought by tourists. These activities provide additional livelihood for the local households which helps alleviate poverty. The tourism rates in 2016 after the attack significantly decreased and negatively impacted the economic activity, something which was not desirable.

2 years after the attack, Belgium has started to experience economic growth again. Their GDP in 2016, the year of the attack, was 466.37 billion US dollars and has increased to 495.36 in 2018 showing a 29 billion USD increase. This growth is because there was a fall in the unemployment rate, bringing along an increased inflation rate. This can be illustrated using a Phillips curve which plots the unemployment rate against the inflation rate as shown in the figures below.

As the economy grows and aggregate demand rises, the equilibrium moves from 1 to 2 to 3 in figure 4, with increasing rates of inflation and falling rates of unemployment as GDP rises.
Economic growth in Belgium rose to 1.7% in 2018. This was supported by improved labor market conditions in terms of real wage and employment growth and this suggests that the growth momentum in the economy should continue. The GDP growth is expected to rise to 1.8% in 2019. The local investment cycle, the start of large infrastructure works serving to maintain their current quality or expand it, and defence investments are expected to drive public investment growth in 2018 and 2019. With the economy keeping up its solid expansion, taxes on consumption and labour are expected to remain buoyant. Since the country is undergoing economic growth, the per capita income of a nation over time increases and can be shown through a short run AD/AS model at right.

Once the economy finally started to grow again, more people were employed so they had more of an income, allowing them to spend more rather than to save. This made them susceptible to borrowing money which lead to inflation, creating a gradual and steady price increase of goods. The high rate of inflation observed in 2017 of 2.13% stemmed notably from the relatively rapid transmission of fossil fuel prices variations into retail energy prices in Belgium. In 2018, the inflation rate was 1.53%. Inflation rates between 0-5% are considered low and stable which is the desired range for most countries. This allows consumers to spend and save without the fear of future price changes.

Belgium experiences what is known demand-pull inflation which essentially a concept used by Keynesian economics to describe the effect of an imbalance in the aggregate demand and supply on the price levels. When the AD strongly outweighs the AS, prices will rise. The inflation rates’ stability is determined by the country’s consumer price index (CPI) and looks at the weighted average of prices of a basket of consumer goods such as food and medical care. The most recent CPI was 106.69 which increased from 106.37. Because it is higher, it implies a positive rate of inflation.
As the aggregate demand increases due to an increase in consumption, government spending, investments and net exports. This has an effect on the overall price levels and cause them to increase from P1 to P2.

Income is defined as household disposable income in a particular year consisting of earnings, self-employment and capital income and public cash transfers. Income taxes and social security contributions paid by households are deducted. The income of the household is attributed to each of its members, with an adjustment to reflect differences in needs for households of different sizes. Income and wealth distribution in Belgium have remained fairly stable. The 20% of wealthiest households continued to account for about 60% of total net wealth in Belgium. Income inequality among individuals is measured by the Gini Coefficient.

Gini coefficients are a measure of statistical dispersion intended to represent the income or wealth distribution of a nation's residents, and is the usually used to measure inequality in a country. A Gini index of 0% expresses perfect equality, while index of 100% expresses maximal inequality. Belgium's index is ranked 13th and is 28.10%, telling us that there is a reasonable amount of equality. A Lorenz curve allows us to depict this. The blue curve represents Belgium whereas the green one represents Lesotho with a Gini coefficient of 63.2 showing that Belgium is closer to the line of perfectly equal distribution compared to the country Lesotho.
POSSIBLE SOLUTIONS

A solution to decrease the number of people unemployed, the Belgian government could tighten the rules for the unemployment benefits so the number of unemployed continues to fall even more in the future, creating a sustainable rate. A way to do this is create a set of requirements in order to benefit from the advantages. (1) a person must have worked between 312 and 624 days (2) a person be deprived of earnings because of circumstances beyond control, (3) a person must be registered as a job-seeker who is prepared to accept a suitable job offered to them, and (4) one must be under the retirement age of 65.

In order to continue the economic growth, supply-side policies could be implemented to increase productivity and efficiency in the economy. Tax cuts may provide individuals with a higher disposable income which could stimulate economic activity. The immediate effects of a tax cut are a decrease in the real income of the government and an increase in the real income of those whose tax rates have been lowered. Belgium’s current taxes are depicted at right.

<table>
<thead>
<tr>
<th>Annual income</th>
<th>Tax rate</th>
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<tbody>
<tr>
<td>In between 0 and €10,860</td>
<td>25%</td>
</tr>
<tr>
<td>In between €10,860 and €12,470</td>
<td>30%</td>
</tr>
<tr>
<td>In between €12,470 and €20,780</td>
<td>40%</td>
</tr>
<tr>
<td>In between €20,780 and €38,080</td>
<td>45%</td>
</tr>
<tr>
<td>In excess of €38,080</td>
<td>50%</td>
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A monetary policy could be implemented by reducing interest rates to stimulate economic activity and increase the aggregate demand. These lower interest rates reduce the cost of borrowing and encourages households to spend. As well as that, investment should rise as it is cheaper for firms to finance investment. If successful, lower interest rates should increase aggregate demand, and in the long-term, increase long-run aggregate supply.

All this goes to show how 2 years after an attack like the one in Brussels, the economy still isn’t the way it used to be. Yes, there are things that work better and more efficiently now but there are things that will need time in order to correct themselves such as the unemployment rate and inflation rate.
Works Cited


“Unemployment in Belgium down by 8.5%.” *Deredactie.be*, deredactie.be/cm/vrtnieuws.english/Economy/1.3164313#.

* All products require an annual contract. Prices do not include sales tax (New York residents only).