A COMMON EUROPEAN CORPORATE TAX: POLITICAL AND POLICY CONSIDERATIONS

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MONETARY AND FISCAL 'SOVEREIGNTY'

- **Eurozone: monetary 'sovereignty' but no common fiscal policy.**
- For believers in free markets, such as R.Mundell, this combination should work
  - Lucas: rational expectations will defeat any monetary or fiscal policy…
  - however, Mundell also predicted that before 2010, the euro zone would expand to cover 50 countries; and clearly, he did not anticipate the euro crisis!
- Maintream neo-Keynesians: monetary policy should suffice most of the time, but there are circumstances in which active fiscal policy is needed
  - neo-Keynesiansalso recognise that monetary and fiscal policy are in fact intertwined
- (Old and post) Keynesians: fiscal policy is capable of exerting very significant independent effects & complex capitalist market economy cannot function without the state and its active fiscal policies
  - capitalist market economy is in many ways unstable, including in such ways that processes of uneven growth and growing inequalities tend to be self-reinforcing

COMMON FISCAL POLICY VS COORDINATION

- Coordinated fiscal policies and/or wage negotiations can achieve similar aims to some degree.
- Absence of institutionalised mechanisms → *ad hoc* arrangements only.
- Institutionalised mechanisms → the difference between coordination and common fiscal policy becomes blurred.
- A typical response is neo–'constitutionalism' → problems of legitimacy
  - monetary policy is already insulated from democratic politics
  - if also fiscal policy is insulated from democratic politics by neo–'constitutional' rules, then economic policy in its entirety is cut off from democratic freedom and accountability
    - "elections cannot be allowed to change economic policy…" (Schäuble)
    - no automatized system of coordination is politically neutral; and the current ones are neoliberal

POLITICS OF FISCAL ’SOVEREIGNTY’

- Fiscal policy capable of having significant macro-impact: EU budget larger than that of any member state → at least 7-8 times the current EU budget.

- Possible sources: taxes, debt and central bank funding.
    - “the power to levy taxes is central to the sovereignty of EU Member States”
    - Germany & Austria, Bulgaria, Finland, the Netherlands etc are against Eurobonds
    - while the current policies of the ECB may in fact violate the prohibition of central bank funding, only the most courageous pundits are proposing (mere indirect and relatively small scale) use of central bank powers to fund public investments or expenditure

- A much more modest aim is to start with the redefinition of EU’s ’own resource’, for instance by replacing the VAT- or GNI-based ‘own resource’ contributions with the proposed CCCTB-based contributions to the EU budget
    - ❑ justification: we need a common European system of corporate taxation to alleviate some of the problematic features of the current unsustainable system of taxation
        - more revenues, more legitimacy for the common EU budget
    - ❑ and yet, this would fall short of increasing the EU budget or creating European fiscal ‘sovereignty’ – and contributions would still be coming from the member states

POLITICAL REALISM AND C(C)CTB

- Corporate tax rates in the EU would not be changed by the CCCTB, as EU countries would continue to have their own corporate tax rates.
- Nonetheless, even attempts at tax harmonization are often seen by the Member States as efforts to limit their ‘fiscal sovereignty’.
- Also the CCCTB has turned out to be ‘too ambitious’
    - ➢ thus the idea that the CCCTB should be a two-stage process – first only a CCTB should be created.
- The potential for increased corporate tax revenues via the CCTB seem to be relatively small.
- The C(C)CTB is even less connected than the CCCTB to the notion of developing genuine EU fiscal capacities (’sovereignty’).
- The dilemma: political realism seems to require solutions that amount to ”too little, too late” in view of the future of the European Union.

POSSIBLE POLITICAL SOLUTIONS

- The **enhanced cooperation procedure**: any coalition of willing member states can start of a system of common taxation by negotiating a treaty
  - perhaps this could be started by a more ambitious CCCBT with a (at least relatively) high-level ***common tax rate*** and an agreement that a part of the revenues will go directly to a fund supporting the EU budget
  - for the outsiders this would create a moral dilemma: they benefit both from (i) the common budget and (ii) tax war against other EU-members, the latter (ii) now plain for all to see
- A further possibility: **creating a treaty outside EU law**, perhaps following the (problematic) example of the European Stability Mechanism
  - in which case it could also be open to non-EU countries
  - a global corporate, capital or wealth tax would be better than a tax confined to the EU
- Any ambitious plan should **give impetus to attempts at revising the EU Treaty** – as Treaty revision is necessary for the sustainability of the Union.

FINALLY: CORPORATE AND OTHER TAXES IN A WORLD HISTORICAL PERSPECTIVE

- Do we want to repeat the tragedies of the past – in Europe and globally?
- For instance, Thomas Piketty (2014) argues that "we can now see [world wars] as the only forces since the Industrial Revolution powerful enough to reduce inequality"
  - he also gives ample statistical evidence on the impact of the world wars on the level of taxation and inequalities (see also K.Scheve & D.Stasavage: *Taxing the Rich*, 2016).
- Moreover, the sustainability of the Union requires, in all likelihood, full fiscal capacities; without them, disintegrative tendencies will gain further strength.
- New solutions are required both in the EU and in our globalizing world more generally, and the key question is: how to tax corporations, capital and wealth?
- It is time to question many of the wisdoms of the neoliberal era
  - ➢ for instance, is it really a good idea to broaden the tax base (also to compensate for lower levels), if the result is a decline in real investments and rise in inequalities?

THANK YOU!