

Fiscal Reform in Europe

Fields of Action and Political Windows of Opportunity

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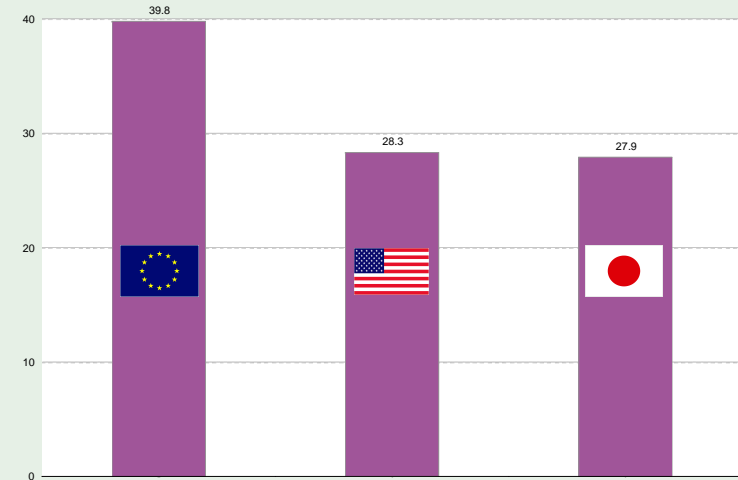
Some opportunities provided by the crisis

- Tax Policy
 - A more balanced fiscal system
 - Closing tax havens
 - Financial Transactions Tax
- Climate Policy
 - Emission Trading Scheme
- Trade Policy
 - Border Adjustment Measures
- Conclusions

A More Balanced Fiscal System

On average, the EU is a high tax area

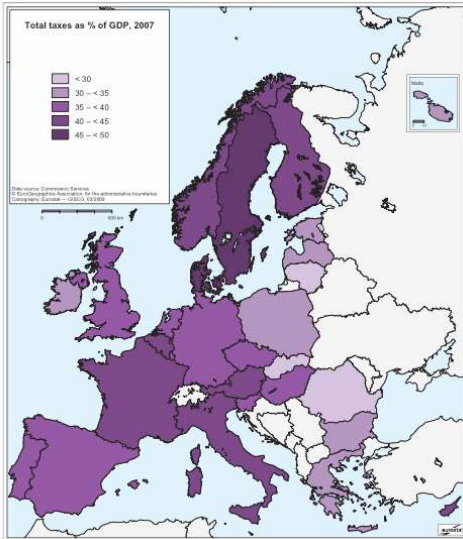
The average overall tax ratio (% of GDP) in the EU-27, the USA and Japan (2007)



Source: Fantini 2009

Large deviation in the overall tax ratio (1)

Map I-1 Distribution of total tax burden



The overall tax ratios in the EU range from 48.7% (DK) to 29.4% (RO) of GDP, the average being 37.5%

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Source: European Commission 2009a, 36

Large deviation in the overall tax ratio (2)

Distribution of the overall tax ratios in the EU-27

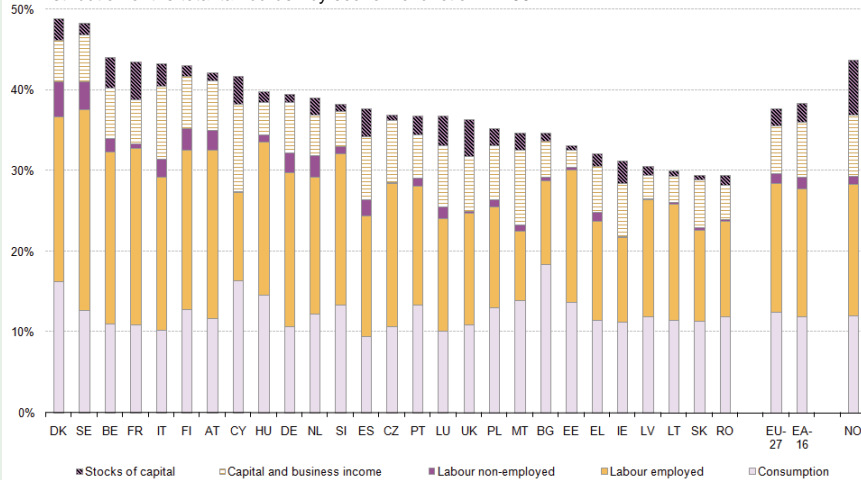


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Source: European Commission 2009a, 38

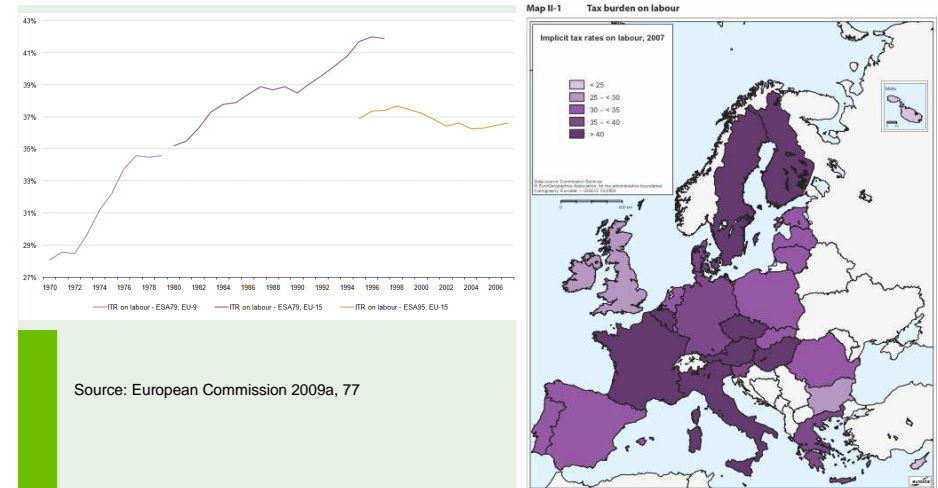
Labour and consumption – the two big single tax contributors

Distribution of the total tax burden by economic function in 2007



Source: European Commission 2009a, 57

... and the tax burden on labour prevails



Source: European Commission 2009a, 77

Source: European Commission 2009a, 80

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... but environmental taxes decline in the "old" MS

Environmental taxes of GDP in 2007 (weighted average)

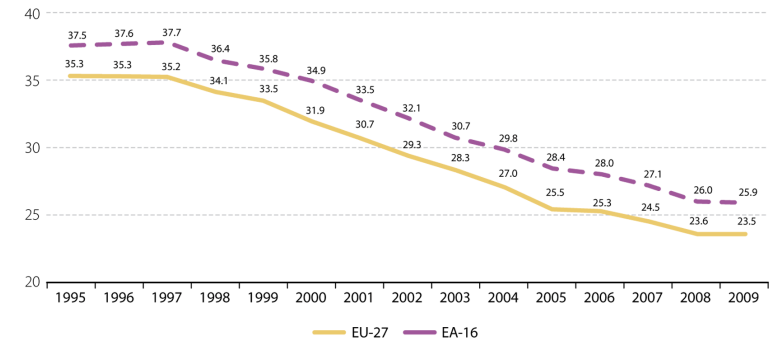


Source: Fantini 2009

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... although capital tax-rates decline, revenues rise

Development of statutory tax rate on corporate income 1995–2009, in % (arithmetic averages); adjusted



Source: European Commission 2009b, 10

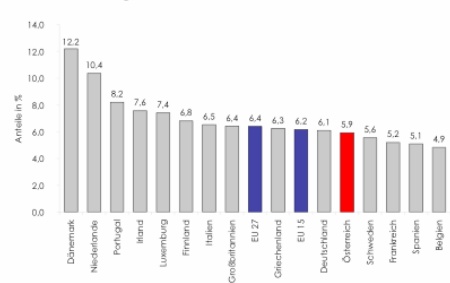
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What to do: Austria as an example

Current Structure:

- Overall tax ratio the 7th highest in the EU (42.1% / GDP)
- The tax burden on labour very high (17% / GDP; ITR 41%)
- The share of capital taxes relatively low (7.2% / GDP)
- The share of environmental taxes well below the EU-27 average (5.9% of the total tax revenue)

Abb. 2: Umweltsteuereinnahmen im europäischen Vergleich
Anteil an Steuereinnahmen insgesamt, 2006



Source: Kletzan et al. 2008, 5

Q: Eurostat.

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... and the necessary changes

AT needs an extensive structural tax reform:

- Reduce the overall tax burden
- Shift part of the tax burden from labour to energy and the consumption of natural resources
- Main potential for ecotaxes is in the fields of transport and electricity
- Guarantee gradual implementation and predictability for individuals and the business sector
- Introduce an air ticket levy as long as there is no EU-wide solution for a kerosine tax

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Closing Tax Havens

Close the tax havens

- Current situation:
 - offshore funds held by individuals amount to about \$11.5 trillion USD
 - annual loss of tax revenue \approx 250 bn. USD
 - 900 bn. USD/year losses for developing countries (mispricing, fake transactions...)
 - cross-border flow of the global proceeds from criminal activities, corruption, and tax evasion amounts to \$1-1.6 trillion per year, half from developing and transitional economies (World Bank)

Source: Tax Justice Network; World Bank

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Close the tax havens

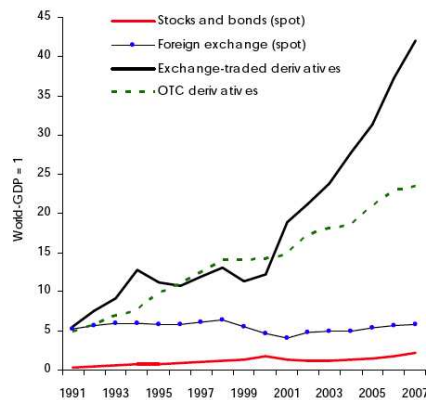
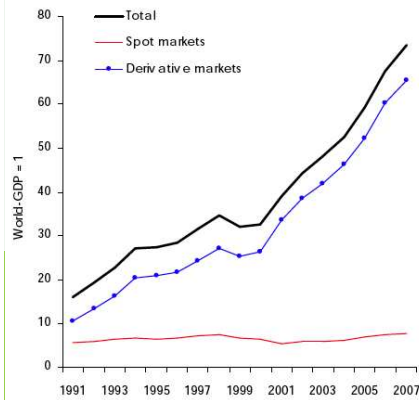
- What is needed:
 - stronger rules regarding tax havens within the OECD
 - current „grey list“ is not sufficient (Cayman Islands, Delaware, London City... are not on the list)
 - a multilateral approach is needed instead of current mostly bilateral agreements
 - Country-by-Country Reporting to hinder mispricing, fake transactions and tax evasion

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Financial Transaction Tax

Facts and Proposals

Financial transactions have grown enormously



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... with the consequence

- that the discrepancy between real and financial transactions grows
- that speculation in derivatives markets rockets
- asset prices fluctuate in a sequence of „bulls“ and „bears“
- a FTT is needed and would only affect very short-term transactions with high leverage →
- a FTT would dampen asset price fluctuations
- a FTT would make financial transactions more transparent

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An Austrian suggestion:

- Tax base:
 - All transactions of „financial assets“
 - Spots und derivatives
 - All transactions on exchanges and „over-the-counter-trade“ (OTC)
- Very low tax rate (0,01% of asset value)
- Easily collected due to electronic data systems

Source: Austrian Institute of Economic, 2008

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FTT receipts at a rate of 0.01 % (2007; following three scenarios)

Reduction in transaction volume	World		Europe	
	In % of GDP	In Bill. \$	In % of GDP	In Bill. \$
Exchange traded derivatives				
Low	0.35	187.5	0.37	64.9
Medium	0.30	164.4	0.32	56.9
High	0.26	141.4	0.28	48.9
All transactions				
Low	0.60	326.3	0.84	147.6
Medium	0.53	287.3	0.74	129.8
High	0.46	247.8	0.64	111.9

Source: Austrian Institute of Economic, 2009

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Climate Policy: Emission Trading Scheme

Step by step towards a global carbon market by...

- ...combining regional / national emissions trading systems (bottom-up approach) and
- ...establishing a supportive framework in the UNFCCC context (top-down approach)
 - 1st step: a transatlantic carbon market
 - 2nd step: an OECD-wide carbon market
 - 3rd step: integration of further countries, especially emerging and fast-growing developing economies.

Trade Policy: Border Tax Adjustment

Border Tax Adjustments

- ... to offset the price differences arising from unequal (environmental) regulations
- BTA for climate aspects:
 - Two types of BTA are :
 - adjustments to carbon and energy taxes
 - adjustments to emissions trading systems
 - Mechanism: An additional charge
 - a) for imported products equivalent to the tax for domestic products and
 - b) for exports (tax refunds exported products)
- BTA for social aspects
 - ... to offset social asymmetries will also be needed (e. g. poor working conditions, use of child labour...)

Conclusions

Conclusions

- Ecological Fiscal Reform:
 - Lobbying in EU-MS:
 - Financing national debt with EFR
 - „double dividend“: good for climate and labour
 - Support tax reforms in MS → „Green Budget Europe rapid deployment force“
 - Target: Achieve by 2020 a shift of at least 10% of the tax revenue away from labour towards environmental pressures and capital (proposal bei „Spring Alliance“)
- Tax havens:
 - Lobbying via EU-MS at G20 → New financial architecture
 - Country by Country Reporting
 - EU-saving directive as the basis for international standards (automatic exchange of data)
 - Integration of corporations in EU-saving directive
 - Alliance with Tax Justice Network

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Conclusions

- FTT:
 - Creating own resources for EU or for financing international projects
 - Alliance with willing states
 - (GER, FRA, BEL, AUT...?)
 - Timing: before ECOFIN and EU summit in autumn
- ETS:
 - Lobbying for a transatlantic ETS after/parallel to Copenhagen
 - Cooperation with e. g. Potsdam Institute on Climate Change
- Border Tax Adjustment:
 - After Copenhagen and possible within the WTO Doha round

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Thank you for your attention