

## COMMISSION TELLS MEMBER STATES TO DO A TAX RETHINK (2005)

Article by Anna McLaughlin in The EUROPEAN VOICE of 21 October 2005

EU GOVERNMENTS **should rethink their tax systems so as to boost economic competitiveness**, the European Commission is telling EU leaders ahead of an informal summit next Thursday (27 October).

The summit will debate how Europe can maintain its social standards in the face of globalisation.

The Commission warns that Europe's citizens will have **to work longer** and contribute more to their pensions if they are to preserve Europe's social model and avoid poverty.

But it says that governments must resist protectionism, basing job security **on developing skills rather** than defending industrial sectors.

In his contribution, which will be discussed by the College of commissioners today (20 October), Commission President José Manuel BARROSO says that globalisation could add an extra €2,500 income annually for each EU citizen.

**But he warns that the challenges ahead "can only be tackled if economic performance and the European social model can – as in the past – be reconciled and made mutually supportive".**

The Commission recommends that finance ministers shift **the burden of taxation from labour to taxes on consumption or pollution, in the expectation that this will help create jobs.**

It acknowledges that most aspects **of taxation policy and setting tax rates rest with national governments** but it adds that taxation "is a crucial element in the sustainability equation that the EU must address".

The Commission argues **that a "more co-ordinated approach at the EU level could significantly improve the performance of tax systems"**. An "insufficient level of co-ordination and mutual assistance leaves our tax systems more open **to double taxation, tax avoidance, evasion and fraud**", says the paper, which in turn leads to lower receipts and less revenue to be redistributed through social systems.

The Commission accuses the member states of increasing the effective taxation on labour since 1970, while taxes on capital and consumption have remained stable. **This heavier taxation has deterred job creation, the paper argues.**

**"Despite the political consensus on the need to reduce the overall tax burden on labour, this has not yet led to significant reductions in recent years,"** it says.

Though it does not mention the flat tax system that has been adopted by some new member states, the paper does suggest "simpler, more uniform tax rules" for cross-border trading.

As it will be difficult to increase pension contribution rates, "longer working lives are the key" to sustainable pension systems, it says, adding that state pensions will have to be reduced.

But governments must also support citizens by resisting protectionist moves, the paper says.

**"New approaches to 'security' should focus on giving people the skills they need to remain adaptable throughout their working life, rather than protecting particular jobs."**

The Commission says that it will set up a "globalisation adjustment fund" to support those affected by the impact of globalisation.

The President of the Party of European Socialists (PES) Poul Nyrup RASMUSSEN **welcomed the initiative** but criticised a lack of sufficient focus on investment.

"It's the same old-fashioned thinking that reforms will bring growth," he said. "But if you force reform without concentrating on growth then people will not follow you. **We need an offensive investment policy in education and the labour markets in Europe.**"