



Taxation in Europe : Towards more Competition or more Co-ordination

Worshop Notre Europe,
Bruxelles, 9 March 2006,
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Taxation in Europe: towards more competition or more co-ordination

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1. Introduction.

- Taxation is high in EU countries : tax to GDP ratios stand at around 40% as compared with 25% in Japan and the US.
- This high level of taxation allows the funding of the European social model characterised with a high level of public expenditure and transfers.
- European countries think that public spending should be according to contributory capacities. People with highest incomes or wealth should pay more for collective spending, as they benefit most from the way the social system is organised. Taxes must reduce income inequalities.
- It is hence crucial for European countries to keep their capacities to collect tax revenues and to redistribute according to democratically agreed rules.

2. The European social model in a global world

- In recent years, the European social model has been put under pressure both on political and economic grounds.
- Economic policy has moved from implementing social-democrat policies to free-market reforms. In many countries, priority is now given to strengthening the competitiveness and the attractiveness of the country as a location of productive activities.
- To increase working incentive both at the upper and lower ends of the wage scale, governments wish to cut social redistribution and public spending, to cut the highest marginal income tax rates and to lower social benefits in order to make the poorer work.
- Governments wish to cut 'social contributions' to boost domestic competitiveness.
- This prevailing model makes it difficult to implement tax co-ordination in Europe.

- The European social model is threatened by globalisation that puts tax and social domestic systems into competition.
- Free capital and products mobility enables companies to choose to locate their production among industrial economies or between industrial and emerging economies.
- Taxing the more mobile factors (big companies, financial capital, highly skilled workers, wealthy people) is more and more difficult, which undermines domestic redistribution policies.
- Competition may oblige countries either to cut their public spending or to tax mainly immobile factors: labour and dwellings.
- In a world with free factor mobility, taxation measures would necessarily have a similar and immediate counterpart: no redistribution would be possible.
- Moreover, some economic agents may adopt a free rider's behaviour and benefit from the high level of public spending in a country while being taxed in another country.

- The Treaty establishes four ‘fundamental freedoms’: free movement of persons, services, goods and capital. It does not say anything on the need for countries to remain responsible for taxation.
- The logic of European integration is such that the Commission wishes decisions to be taken at its level; it is thus not in favour measures guaranteeing domestic taxation autonomy.
- Member states should therefore pay attention to keep their fiscal autonomy, although they rarely do.
- Taxation is a symbol of domestic sovereignty and remains in the hands of national governments. Introducing a taxation system consistent with European Treaties, with the subsidiarity principle and the unanimity principle shows how it is difficult to build an economic Europe without political integration.
- European Taxation is a political issue. What should the respective weights of national and European institutions be? What is the final objective: maintaining the social democrat model or moving towards a liberal model? What method should be used: tax competition, co-ordination or unification?

Three strategies

- Unification of taxation
- Tax competition
 - *Controlled tax competition*
- Tax coordination strategy,

3. Tax structures: where do we stand?

- The 1990's have been characterized by successive tax reforms.
- Member States have been confronted with the need to raise their tax revenues in order to halt the rise in public deficits and debts entailed by low economic growth in the early 1980's and the early 1990's.
- The introduction of the single market in 1993 did not affect these trends: contrary to the effects expected from the opening of frontiers in the absence of tax harmonisation, tax to GDP ratios did not decline in EU countries but rather tended to rise, even if less rapidly in the 1990's than in the 1980's:
- The EU-15 tax burden rose from 38.9% of GDP in 1990 to 39.6% in 2003.
- Until now, globalisation and tax competition have not deprived European countries from revenues.

Table 1 : Tax to GDP ratios, percentage points

	1990	2003
Sweden	53.2	50.6
Denmark	47.7	48.3
Belgium	43.2	45.4
Finland	44.3	44.8
France	42.2	43.4
Austria	39.6	43.1
Italy	38.9	43.1
Luxembourg	40.8	41.3
Netherlands	42.9	38.8
Portugal	29.2	37,1
Greece	29.3	35,7
UK	35.5	35.6
Germany	35.7	35.5
Spain	32.1	34.9
Ireland	33.5	29.7
EU-15	38.2	39.3
Czech Republic		37.7
Hungary		38.5
Slovak Republic		31.1
Poland		34.2
Japan	29.1	25.6
US	27.3	25.4

Source: OECD, *Revenue Statistics*, 2005.

Table 2 : Structure of tax in the EU in 1990 and 2003
(As a percentage of GDP)

	1990	2003
Personal income tax	9.6	9.4
Corporate income tax	2.6	2.5
Social security contributions	12.7	13.2
Property tax	1.8	2.4
Taxes on goods and services	11.0	11.0
Other taxes	0.5	0.7
Total	38.2	39.3

Source: OECD, *Revenue Statistic*, 2005.

- Social contributions and taxes on goods and services have a strong weight in the EU as compared to the US, whereas personal income taxes weigh less
- Two main factors explain the diversity of tax structures : first, the design of social protection systems - Bismarckian (high public spending funded by contributions on wages), Scandinavian (high spending funded by income taxes), Anglo-Saxon (low public spending);
- Taxes on goods and services are particularly high in Denmark (where their weight offsets the absence of employers' social contributions).
- Second, the contrast between modern systems (high weight of income tax) like in Scandinavian countries and archaic systems (high weight of indirect taxes) like Portugal, Greece, Spain.
- Corporate taxation is low in Germany and Austria, while it is particularly high in Finland and Luxemburg.

Table 3 : Tax revenue structures, in terms of tax bases in 2003

As a percentage of GDP

	Ger.	Austria	Belg.	Den.	Spain	France	Ireland	Italy	Neth.	Swe.	UK	EU-15	Japan	USA
Income taxes of which	9.7	13.0	17.7	29.0	9.8	10.1	11.7	13.3	9.9	18.3	13.0	11.9	7.7	11.1
- Households	8.5	9.9	14.3	26.0	6.6	7.6	7.9	10.5	6.9	15.8	10.2	9.4	4.4	9.0
- Companies	1.3	2.2	3.4	3.0	3.2	2.5	3.8	2.8	2.9	2.5	2.8	2.5	3.3	2.1
Wage taxes of which:	14.4	17.0	14.7	1.4	12.3	17.5	4.6	12.7	14.1	17.2	6.6	13.2	9.7	6.7
- Social security contributions	14.4	14.5	14.4	1.2	12.3	16.4	4.4	12.7	14.1	14.7	6.6	12.9	9.7	6.7
- Wage taxes	0.0	2.5	0.0	0.2	0.0	1.1	0.2	0.0	0.0	2.5	0.0	0.3	0.0	0.0
Property taxes	0.8	0.6	1.5	1.8	2.5	3.2	1.8	3.4	2.0	1.6	4.2	2.4	2.6	3.1
Taxes on goods and services	10.4	12.1	11.2	16.0	9.8	11.1	11.4	11.1	12.3	13.3	11.6	11.0	5.1	4.6
Other taxes	0.0	0.3	0.0	0.2	0.2	1.8*	0.0	2.6**	0.2	0.2	0.0	0.7	0.0	0.0
Total	35.5	43.1	45.4	48.3	34.9	43.4	29.7	43.1	38.8	50.6	35.6	39.3	25.3	25.6

* Mainly professional tax.

** Mainly IRAP.

Source: OECD, *Revenue Statistics*, 2005.

4. Income taxation: the residence principle

- Income taxation is one of the taxes that are the less likely to generate direct tax competition, if the residence principle is applied.
- An individual may choose to move abroad to escape taxation, but will then change its residence and be taxed as a resident in the country where he lives.
- However, tax competition plays more and more for higher earnings people, like stars, executives from multinational companies and wealthy people, who may decide to move abroad for taxation purposes.
- Some countries provide specific privileges that induce unfair tax competition. EU Member States should reaffirm the right of each country to tax their residents. This means that derogatory systems allowing for different taxation on permanent, transitory (or newly arrived) residents and non residents should be forbidden.

Table 4 : Average tax rates in 2001, two-earner married couple, two children, spouse earning 70% of husband's wage

Wage level/APW	0.7		1		2		3		5	
	a	b	a	b	a	b	a	b	a	b
Germany*	0	33.2	9.5	40.2	27.1	48.0	34.6	48.7	40.3	48.6
Austria*	1.6	25.1	13.8	35.7	27.7	43.8	35.6	45.4	41.4	46.9
Belgium*	20.8	39.9	28.2	46.4	39.1	56.4	49.9	62.2	48.9	66.0
Denmark**	28.5	33.1	32.5	37.2	43.9	48.0	49.1	52.9	53.0	56.8
Spain*	3.3	30.6	7.9	33.9	16.9	40.3	21.0	40.2	29.2	40.7
France*	6.6	23.5	11.2	40.0	16.9	47.9	21.5	51.0	27.5	54.9
Italy*	13.4	38.0	16.9	42.8	25.8	49.8	30.3	53.0	34.5	56.0
Netherlands**	12.4	27.1	15.5	32.0	30.1	41.1	37.9	43.6	43.6	46.7
UK**	12.8	19.0	16.1	25.2	21.5	32.2	26.8	36.1	32.2	40.3
Sweden**	26.2	42.8	29.0	46.1	37.0	53.1	41.4	57.4	48.4	63.4

a) Personal income tax/net wage; b) (Personal income tax+social contributions-family benefits)/super gross wage earnings. In France, personal income tax includes CSG/CRDS.

* Entitles to proportional retirement pension; ** Entitles to lump-sum retirement pension.

Source: Author's calculations, based on OECD, *Taxing Wages*, 2000-2001, 2002.

Table 5 : Higher marginal income tax rates in 2005 (%)

Germany	50.65
Austria	50
Belgium	57
Denmark	59
Spain	45
Finland	52.1
France	53.4
Italy	44.9
Netherlands	52
UK	40
Sweden	56.5
Japan	50
US	41.55

Source: OECD, *Taxing wages*, 2005.

Table 5 bis : Higher marginal income tax rates in 2005 (%)

Cyprus	30
Czech Republic	32
Estonia	24 (20 in 2007)
Hungary	38
Latvia	25
Lithuania	33
Malta	35
Poland	40
Slovak Republic	19
Slovenia	50

Source: OECD, *Taxing wages*, 2005.

- In the future, in a global world, the contradiction between incentive and redistribution policies is likely to grow.
- It will be easier for the upper classes, who win from globalisation, to choose where to work and pay taxes. The upper classes may refuse to support the part of the population who will be negatively affected by the globalisation process.
- Governments may have no choice but cut strongly highest marginal income tax rates, and even offer derogatory regimes allowing for tax exemption (like stock options), while at the same time income disparities will grow.
- One may consider that European countries should resist these changes and agree on a minimum tax rate for high incomes, although this would raise a number of technical issues: should an average or a marginal tax rate be set? How to distinguish taxes and social contributions? What definition for income – including or not financial income and capital gains?

Old and New Members States.

- With regard to personal income tax, the majority of the former members have tax rates maximum higher than 40%.
- On the other hand, several of the new members chose to pass to a system of *flat taxes* which thus comprises a uniform rate and relatively low, about 20 to 25 per cent.
- This choice can be criticized on two bases. It induces harmful tax competition since the countries with low tax rates on higher wages can attract headquarters or research centres of large companies.
- It is not in conformity with European social Model to give up strong social redistribution.
- So Members States should be allowed to built fiscal barriers against countries which try to become “tax heaven”, like Estonia, Cyprus, Lithuania and Slovak Republic.

Table 6 : Taxes on households' wealth

As a percentage of GDP, in 2004

	Taxes on wealth	Inheritance taxes
Germany	0.01	0.16
Austria	0	0.07
Belgium	0	0.48
Denmark	0	0.20
Spain	0.15	0.22
Finland	0.07	0.29
France	0.15	0.47
Greece	0.07	0.14
Ireland	0	0.16
Italy	0	0.03
Luxembourg	0.64	0.19
Netherlands	0.01	0.32
Portugal	0	0.08
Sweden	0.20	0.10
UK	0	0.22
Switzerland	1.02	0.22
Japan	0	0.29
US	0	0.26

Source: OECD, *Revenue Statistics*, 2005.

Table 6 bis: Higher rate of wealth tax

As a percentage of GDP, in 2005

Spain	2.5
Finland	0.8
France	1.8
Netherlands	1.2*
Sweden	1.5

* No taxation on capital income.

- There is thus a high risk that tax competition to attract wealthy people strengthens in Europe, the principle of freedom of establishment depriving countries with heavy taxation to react.
- Three strategies may then be considered:
 - *Race to the bottom:*
 - *Isolated measures:*
 - *Affirmation of the right to tax:*
- The choice between these strategies is a political one, and should be discussed openly.
- **Capital income taxation: a model of European taxation?**

5. The future of social contributions

- In most European countries, the ageing of populations and the structural rising trend of health spending will translate in a rising trend in pensions and health social contributions.
- At the same time, many countries should increase family benefits in order to rise birth rates,
- Despite all the efforts planned to postpone the effective retirement age, an increase in social contributions seems almost certain.

Table 7 : Social benefit in GDP points

	2004
Sweden	37.7
Denmark	35.4
France	32.7
Finland	31.8
Austria, Belgium	30.7
Germany	30.3
Italy	29.3
<i>Slovenia</i>	<i>28.9</i>
<i>Hungary</i>	<i>27.5</i>
Portugal	27.2
UK	26.8
<i>Poland</i>	<i>26.7</i>
Greece	23.9
<i>Czech Republic</i>	<i>23.2</i>
Spain	22.9
<i>Estonia</i>	<i>20.4</i>
Ireland, Lithuania	19.6
<i>Latvia</i>	<i>19.2</i>
<i>Slovak Republic</i>	<i>16.7</i>
Japan	25.6
US	25.4

Source: Eurostat

- The rise in social contributions could be avoided if people resorted more to private insurance, but the development of private pension funds would be costly for the intermediate generation and pension funds premiums hardly differ from social contributions. The US experience does not give any evidence that private health insurance is more efficient and cheaper than public social insurance.
- A system combining public insurance for the poorest and private insurance for middle and higher incomes would make it possible to cut the tax to GDP ratio but would not solve the problem, since the middle class would have to pay taxes for the poorest and premiums for themselves

- Do social contributions raise a tax competition issue? Not in principle, as concerns the social security contributions that finance contributory social benefits (pensions, unemployment).
- Employees' contributions only should be increased so that company competitiveness is not directly affected.
- The competitiveness of public pension benefits as compared to private pension funds should be ensured, i.e. public pension rights should be reaffirmed, tax incentives for pension funds should be restricted to a EET type system for the income tax, with no social contributions rebates.
- Only contributions financing contributory benefits should be based on the 'wage bill' while other benefits should be financed by taxes (as CSG in France or IRAP in Italy).

- It is not useful to replace percentage points of social contributions by percentage points of VAT
- The combination of environmental taxation and of cuts in employers' social contributions may generate, at no cost for public finances, lower pollution and less unemployment. This is more likely to occur if the country concerned is initially far from full employment.

However, a contradiction may thus arise, between ecological aims (strong and targeted taxation will be efficient only if it generates *ex post* limited revenues) and aims for profitable taxation in terms of tax revenues. Last a fiscal reform affecting significantly the structure of company costs implies costly reallocations of activities: some activities will not be profitable anymore and will have to be stopped. Some other activities will become profitable, but will require new investments. In any case, such reforms should be co-ordinated at the European level.

- It is not possible, in the current state of European integration to have a convergence of national social protection systems. Social protection should remain purely national as long as social life, trade unions and social negotiations are done at the domestic level. At the same time market unification in Europe makes it more and more difficult for different systems to coexist. There is a risk that tax competition operates through social contributions, i.e. through lower benefits or their privatisation. This would be in opposition with the European social model.
- The systems today have extremely high disparities across Europe, in terms of pensions, unemployment and health benefits. The risk is that, under the principles of free competition and establishment, private insurance companies become entitled to compete with public systems.
- Hence, countries concerned should clearly state that the principle of free competition should not apply to social insurance regimes.

- Each country remains responsible for implementing a sufficiently attractive system at the European level, while remaining sufficiently redistributive.
- The task would of course be easier if social standards were set at the European level: minimum income, old-age income, family benefits (as a percentage of average income in each country), universal health insurance; minimum pension income (as a percentage of wages in the country).
- Deciding if such issues are part of the European social model is a political choice.
- Adopting such standards would reduce the risk of social competition.

6. Corporate taxation coordination

- According to a relatively arbitrary definition (corporate taxation + wage tax + property firm tax + taxes on company capital + local taxes), the company tax burden generally varies from 3 to 5% of GDP in Europe, but is higher in France (6.1%) and Italy (5.7%) and well below in Germany (1.3%, see table 8).
- In addition, the analysis of companies' financial situation shows that, almost everywhere in Europe, the wage share in value added was lower in 2004 than in 1990 and 1973, while the profitability index was higher (see table 9). It is thus currently unnecessary to consider introducing tax reforms increasing company profits at the expense of workers or public revenues.

Table 8 : Company taxes, in % of GDP in 2003

	Corporate tax	Tax on wages	Others	Total	Employers' social contributions
Austria	2.2	2.7	0.2	5.1	6.8
Belgium	3.4	0	0.3	3.7	8.7
Denmark	3.0	0.2	0.3	3.5	0.0
Finland	3.5	0	0.5	4.0	9.0
France	2.5	1.1	2.1	5.7	11.1
Germany	1.3	0	0.4	1.7	7.1
Greece	3.3	0	0.6	3.9	5.9
Ireland	3.8	0.2	0.4	4.4	2.7
Italy	2.9	0	2.6	5.5	8.9
Luxembourg	7.9	0	1.6	9.5	5.1
Netherlands	2.9	0	0.6	3.5	4.5
Portugal	3.2	0	1.0	4.2	7.0
Spain	3.2	0	0.1	3.3	8.7
Sweden	2.5	2.5	0.6	5.6	11.8
UK	2.8	0	1.7	4.5	3.7
Czech Republic	4.6	0	0.2	4.8	10.6
Hungary	2.2	1.0	0.3	3.5	9.3
Poland	1.8	0.2	0.4	2.4	4.8
Slovak Republic	2.8	0	0.2	3.0	8.8
Japan	3.3	0	0.9	4.2	4.4
USA	2.1	0	1.5	3.6	3.4

Source: OECD (2005).

Table 9 : Indicators of companies' situation

	Wage share in value added			Profitability index*
	1970	1990	2004	2005*
Germany	72.1	66.8	65.6	100.9
Austria	73.2	77.2	69.6	141.9
Belgium	66,6	70,1	70,7	96.7
Denmark	74,5	70.6	68.1	139.2
Spain	72.5	68.3	65.3	104.7
Finland	71.7	73.5	63.0	154.3
France	73.7	69.6	66.3	122.5
Greece	78.1	72.2	64.6	100.5
Ireland	79.4	67.4	55.2	177.3
Italy	79.4	69.9	64.1	120.6
Netherlands	70.8	66.4	69.2	96.1
Portugal	72.9	67.0	76.4	70.7
UK	74.1	75.4	74.2	133.6
Sweden	70.9	70.7	69.4	136.5
Japan	68.5	69.3	66.2	83.8
USA	72.5	68.1	65.9	134.7

* 100 in 1970-73.
 Source: EU.

Will corporate taxation survive?

- Although corporate taxes amount only to a small share of tax revenues, they are a very sensitive issue for companies. For the last twenty years, governments have convinced themselves that company profitability was crucial for investment and therefore employment. Besides, tax competition has strengthened: with the opening of frontiers implied by globalisation, large companies put domestic tax systems into competition when making their location decisions. So, almost all EU Member States have reduced their corporate tax rates in the 1990's
- New Member States have generally lower rates than the old Member States (see table 13) and they consider cutting further their rates so as to compensate for the abolition of state aid to companies, changes in basis determination rules and to attract foreign direct investment.

Table 10 : Corporate tax rates in 1990 and 2005

	1990	2005
Austria	30	25
Belgium	43	35.54
Denmark	50	28
Finland	33	26
France	42 distributed profit 37 retained profit	34.94 (34.43 in 2006)
Germany	36 distributed profit 50 retained profit	39.3
Greece	46/ 40 industry	32 (25 in 2007)
Ireland	43/ 10 industry	12.5
Italy	36	33 (37.25% with IRAP)
Luxembourg	34	30.4
The Netherlands	35	31.5 (30.5 en 2006)
Portugal	34	27.5 (22.5 en 2006)
Spain	35	35
Sweden	52	28
United Kingdom	35	30
EU15 (average)	41.8	34.1

Source: *European Tax Handbook* (2005).

Table 11 : Corporate tax rates in the New Member States

	2005
Cyprus	10
Estonia	0 (retained profit)/24 (20 in 2007)
Hungary	16
Latvia	15
Lithuania	15
Malta	35
Poland	19
Slovak Republic	19
Slovenia	25
Czech Republic	26 (24 in 2006)

Source: *European Tax Handbook (2005)*.

The basic principles for corporate taxation

- According to the **source principle**, a country taxes all benefits generated at home, either by residents or non-residents. Corporation tax is a tax on companies, and corporate tax rates may differ between countries to reflect differences in the services provided to companies.
- A country applying the **residence principle** taxes all incomes earned by national residents, whether earned in the country or abroad. According to this principle, corporate taxation is levied on company owners.
- At the international level, the source principle should apply. Residence is an ambiguous concept for companies. The residence principle would allow firms to escape taxation if they locate in a tax haven.
- With the source principle, all firms operating in a given country are subject to the same tax rate: this ensures *neutrality for capital imports*. But a company from a given country is encouraged to invest in countries with low tax rates: there is *no neutrality for capital exports*.
- Low rates must only compensate for a lack of infrastructure, geographical distance, political risks
- The other risk is profit shifting: firms could try to localise their profits in countries with low tax rates by manipulating transfer prices, royalties and interest payments.

Corporate taxation and the single market

- The current system is unsatisfactory. Two kinds of critics can be made. For companies (and for the Commission), the main problem is that countries have different rules for assessing tax bases, which complicates the operating of trans-national companies
- For Member States, the main problem is tax evasion and tax rates disparities. Large companies are incited to optimise their taxation by carefully choosing the location of their headquarters, of their subsidiaries, of their financial transactions. They can use transfer prices, intra-group borrowing and royalties to locate their profits in the countries where tax rates are the lower.
- It was difficult to generate a progressive convergence of the tax systems in the EU.
- On December 1, 1997, the Ecofin council adopted a *Code of Conduct*, i.e. a set of measures aiming at fighting harmful tax competition.

On tax base harmonization

- The Commission suggested a reform of the tax base, with four alternative possibilities.

Two suppose a compulsory system:

- A European Union company Income Taxation (EUCIT) will unify corporate taxation all around Europe. A harmonised Tax base (HTB) unifies the bases, but lets each country free to choose their tax rate. But a common basis main would exacerbate tax rate competition.

Two introduce an optional system for European firms:

- In the Common Tax base system (CTB), a European firm could chose to compute its whole profits according to some specific European rule.
- In the Home State Taxation system (HST), a European firm could chose to compute its whole profit according to the rules of the country of the parent company.
- Can we have tax base harmonization, without tax rates harmonization ?

On tax rate harmonisation

- Corporate taxation is not the most appropriate tool to attract firms to locate in less developed countries, due to risks of profit shifting and the bias for capitalistic production.
- Our preferred strategy would be to exchange the corporate taxation convergence against more freedom given to Member States to subsidize their companies. This could be done in four steps:
 - Some convergence of the tax bases.
 - Clear recognition of the source principle.
 - Introduction of minimum rates, depending on the level of development, for instance 20% for New Member States and 30% for the old Member States. The lower minimum rate will increase as countries converge.
 - Less developed countries would be allowed to subsidise their companies (possibly *via* the EU structural funds), with value added or wage bill bases, rather than through low corporate tax rates.

Conclusion

- Can one conceive a common European tax? He would represent a significant step towards the construction of a common citizenship.
- But, at the present time, it raises questions of redistribution between rich and poor countries, of equity and tax coherence.
- The natural candidates are the environmental taxation, the tax on the incomes of the capital of the households, the tax on profits
- Until now, European countries seem to have more or less succeeded in maintaining their desired level of redistribution and public expenditure. However, it is difficult to say if lower taxation on the richest and companies results from globalisation constraints or reflects rising trends of liberal ideas.

- Europe will have to live for a long time in a contradiction between capital and goods markets where unification is rapid, and taxation (and more generally budgetary, social and political institutions) that remain national.
- Community authorities and the States should care for maintaining the ability of countries to tax their residents.
- Tax co-ordination will be easier if all governments agree explicitly to maintain the European social model, *i.e.* significant and redistributive taxation to finance public expenditure and transfers.

Europe must choose between two strategies.

- **Maintaining the European social model.** The system will have to be preserved from tax competition by harmonisation in Europe that will have to include the prohibition of unfair competition, the introduction of minima rates in certain cases, and by measures against tax havens at a worldwide scale. The European Social Model will have to rely on its comparative advantages (free education and health for all, public infrastructures, social security benefits) to remain competitive in spite of globalisation.
- **Moving towards a more liberal model,** where privatisation of welfare will allow for cuts in tax rates that are assumed to promote employment, education and vocational training, savings and investment. This strategy supposes that Europeans agree to live in a Society with rising inequalities. Tax competition would then a tool to support this trend.
- But what should be done at the European level if European countries wish to make different choices?