

**Speech on the Occasion of the Seminar  
Liberal Agenda 2000  
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**TAXATION IN A GLOBALISED  
ECONOMY**

**Unity or Diversity**

**In recent months, and also here in Prague, the process of globalisation has come under attack. It has become the target of demonstrators over the whole world, who attribute all evils to it.**

**The WTO Conference in Seattle was surrounded by people protesting against the alleged common enemy which is held accountable for poverty, exploitation and environmental deprivation.**

**Nowadays, every summit of world leaders is besieged by the protest movement, which itself is a colourful patchwork of ecologists, hard core leftist groups, church leaders and third world activists.**

**In France the farmer José Bové has become the symbol of protest against globalisation. In an eloquent manner he gets his message across, saying that globalisation is a threat to mankind in general and farmers in particular. He has been able to generate a lot of attention by attracting the mass media and subsequently he has become a popular hero in France where globalisation is often perceived as a conspiracy of ruthless Anglo-Saxons.**

**His case is built on sentiments rather than facts but the massive support he has gained in a short time shows there is a general feeling of fear underneath the surface. Globalisation is associated with free trade and regarded as a dangerous process, threatening life styles, culture and identity. That is why the WTO is a main target, the hypothesis being that the poverty in the world is owing to free trade and the current world market economy. This hypothesis also explains why the movement against globalisation trails a variety of groups with various backgrounds.**

**They know what they are against but not what they are in favour of. They are strong in protest but short of solutions. How could they replace the current global economic system, which continues to generate growth on an unprecedented scale? No better alternatives are yet at offer. Or do the demonstrators want to return to the days of a state-planned economy? The economic decay and the environmental ruins which the Soviet Union has left behind ought to be a lesson forever.**

**Perhaps globalisation is seen to be detrimental to particular cultural identities because the process shapes a world in which many features are alike. In every major city one will find a Mac Donald restaurant and in every major hotel CNN shows the events of the day. American films are shown all over the world. For some, globalisation is just another word for Americanisation, which is regarded as causing a loss of cultural identity.**

**The world has become smaller. Distance can be bridged easily by modern communications. Perhaps there is a feeling of alienation, of being cut off from one's cultural roots.**

**On the other hand the consequences of globalisation for our cultures should not be overestimated. Japan remains very Japanese even though the country has absorbed all sorts of Western technology and has become a main producer of high tech products which are exported all over the world.**

**In Moscow one may find a Mac Donald but the presence of the restaurant is not the end of the Russian soul, which is the product of centuries. In China some cities are open to the global market but does that change the mind of the Chinese?**

**The main thing to observe is that consumers have similar desires all over the world. They want to have a nice car, a good television set and eat well, whether in China or in Chile, in Prague or in Perth. The free market gives consumers a choice and shows the strength of the invisible hand, which urges producers to offer the best possible product for the lowest possible price and deliver the best possible service. In state-planned economies consumers are objects without a voice. In a society of free forces they are a force in their own right.**

**Globalisation and free markets have shown very positive results, both in economic and in political terms. The system of state planning has been shown not to be feasible, although**

**it was advocated by many Western intellectuals. They were under the illusion of the „Big Plan”, of a society planned by the State. This proved to be wrong. The planning system collapsed. There was no alternative for a market-oriented economy. Now the countries of Central and Eastern Europe are in the process of a transformation into a more efficient economic system, which is a long and sometimes painful process. The peoples of these countries now pay the price for those who lived in an ideological lie for far too long.**

**The economies of the former Comecon countries stayed far behind because they were not able to match the requirements of a modern society. The citizens were there for the sake of the planning authorities and not the other way around. The former Soviet Union could not keep pace with technological change because that undermined authoritarian rule. The copy machine was regarded as a threat and the fax machine became a prominent state enemy. The Soviet Union would not have been able to survive the consequences of Internet, which renders control of the state over citizens obsolete.**

**One may say that globalisation speeded up the end of authoritarian regimes because of their inefficiency and their inability to deliver promises.**

**Some authoritarian regimes seek to survive by staying out of the global free market. They want to be preserved in isolation in order to continue the rule of the few over the many. They are wrong because the situation will worsen and finally the economic basis on which they operate will break down. This is happening in North Korea and in Cuba. In African countries authoritarian rulers like President Robert Mugabe of Zimbabwe try to protect the privileges of a small clan. But they are on the way to wreck the whole economic structure. Mismanagement and bad governance create the famines and poverty of tomorrow. Not globalisation.**

**The tragedy of major parts of Africa is that they are outside the global system of free trade. In its recent report ‘Can Africa claim the 21<sup>st</sup> century’ the World Bank comes to the conclusion that globalisation and the introduction of communication technology is an opportunity for Africa to leapfrog stages of development it has missed before. Integration in the global economic system is the key word, not protectionism or huge state-run projects.**

**The demonstrators marching against the so-called devil of globalisation say that there is too much free trade.**

**Let me say this: more free trade is needed!**

**In particular in order to integrate regions of the world which have been left out of this process which generates prosperity. Last Week the Commission put forward a proposal to grant duty-free and quota-free access for all products, except arms, from all least developed countries. This initiative, which was already pioneered by the European Union in the run-up to the World Trade Organisation ministerial meeting in Seattle last year, would go beyond all previous commitments of the Union so far. Europe needs to help the least developed countries to build their capacity for trade by opening its own market. Trade is the freeway to prosperity. This recent proposal proves that the Commission practises what it preaches.**

**The fear of globalisation is that national governments are no longer in control in the traditional sense of the word. The national government is no longer the cockpit from which developments are steered but rather the surfing board which allows one to remain high on the waves. Government can hardly act retrospectively. It is forced to anticipate at an early stage. Control freaks do not like this whereas those able to cope in time overcome the challenge of globalisation.**

**This holds opportunities for the entire global community but at the same time it exerts pressure on enterprises and**

**countries to maintain and improve a high standard of competitiveness. Enterprises have to improve their efficiency and viability. Public authorities have to ensure the balance between free enterprise and public services.**

**The process of globalisation has an effect on taxation, which is a traditional means to ensure income for public authorities. While the scope of an industrial enterprise is often the whole world or a major part of it such as Europe, taxation authorities operate mainly on a national basis. Enterprises are outward looking while the fiscal systems are often inward looking.**

**In the European Union some people have argued that the Union should move towards a single European system of taxation. That would be a centralist approach. Others think that taxation ought to be close to the responsible level of government because expenditure must be matched by accountability. No taxation without representation. Taxation is not an aim in itself and citizens do not exist for taxation officers. To the contrary, taxation is meant to cover the agreed expenditure of the government. The final aim is the well being of the citizen, his daily life and work. Therefore diversity is needed and countries must keep their tax systems competitive.**

**It may not come as a surprise to you that I am in favour of diversity. Taxation is very close to the citizens who are supposed to pay up and will require accountability of their government. Fiscal systems in Member States of the European Union are different in terms of bases, rates and methods. These are mostly the result of different backgrounds and developments. Fiscal systems are closely related to social policies, culture and education. Creating one European tax system would imply one social, cultural and educational system. This is neither possible nor desirable.**

**Subsidiarity is therefore the key principle guiding action at the European level. The European Union must do what it can do better, which is where additional value is assured. Many policies are better carried out within a Member State or even in a regional framework. Government ought to be as close to the people as possible because only this ensures accountability and transparency. We do not welcome the end of centralist schemes in order to create new ones ourselves.**

**Member States' sovereignty in fiscal matters must be respected. It is only where they cannot achieve an objective**

**sufficiently through individual action that measures at a Community level become necessary. I therefore advocate the principle of tax co-ordination rather than tax harmonisation. Also, healthy tax competition is good but harmful tax competition is bad.**

**That is why I prefer specific measures to sweeping action. In matters of taxation one should be careful. Even specific measures are hard to agree upon and to carry out in an international framework.**

**A good example is the proposal for a Directive to ensure a minimum of effective taxation of the savings income of individuals.**

**In Feira, at the European Council in June of this year, Member States concluded that the best way to ensure the effective taxation of the savings income of individuals is the exchange of information between tax authorities.**

**The Council and the Commission have committed themselves to reach agreement on the substantial content of the Directive by the end of this year.**

**It was also agreed that discussions should take place with the US and certain key countries such as Switzerland, Liechtenstein, Monaco, Andorra and San Marino in order to promote the adoption of equivalent measures in those countries and thus preserve the competitiveness of European financial market.**

**Feira produced a tentative agreement and we are not yet home and dry. There is still a long way to go so as to obtain reassurances from third countries and dependent and associated territories. But we have to continue trying because this is the best way to obtain a result.**

**In contrast to such a specific measure a sweeping action may be risky. An example of such sweeping action is the proposal to install a Tobin tax of international financial transactions. In the view of its defendants a certain percentage of such a transaction ought to be paid to a tax collector and the money collected ought to be spent on big projects for the sake of development and the environment. As it is said: the poor ought to profit from the rich.**

**This measure is presented as a correction of global speculation. It is meant to punish speculators who are portrayed as greedy devils. The Tobin tax is ideology-driven**

**and defended by those who demonstrate against globalisation. The magic is in the word „speculation”.**

**I am against the Tobin tax. The idea is wrong, the measure is wrong and the sentiment is wrong.**

**As Commissioner for the Internal Market I am opposed to all measures which hamper international financial transactions. The Tobin tax is in my view at odds with the Treaty of Rome.**

**Furthermore, if the Tobin tax were to be efficient it should apply to all international financial transactions because no distinction can be made between speculative operations and ordinary financial transactions.**

**What is, by the way, a sound definition of a speculative transaction? Is profit a speculation? Is too much profit a speculation? And what is too much profit?**

**In every financial transaction parties seek to obtain an economic advantage. If this were to be prohibited we ought to close down all Stock Exchanges.**

**In some cases profits are high because risks are high. But risks are needed to provide opportunities in newly created market segments. The profit may be high, but so may be the loss. Those who play safe enjoy less profit.**

**If the Tobin tax is meant to counter speculation efficiently the rate of taxation ought to be high in order to reduce the margins. But since no distinction between speculative operations and ordinary transactions can be made the tax would hit all transactions and become an obstacle for our economic growth.**

**Furthermore a Tobin tax on a European scale would be an incentive for capital to move away and create a parallel network elsewhere. The American „Interest Equalisation Tax”, which was a sort of Tobin tax, led to the creation of a parallel market in Europe.**

**Some regard the Tobin tax as an effective measure against short-term currency speculations. But this argument is partly overtaken by the introduction of the Euro, the European common currency. Speculation becomes obsolete within Euroland.**

**The Tobin tax would create more problems than it would solve. It would become an obstacle for the growth our economies need to generate employment. The poor are not helped by the Tobin tax: what they need is a job, rather than social benefits.**

**And developing countries do not need big projects financed by a Tobin tax. They need good governance and sound free trade arrangements in order to become part of the world economy.**

**Proposals for a Tobin tax may testify to good intentions but do not produce good results. It is cherished for the wrong reasons because it is regarded as a measure against globalisation.**

**Only recently the European Parliament rejected a resolution which called for a study on the imposition of the Tobin tax in the European Union. I am sure the idea will come back as demonstrators march against globalisation on a global basis.**

**The Tobin tax has become the Monster of Loch Ness. Everybody talks about it but nobody has seen it or knows what it should look like.**

**I remain rather firm in my beliefs. Free market oriented economies and globalisation have created growth and prosperity which state-planned economies were never able to provide.**

**We have to keep on moving in the direction of liberal economies. We have to create incentives for enterprises, choice for consumers and be sparing with taxes.**