Institute for World Economics

Dr. Alfred Boss

Duesternbrooker Weg 120
D-24105 Kiel
Fax: 0049-431-8814-525
Phone: 0049-431-8814-1
Ext: 8814-231
E-mail: alfred.boss@ifw.uni-kiel.de

How To Handle Tax Competition?

Paper presented at the
"2nd EUROFRAME Conference on Economic Policy Issues
in the European Union"
June 2005, Vienna, Austria

Contents

A. The Problem **1**

B. Do We See a "Race to the Bottom"? **2**

C. Is Tax Harmonization Desirable? **8**

I. Taxes and Infrastructure 8

II. Taxes and Redistribution 9

III. Competition as a Means of Discovering Better Policy 10

IV. Do We Need a Common Tax Base? 11

V. Advantages of Tax Competition 12

VI. Special Aspects 13

D. Some Remarks on the Debate on the Tax Policy of the EU Accession Countries **14**

E. References **16**

A. The Problem

Facing an increased mobility of capital it is often argued that capital income tax rates tend to be reduced to zero by national governments acting independently from each other. Due to such a "a race to the bottom" it might become difficult or even impossible for governments to perform their usual tasks. An undersupply of public goods and/or an erosion of the welfare state are feared to be the outcome of tax competition. In any case, the tax burden might be shifted away from highly mobile capital towards immobile factors such as labor; this would raise labor costs and impede the reduction of unemployment in Western Europe. Harmonization of capital income taxes is seen to be the way out.

The call for tax harmonization became even louder after the entry of ten new countries into the EU. Most of the new countries are characterized by low taxes, especially low corporate income tax rates. Some of the countries introduced low tax rates in order to attract internationally mobile capital, especially FDI, from Western Europe or from other industrialized countries. At the same time, the accession countries receive financial support from the EU via specific funds. This led some governments in the old EU countries to propose minimum tax rates in order to prevent "unfair" competition.

Generally, the argument for tax harmonization refers to tax rates, especially corporate income tax rates, in the EU. However, apart from the call for adjusting tax rates to a kind of "normal" or minimum level, there are proposals to harmonize the corporate income tax bases in the EU countries, too.

The paper is to focus on three topics:

1. Corporate Income Taxation: What Is Going On?
2. Is Harmonization of Corporate Income Tax Rates or Tax Bases Desirable?
3. How Should National Fiscal Policy React On the Tax Rate Reductions in the New EU Countries?

B. Do We See a "Race to the Bottom"?

In this section it will be investigated if tax competition did affect the level and the structure of the income tax revenues in the EU and in some other countries or if it is justified to argue that taxes on income do contribute to the financing of public expenditures in a more or less unchanged extent. The analysis is mainly based on OECD data.

The corporate income tax rates in the EU and in many other countries have been reduced since more than 20 years. The process gained momentum in recent years (Table 1). However, taxes on corporate income in relation to GDP increased in a majority of countries and in the EU as a whole up to 2000 (Table 2). Only recently, the ratio declined marginally on average. Apparently, the tax bases were broadened significantly. This happened by abolishing tax expenditures, restraining generous depreciation allowances etc. The policy is generally described as "tax-cut-cum-base-broadening".[1] With respect to taxes on corporate income it is hard to see something like a "race to the bottom". If tax competition would have been the driving force behind the development, it would have proved to be a blossom. Normally, lower tax rates and a broader tax base are thought to be advantageous because the welfare cost of taxation is smaller under such circumstances.

However, it is argued that the figures on tax revenues in single countries eventually conceal what is going on with respect to tax competition. The figures on the tax ratios might be distorted because of an increased share of corporate profits in nominal GDP (i.e. a change in the income distribution in favor of capital income, esp. corporate profits). Cyclical influences could be one reason for such distortions; changes of the structure of firms with respect to the legal status could be another one. In addition, transfer price setting by multinationals (in such a way that taxable profits increase in low tax countries) might have prevented a decline of the ratio of corporate income tax

---

[1] Cf. Sachverständigenrat (2004, text number 770).

revenues to GDP in low tax countries—a decline that would have resulted from tax rate cuts otherwise.

Table 1:

Corporate Income Tax Rates for Retained Earnings in Selected Countries (percent)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	40.17	40.17	40.17	40.17	40.17	40.17	40.17	34	34	34
Germany[a]	48.38	48.38	47.47	42.20	42.20	26.38	26.38	27.96	26.38	26.38
Denmark	34	34	34	32	32	30	30	30	30	30
Spain	35	35	35	35	35	35	35	35	35	35
France	36.66	36.66	36.66	36.66	37.77	36.43	35.4	35.4	35.4	35.4
Greece	35	35	35	35	35	35	35	35	35	35
Italy	53.2	53.2	41.25	41.25	37[b]	36[b]	36[b]	34[b]	33[b]	34[b]
Ireland	38	36	32	28	24	20	16	12.5	12.5	12.5
Luxembourg	34.32	33.28	31.2	31.2	31.2	31.2	22.9	22.9	22.9	22.9
Netherlands	35	35	35	35	35	35	34.5	34.5	34.5	34.5
Portugal[c]	36	36	34	34	32	32	30	30	25	25
United Kingdom	33	33	31	30	30	30	30	30	30	30
Austria	34	34	34	34	34	34	34	34	34	25
Sweden	28	28	28	28	28	28	28	28	28	28
Finland	28	28	28	28	29	29	29	29	29	26
Norway	28	28	28	28	28	28	28	28	28	28
Switzerland[d]	35.56[e]	35.56	8.5	8.5	30[e]	30[e]	30[e]	29[e]	29[e]	29[e]
Japan	43.98	43.98	43.98	35.19	35.19	35.19	35.19	35.19	30	30
USA[f]	40.8	40.8	40.8	40.8	40.8	40.8	39.9	39.9	39.9	39.9

[a]Including solidarity surcharge. — [b]Without local tax on the value added. — [c]Without local surcharge. — [d]Zurich. — [e]Maximum. — [f]New York.

Source: BMF (various issues); BMF (2004); DATEV (various issues).

Table 2:

Taxes on Corporate Income in Relation to GDP in Selected Countries (percent)

	1980	1990	1995	2000	2001	2002
Austria	1.4	1.4	1.5	2.0	3.1	2.3
Belgium	2.2	2.4	2.8	3.6	3.6	3.5
Czech Republic	.	.	4.9	3.8	4.4	4.6
Denmark	1.4	1.5	2.0	2.4	3.1	2.9
Finland	1.2	2.0	2.3	6.0	4.3	4.3
France	2.1	2.3	2.1	3.1	3.4	2.9
Germany	2.0	1.7	1.1	1.8	0.6	1.8
Greece	0.9	1.6	2.0	4.6	3.8	3.8
Hungary	.	.	1.9	2.2	2.4	2.4
Ireland	1.4	1.7	2.8	3.8	3.6	3.7
Italy	2.4	3.9	3.6	2.9	3.6	3.2
Luxemburg	6.6	6.5	7.5	7.2	7.5	8.6
Netherlands	2.9	3.2	3.1	4.2	4.1	3.5
Poland	.	.	2.8	2.5	1.9	2.0
Portugal	.	2.3	2.5	4.1	3.6	.
Slovak Republic	.	.	.	2.8	2.2	2.7
Spain	1.2	2.9	1.8	3.0	2.8	3.2
Sweden	1.2	1.7	2.8	4.0	2.9	2.4
United Kingdom	2.9	3.6	2.8	3.6	3.5	2.9
EU 15	2.1	2.6	2.7	3.8	3.6	3.4
EU 19	2.1	2.6	2.7	3.8	3.6	3.4
Japan	5.5	6.5	4.2	3.6	3.5	3.1
United States	2.8	2.4	2.9	2.6	1.9	1.8

Source: OECD (2004: 73).

The figures do not seem to be distorted by cyclical factors leading to a change of the share of profits in GDP. The ratios are nearly unaffected by the degree of capacity utilization measured by the output gap calculated according to the OECD procedure (OECD 2005). The numbers for the output gap in the different countries (Table 3) do not hint at any influences of the stance of the business cycle on the corporate income tax revenues.

Table 3:

Output Gap in Selected Countries (percent)

	1990	1995	2000	2001	2002	2003
Austria	1.5	–0.8	2.7	1.0	–0.3	–1.8
Belgium	1.4	–1.6	2.0	0.8	–0.5	–1.2
Denmark	–0.8	–1.1	1.4	1.0	0.0	–1.5
Finland	3.4	–8.5	1.7	–0.3	–0.8	–1.1
France	2.1	–1.4	1.2	0.9	–0.2	–1.7
Germany	4.3	–1.1	1.6	1.1	–0.6	–2.2
Greece	0.1	–3.5	0.1	0.7	0.8	1.1
Ireland	3.6	–3.7	4.4	3.2	2.3	0.4
Italy	0.2	–1.3	1.3	1.4	0.4	–0.6
Luxemburg	.	.	.	.	.	.
Netherlands	2.7	–0.2	4.2	2.7	0.4	–2.5
Portugal	3.3	–1.6	3.0	1.5	–0.7	–3.7
Spain	3.3	–3.2	1.0	0.8	0.0	–0.5
Sweden	–0.2	–3.4	2.2	0.3	–0.3	–1.1
United Kingdom	1.8	–1.2	0.9	0.7	–0.1	–0.3
Euro area	2.7	–1.5	1.7	1.2	–0.1	–1.5
Japan	4.1	–0.3	–1.0	–2.3	–4.1	–3.3
United States	0.5	–1.7	1.1	–1.3	–2.1	–1.9

Source: OECD (2005).

The figures may be influenced by changes of the structure of firms with respect to their legal status. The effect might be significant in Germany. Here, corporations became much more important in the course of the nineties. Nevertheless, taxes on corporate income declined somewhat relative to GDP. This seems to be a result of tax competition. However, the figures for Germany are low due to the reform of the corporate income tax in 2001; there were significant negative effects on the revenues even in 2002. The ratio of the corporate income tax revenues to GDP rose in 2003 and 2004; it will continue to rise this year.

Another factor might be at work. Transfer price setting by multinationals (in such a way that taxable profits increase in low tax countries) can prevent a decline of the ratio of taxes on corporate income to GDP in low tax countries—a decline that would have resulted from tax rate cuts otherwise. If this was the case, the ratio for high tax rate countries should decrease and the overall ratio e.g. for the EU should go down; but

there is no evidence for this. In addition, we should not overestimate the firms' abilities to use transfer price setting as a tax optimization measure.

There is no shift from corporate income taxes to personal income taxes. The personal income tax component of the income taxes did not move very much in the single countries and in the EU as a whole in the recent decades (Table 4). However, there was a slight movement towards contributions to social security until recently (Table 5). Such a development might be harmful for any attempts to reduce unemployment in the EU by lowering labor costs. However, the correct response of economic policy is not to impede tax competition but to reform the system of social security.

Table 4:

Taxes on Personal Income in Relation to GDP in Selected Countries (percent)

	1980	1990	1995	2000	2001	2002
Austria	9.2	8.5	8.7	9.7	10.3	10.0
Belgium	15.4	13.8	14.6	14.3	14.7	14.7
Czech Republic	.	.	5.1	5.0	4.9	5.0
Denmark	22.9	24.8	26.7	26.1	26.4	26.0
Finland	13.0	15.4	14.3	14.7	14.5	14.3
France	4.7	4.6	5.0	8.1	7.9	7.6
Germany	11.1	9.8	10.5	9.6	10.0	9.0
Greece	3.6	4.1	3.9	5.6	5.1	5.0
Hungary	.	.	6.8	7.2	7.6	7.8
Ireland	10.0	10.7	10.1	9.6	8.9	7.4
Italy	7.0	10.2	10.7	10.8	11.0	10.9
Luxemburg	11.0	9.6	9.2	7.4	7.2	6.8
Netherlands	11.4	10.6	7.9	6.2	6.5	7.2
Poland	.	.	8.5	7.5	7.5	7.5
Portugal	.	4.6	5.9	6.0	6.0	.
Slovak Republic	.	.	.	3.4	3.4	3.4
Spain	4.7	7.2	7.7	6.6	6.9	6.9
Sweden	19.4	20.5	16.2	17.6	16.5	15.3
United Kingdom	10.3	10.7	10.0	11.0	11.2	10.6
EU 15	11.0	11.0	10.8	10.9	10.9	10.8
EU 19	11.0	11.0	10.1	9.8	9.8	9.7
Japan	6.2	8.1	6.0	5.6	5.5	4.7
United States	10.3	10.1	10.0	12.5	12.3	10.0

Source: OECD (2004: 72).

Table 5:

Contributions to Social Security in Relation to GDP (percent)

	1980	1990	1995	2000	2001	2002	2003
Austria	12.3	13.3	15.1	14.8	14.8	14.7	14.6
Belgium	12.3	14.3	14.7	14.1	14.4	14.7	14.5
Czech Republic	.	.	16.5	17.2	16.9	17.4	17.3
Denmark	0.8	1.4	1.5	2.3	2.2	1.7	1.7
Finland	8.4	11.4	14.2	12.1	12.4	12.2	12.0
France	17.4	18.9	18.6	16.2	16.2	16.3	16.7
Germany	12.9	13.4	14.9	14.8	14.6	14.5	14.7
Greece	7.9	8.9	10.5	11.8	11.7	11.8	.
Hungary	.	.	15.1	11.4	11.6	11.6	.
Ireland	4.5	5.0	4.7	4.3	4,3	4,3	4,5
Italy	11.6	12.8	13.0	12.4	12.3	12.5	12.9
Luxemburg	11.7	11.0	11.2	9.9	10.9	11.2	11.5
Netherlands	16.6	16.0	17.6	16.0	14.4	13.9	14.1
Poland	.	.	11.3	9.5	9.6	9.5	.
Portugal	7.1	7.9	10.1	10.9	11.0	9.2	.
Slovak Republic	.	.	.	14.0	14.1	14.3	.
Spain	11.2	11.8	11.9	12.3	12.5	12.6	12.6
Sweden	13.6	14.5	13.4	14.8	15.3	15.1	14.7
United Kingdom	5.9	6.2	6.2	6.3	6.3	6.1	6.4
EU 15	10.3	11.1	11.8	11.5	11.6	11.4	.
EU 19	10.3	11.1	12.2	11.8	11.9	11.8	.
Japan	7.4	8.7	10.1	9.9	10.3	9.9	.
United States	5.8	6.9	6.9	6.9	7.0	6.9	6.8

Source: OECD (2004: 74, 98).

The data presented do not at all reflect only the effects of tax competition. There are other influences, too. Demographic factors or the labor market development e.g. should be important. However, it seems to be justified to argue that taxes on capital income do contribute to the financing of public expenditures in a more or less unchanged extent. There is no “race to the bottom”.

C. Is Tax Harmonization Desirable?

In the following, it is assumed that the activities of national governments do not (positively or negatively) affect the economic activity in other countries. Thus, each government produces or provides national public goods and is engaged in redistribution activities. Spillovers of national policies to the economic outcome in other countries are excluded (no genuine external effects); e.g. this means that environmental policy uses the adequate instruments proposed by economists.

I. Taxes and Infrastructure

Those who fear a "race to the bottom" do not take into account that firms benefit from the infrastructure of a country including the guarantee of property rights. However, we cannot analyze tax competition and neglect the provision of really public goods or other goods by the government. Insofar as the marginal product of capital is positively affected by the supply of infrastructure services taxes are enforceable as an equivalence for these services. So there is a lower limit for a potential race to the bottom (Siebert 1990). It is defined by the value of the services offered by the government to the corporations or other users. Tax competition does not prevent the public provision of services.[2]

The argument can even be strengthened. Tax competition might lead to a kind of benefit taxation instead of zero tax rates. Different and non-converging tax rates can be the result of tax competition. Tax competition may be a way to force governments to supply public services efficiently and to reduce government expenditures in general.

[2] The assessment of tax competition becomes more complicated if the quantities of capital and public infrastructure have not to be used in a fixed ratio in the production process. If using the "infrastructure" of a country causes costs and is characterized by some rivalry in consumption the argument has to be refined (cf. Sinn, H.-W. 1997). This case is not considered here. However, again there is no case for tax harmonization (Boss 2003; Gern et al 2004: 102–104). Any potential inefficiency would only be an intermediate result of tax competition. Governments would react in order to restore efficiency. However, competition is necessary as a precondition for such a reaction (Blankart 2000: 133–134).

As a by-product, tax competition reduces the power of the bureaucracy and of the interest groups (Hansjürgens 2001: 73; Feld 2003). Such a result has to be considered as beneficial.

Tax competition "puts pressure on governments to abolish tax financing and to switch to direct pricing through such devices as fees …" (Blankart 2002: 372). "It is true that not all government services can be provided by direct charges. But governments, under the … pressure of competition, would have an incentive to find out those charges that come closest to prices" (Blankart 2002: 372). It would be "revealed endogenously which goods are more private and which are more public" (Blankart 2002: 372).

From an evolutionary-institutionalistic perspective it is necessary to enable national states to react on tax competition (Blankart 2000: 135). If taxes are harmonized, the national governments will compete by using different policy instruments (e.g. subsidies or regulation intensity on product and factor markets (Blankart 2000: 140)).

II. Taxes and Redistribution

As concerns the effect of tax competition on the income redistribution, a harmful erosion of the welfare state is expected by many observers. However, if capital is highly mobile and if redistribution via the system of social security gets under pressure because of tax rate cuts and if private insurance becomes more important, this can be an advantage from an efficiency point of view (Boss 2003). In general, redistribution which is enforced by the government despite of a lack of consensus in the society, is problematic.[3]

---

[3] "Redistribution is desirable if it is voluntary—either in the form of private charity or by way of government transfers based on a general consensus. As economists, we know that giving may be in the interest of the giver and that, owing to externalities or economies of scale, collective giving may be more efficient than individual giving. As long as collective giving is voluntary, it is a Pareto improvement" (Vaubel 1996: 159). "By contrast, if redistribution … is imposed by the state even though a consensus is lacking, we can no longer be sure that the benefits will outweigh the costs because it is not possible to compare the cardinal utilities of different persons in a scientific way" (Vaubel 1996: 159).

If tax competition would lead to a reduction of efficient redistribution, it would be harmful. But efficient redistribution would not vanish due to tax competition. An efficient system of assistance for the poor is productive for the total population. As an example: An incentive-compatible system of social assistance may be advantageous for the general public and may survive (or would even be introduced) in a process of tax competition. Social security produced in this way is a positive factor of production. Social policy is thought to be adequate if people are induced to invest in real and human capital in a more risky way than they would have done otherwise. People are assumed to react in this way because a minimum income is guaranteed in case of failure (Homann 2003: 112).

It can be concluded that tax competition does not make income redistribution impossible. The outcome of tax competition is not an erosion of the welfare state but a more efficient design of social insurance or redistribution via the tax system. In addition, voluntary redistribution would not be endangered by the free movement of capital and highly qualified labor. Private insurance markets would begin to flourish due to declining tax rates.

An increase of factor mobility does not make redistribution impossible. It is only a danger for involuntary redistribution based on the power of simple majorities. Redistribution based on a consensus (or a qualified majority) is not excluded in a process of tax competition. Altruism and redistribution resulting thereof are not excluded as well (Mueller 1998: 179–180). However, redistribution which is only in the interest of the favored groups are endangered by tax competition.

III. Competition as a Means of Discovering Better Policy

As to the institutional aspects of tax competition, it should not be forgotten that information is created and spread about by the trial and error process of competition among policies. Governments may learn from the policy failures and successes of other governments. Competition might turn out to be an instrument of discovering

better solutions for economic policy problems. All one needs to assume to advocate policy competition is that governments are not omniscient. This is true for tax competition, too. The assumption that governments are not omniscient is sufficient to prefer tax competition over tax harmonization (Sinn, S. 1990). It is not necessary to assume that a government necessarily is a Leviathan.[4]

To give an example: In the beginning of 2005 a toll for trucks was introduced in Germany. Maybe, this would not have happened if there would not have been tax competition.

IV. Do We Need a Common Tax Base?

The argument for adjusting the corporate income tax bases or even introducing a common tax base for corporations rests on the following considerations. The national rules for determining the bases of the corporate income taxes are very different and very complicated. Firms operating in different countries are forced to study these rules the differences e.g. for accounting purposes. The rules for cross-border activities of multinationals (including a lot of treaties introduced in order to avoid double taxation) are very complicated, too. A high degree of intransparency is the consequence. According to the proponents of harmonization this leads to unnecessarily high costs of administration, to difficulties in comparing tax burdens (e.g. when deciding about the location of a production plant) and to distortions of economic decisions.

Furthermore, firms—according to the argument—exploit the complicated system by "tax optimization". They try to use any scope for decisions given by the rules for setting transfer prices. Firms are even forced to use any possibility to minimize their tax payments in the process of competition. The result is a tax burden which is smaller

---

[4] If institutional competition is modeled in such a way that the optimal output of public goods is known and that governments behave in the interest of the citizens it is not surprising that centralization dominates decentralization. However, this is not the world we live in (Kerber 2000: 184).

than it would have been in a system of "fair taxation" with similar or identical rules in every country; national governments suffer from revenue losses.

Tax base harmonization is seen to lead to less distortions of the allocation of resources (especially capital), to less impediments for the cross-border transactions of firms, to lower compliance costs, to more security as to the application of the tax legislation and to a closer connection between national governments' services and national taxes. Normally, it is proposed that competition as to the tax rates should not be abolished.

The reasoning seems to be convincing. However, any harmonization measure with respect to the tax bases probably is a first step towards harmonizing the tax rates. In addition, it is not at all clear what is a really adequate basis for a corporate income tax (Fuest and Huber 2003; McLure 2004). Moreover, it is not all uncontroversial that taxing capital income is a good idea from an efficiency as well as from a redistribution point of view.

Proponents of harmonization should seriously assess the following consideration. "A common tax base is only a good idea if there is some curb on the propensity of politicians to make bad decisions. Specifically, any universal definition of taxable income should be predicated on the ability of companies to opt out of the system. … In effect, the simplicity of a harmonized tax base must be matched with the liberalizing power of tax competition" (Mitchell 2004).

V. Advantages of Tax Competition

Tax competition and different tax rates are not only not harmful, they are advantageous (Vaubel 2001: 58–59). The optimal level of tax government revenues depends on the optimal level of expenditures which is probably different for different countries. The adequate ratio between tax revenues and revenues from borrowing depends from the level of public investment which—again—is not the same for every country. Given the amount of tax revenues the optimal structure of tax revenues depends on factors

such as “tax mentality” etc. Assuming an identical structure as to the kinds of taxes the structure of the tax rates depends on the specific supply and demand conditions on the relevant markets.[5] This is a basic message of the literature on optimal taxation theory.

All in all, different ways of taxing people are not a distortion. They reflect different preferences and different endowments with resources etc. The tax system is one of the factors determining the comparative advantages of a country. It is a factor like wages or infrastructure. Distortions are not created by different taxes but by tax harmonization.

VI. Special Aspects

Recently, the tax treatment of Mark & Spencer, a British multinational in the food and textiles sector, gained public interest. Britain allows firms to offset losses of subsidiaries in Britain, but not losses of subsidiaries abroad, against corporate profits. Marks & Spencer argues that this “is a breach of the EU treaty as it penalizes overseas investment. It wants to be allowed to offset losses of its French, Belgian and German subsidiaries … against its profits at other outlets” (*The Economist* 2005).

If the European Court of Justice would decide in favor of Mark & Spencer tax competition would be weakened; national tax autonomy would suffer.[6] In addition, there would be important implications. Using the Court’s potential argument it is possible to forbid tax rate differences between EU countries or wage differentials in the EU member countries.

Other rules of the tax law are under discussion, too. Two examples are to be mentioned.

Corporate tax rates are important for decisions on the location of a production plant. Up to now, mainly the decision on where to locate a new plant or a subsidiary is

---

[5] For some other aspects cf. Vaubel (2001: 58–59).

[6] Because of a similar rule in the German tax law, the German government fears significant losses of tax revenues in case of such a decision.

affected. The movement (shift) of existing corporations (or parts of them) into other (low tax rates) countries is often impeded by specific tax rules. As to Germany, leaving the country would mean that reserves (hidden in the balance sheet) would have to be taxed (§§ 11, 12 law on corporate income tax). Possibly, this German tax rule will come under pressure by a decision of the European Court of Justice (Sachverständigenrat 2004, text number 765). As a consequence, corporations would become much more mobile.

Another German rule will have to be changed with a high probability. If a German citizen (who had been taxable for ten years at least) moves to another country the difference between the market value and the accounting (bookkeeping) value of "relevant" shares in a domestic corporation are taxed; relevant is defined to be an ownership of at least one percent (§ 17 income tax law). The European Commission urges the German government to abolish the rule because it is assessed to be in conflict with the fundamental liberties in the EU. In France, a similar rule is effective.

The actual and the potential decisions of the European Court of Justice can undermine tax competition. The autonomy of national tax policy is endangered. Benefit taxation—though not simultaneously, but (finally) in a cumulative way—would become more difficult if the rules mentioned would be abolished.

D. Some Remarks on the Debate on the Tax Policy of the EU Accession Countries

Government expenditures in the EU are high in relation to nominal GDP. For the Euro area the relation is close to 49 percent in 2004 (OECD 2005). The relation has been on the decline since 1993, but it decreased by only 4 percentage points. Many observers believe that government expenditures in the old EU countries are too high and should be reduced in order to foster economic growth (Heitger 1998). Tax competition is an important instrument for reaching this aim. Pressure on the accession countries to raise their tax rates would be counterproductive.

A catching-up process in the new EU countries is longed for by most observers. Low tax rates can be an important instrument for catching-up. Thus it would not be helpful to force the new countries to raise their tax rates.

This conclusion remains valid if the EU transfers to these countries are taken into account. EU subsidies e.g. for agriculture have to be assessed independently from tax policy measures and from the accession of new countries. This cannot be done here. But it should be mentioned that the EU subsidies for the new EU countries would be the lower the faster the new countries are growing.

The introduction of minimum tax rates in the new EU countries would mean that these countries take over elements of the bad tax systems of countries like Germany. This would be disadvantageous for the EU as a whole and it would be detrimental for the new countries (Fuest, C. and Fuest, B. 2004).

E. References

Blankart, C.B. (2000). Taxes and Choice: Two Views on the Regulation of Tax Competition. In: K.-E. Schenk, D. Schmidtchen, M.E. Streit und V.J. Vanberg (Hrsg.), Globalisierung und Weltwirtschaft. Tübingen: Mohr.

Blankart, C.B. (2001). Intranationaler und internationaler Steuerwettbewerb – Möglichkeiten und Grenzen autonomer Steuerpolitik. *Ordnungspolitik in der Weltwirtschaft*. Baden-Baden: Nomos.

Blankart, C.B. (2002). A Public Choice View of Tax Competition. *Public Finance Review* 30 (5): 366–276.

BMF (Bundesministerium der Finanzen) (2002). *Die wichtigsten Steuern im internationalen Vergleich.* Berlin.

BMF (Bundesministerium der Finanzen) (2004). *Die wichtigsten Steuern im internationalen Vergleich.* Berlin.

BMF (Bundesministerium der Finanzen) (various issues). *Informationsdienst zur Finanzpolitik des Auslands*. Bonn.

Boss, A. (1999). Do We Need Tax Harmonization in the EU? Kiel Working Papers 916. Institute for World Economics, Kiel.

Boss, A. (2003). Steuerharmonisierung oder Steuerwettbewerb? Kieler Arbeitspapiere 1178. Institut für Weltwirtschaft, Kiel.

Boss, A., K.-J. Gern, C.-P. Meier and J. Scheide (2004). *Mehr Wachstum in Europa durch eine Koordination der Wirtschaftspolitik?* Kieler Studie 330. Berlin: Springer.

DATEV (various issues). *Tabellen und Informationen für den steuerlichen Berater*. Nürnberg.

Eicker, K. (2005). Europarechtswidrigkeit des gespaltenen Körperschaftsteuersatzes i.S. des abgeschafften Anrechnungsverfahrens? *IWB (Internationale Wirtschafts-Briefe)* (8): 369–370.

Feld, L.P. (2003). Marktversagen durch die Hintertür. *Frankfurter Allgemeine Zeitung*, November 3: 14.

Fuest, C., und B. Huber (2003). Zur Koordinierung der Unternehmensbesteuerung in Europa. *Vierteljahresschrift zur Wirtschaftsforschung* 72 (3): 378–390.

Fuest, C., und W. Fuest (2004). Die Mär vom Steuerdumping in Osteuropa. *Frankfurter Allgemeine Zeitung*, 18. September: 13.

Hansjürgens, B. (2001). Das Äquivalenzprinzip als zentraler Maßstab für fairen Steuerwettbewerb. In: W. Müller, O. Fromm und B. Hansjürgens, *Regeln für den europäischen Systemwettbewerb*. Marburg: Metropolis.

Heitger, B. (1998). *Wachstums- und Beschäftigungseffekte einer Rückführung öffentlicher Ausgaben.* Kieler Studien 291. Tübingen: Mohr Siebeck.

Homann, K. (2003). Reformstau in der Sozialpolitik – Ein Beitrag zur Strukturierung der Diskussion. *Theorie der sozialen Ordnungspolitik*. Stuttgart: Lucius & Lucius.

Kerber, W. (2001). Standortwettbewerb und Ordnungspolitik. *Ordnungspolitik in der Weltwirtschaft*. Baden-Baden: Nomos.

Kirchgässner, G. (2004). Die Bedeutung der Körperschaftsteuer: Theoretische Überlegungen, die internationale Entwicklung und die Situation der Schweiz. *Aussenwirtschaft* 59 (III): 239–272.

Kube, H. (2005). Der Europäische Gerichtshof gefährdet den Steuerwettbewerb. *Frankfurter Allgemeine Zeitung*, 7. April: 12.

Lorz, J.O. (2003). Do National Governments Lose their Maneuvering Space in the Era of Locational Competition and What Can they Do? In: H. Siebert (ed.), *Global Governance: An Architecture for the World Economy*. Berlin: Springer.

McLure, C.E. (2004). The European Commission's Report on Company Income Taxation: What the EU Can Learn from the Experience of the US States. *International Tax and Public Finance* 11 (2): 199–220.

Mitchell, D.J. (2004). The Right Way to Harmonize Tax. *The Wall Street Journal / Europe*, September 6: A3.

Mueller, D. (1998). Redistribution and Allocative Efficiency in a Mobile World Economy. *Jahrbuch für neue politische Ökonomie*. Tübingen: Mohr.

OECD (2004). *Revenue Statistics 1965–2003*. Paris.

OECD (2005). *Economic Outlook* 76 database. Paris.

Sachverständigenrat (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung) (2003). *Staatsfinanzen konsolidieren – Steuersystem reformieren. Jahresgutachten 2003/04.* Wiesbaden.

Sachverständigenrat (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung) (2004). *Erfolge im Ausland – Herausforderung im Inland. Jahresgutachten 2004/05*. Wiesbaden.

Scheide, J., and S. Sinn (1987). Internationale Koordination der Wirtschaftspolitik: Pro und Contra. Kieler Diskussionsbeiträge 135. Institut für Weltwirtschaft, Kiel.

Siebert, H. (ed.) (1990). *Reforming Capital Income Taxation*. Tübingen: Mohr Siebeck.

Siebert, H. (1990). Comment on Vito Tanzi and A. Lans Bovenberg, "Is There a Need for Harmonizing Capital Income Taxes within EC Countries". In: H. Siebert (ed.), *Reforming Capital Income Taxation*. Tübingen: Mohr Siebeck.

Sinn, H.-W. (1995). The Selection Principle and Market-Failure in Systems Competition. *Journal of Public Economics* 66 (2): 247–274.

Sinn, S. (1990). Comment on Assaf Razin and Efraim Sadka, „Capital Market Integration: Issues of International Taxation". In: H. Siebert (ed.), *Reforming Capital Income Taxation*. Tübingen: Mohr Siebeck.

Sinn, S. (1992). The Taming of Leviathan: Competition Among Governments. *Constitutional Political Economy* 3 (2): 177–196.

The Economist (2005). Sparks fly, February 5: 32.

Vaubel, R. (1996). Reforming the Welfare State in Western Europe. In: H. Giersch (ed.), Fighting Europe's Unemployment in the 1990s. Berlin: Springer.

Vaubel, R. (2001). *Europa-Chauvinismus: der Hochmut der Institutionen*. München: Universitas.