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### Resolution on the coordination of fiscal and taxation policy in the Monetary Union

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A4-0192/97

Resolution on the coordination of fiscal and taxation policy in the Monetary Union

The European Parliament,

- having regard to Rule 148 of its Rules of Procedure,
- having regard to Title VI of the EC Treaty on economic and monetary policy,
- having regard to the conclusions of the European Councils in Dublin on 13-14 December 1996, Florence on 21-22 June 1996, Madrid on 15-16 December 1995 and Cannes on 26-27 June 1995,
- having regard to its resolutions on Economic and Monetary Union and in particular those of 28 November 1996 embodying Parliament's opinion pursuant to Article 109j(2) of the EC Treaty on the 1996 convergence decision by the Council meeting in the composition of the Heads of State or of Government on convergence policy ((OJ C 380, 16.12.1996, p. 56.)), 18 June 1996 on the interim report from the Commission to the European Council on exchange rate relations between the Member States taking part in the third stage of Economic and Monetary Union and the remaining Member States ((OJ C 198, 8.7.1996, p. 52.)), and 19 June 1996 on the broad economic guidelines of the Member States ((OJ C 198, 8.7.1996, p. 115.)),
- having regard to the report of the Committee on Economic and Monetary Affairs and Industrial Policy (A4-0192/97),

A. whereas, in the third stage of Economic and Monetary Union, participating Member States will have a common monetary policy, the aim is of which is to ensure price stability, and will therefore no longer be able to use monetary policy as an instrument for regulating the economy at national level,

B. whereas the irrevocable fixing of exchange rates and subsequently the single currency which will come with Monetary Union will mean that member countries will no longer be able to take advantage of the margin of flexibility or adjustments in parities between currencies,

C. whereas, for these and other reasons, fiscal and taxation policy will assume a different and greater role as an instrument of economic policy as soon as Monetary Union is established,

D. whereas the national fiscal policies of the Member States of the Monetary Union will nonetheless be governed by provisions relating firstly to closer surveillance and the coordination of budgetary situations and, secondly, the expediting and clarification of implementation of the excessive deficit procedure, which are the main elements of the Pact for stability and growth,

E. whereas the 'pre-in' Member States, which are themselves committed to the convergence process, and hence subject to budgetary discipline, will, in this respect, find themselves in a situation similar to that of the Member States of the Monetary Union, even if their exchange rates will not yet be irrevocably fixed against the euro,

F. whereas the new fiscal framework does not necessarily mean that the Member States will have to make identical national fiscal choices and whereas the subsidiarity principle must be applied in this area,

G. whereas the current level of the Community budget at 1.2% of GDP would not enable fiscal and taxation policy to be used at Community level, nor would it permit substantial budget transfers as a means of stabilizing the economy in the event of difficulties experienced by one or more Member States,

H. whereas the main objectives of the single currency are to be to ensure that the internal market operates optimally and thus to enable it to develop ultimately into a genuine European domestic market, and that environmentally sustainable economic growth, employment and stability and a better quality of life for the citizens of Europe are ensured,

I. whereas a minimum degree of tax harmonization is required to prevent economic distortions and to ensure a level playing field for competition within the single market,

J. whereas provisions on the harmonization of tax legislation, pursuant to Article 99 of the EC Treaty, are subject to the unanimity rule,

K. whereas it is necessary to anticipate situations in which Member States of the Union may find

themselves in the event of asymmetrical or symmetrical crises,

L. whereas, although the Treaty provides for the establishment of an economic policy based on close coordination of economic policies, on the internal market and on the definition of common objectives, and conducted in accordance with respect for the principle of an open market economy with free competition, scope should be provided for coping with crises by means of national fiscal policy so as to achieve fruitful harmonization; whereas the Member States should have sufficient freedom of action to deal with country-specific problems, particularly unemployment, in order to permit harmonization of the economic development of the EU,

M. whereas from the start of the third stage the Economic and Financial Committee will play a major role in coordinating the policies of the Member States with a view to ensuring the proper functioning of the internal market,

N. whereas the provisions relating to Economic and Monetary Union leave something to be desired in terms of democratic control vested in elected bodies,

1. Notes that the introduction of the single currency, and the corollary to it of a common monetary policy, which is supposed not to affect national taxation policies in principle, puts the Member States of the Monetary Union in an unprecedented situation with regard to the conduct of their respective economic policies;

2. Points out also that the Member States of the Union will in fact all be concerned by this new situation from the start of stage 3, irrespective of whether or not they participate in the Monetary Union, with the exception of any Member States that choose not to join the new exchange rate mechanism (ERM2);

3. Believes that the solution of a substantially increased Community budget (theoretically the best way of dealing with economic crises) cannot be proposed in the current economic and political climate, although the situation might eventually change, and that it will be necessary to continue discussions to find ways and means of Community action that can provide a more collective response to economic crises;

4. Takes the view that, initially, effective coordination of the Member States' economic policies, combined with appropriate fiscal and taxation policies, should be sufficient to ensure the harmonious economic and social development of the Union, and proposes to focus on the economic instruments currently available;

#### Fiscal policy

5. Considers that, in their present form, the fiscal policies of the Member States reflect, through the nature of the expenditure made (in compliance of course with the Pact for stability and growth), specific national economic and social policy choices and that there is no necessity for any change other than budgetary discipline;

6. Stresses that in order to tackle unemployment or other exceptionally major economic problems, Member States should have the option of pursuing expansionary policies by means of budget deficits or contractive policies by running a budget surplus;

7. Believes therefore that national fiscal policies must for a long time remain a central tool and that budgetary equilibrium and deficits should not be assessed annually but in relation to the whole economic cycle, and that penalty payments for deficits exceeding 3% should be provided for not on an annual basis but in the light of the whole cycle;

8. Points out however that, in order to prevent the emergence of external factors which could be detrimental to the proper functioning of the internal market, as a result of divergent fiscal approaches, a mutual information procedure on national fiscal choices (a procedure which would form part of the planned multilateral monitoring arrangements and would involve national governments and parliaments) would undoubtedly prove very useful;

#### Taxation policy

9. Recognizes that in the current situation of different tax systems the direct comparability of the tax or related benefits or disadvantages permitted by assessment in a single currency, which will eliminate exchange risks and reduce transaction costs, will naturally create the conditions for tax competition between Member States, competition which might cover all forms of taxation relating to the most mobile factors of production;

10. Expresses concern at the possibility of economic distortions which might result from certain tax differences between Member States of the Monetary Union, distortions which would impede the proper allocation of resources in the European Union;

11. Takes the view, further, that, given the substantial disparities that exist between the systems of indirect taxation in the various Member States, it would be appropriate to convene a meeting of the various interested parties with a view to studying the principles governing such taxation;

12. Is aware that lower tax levels may encourage companies to relocate; points, however, to the fact - following the public hearing in its Committee on External Economic Relations - that management decisions on relocation are based on a number of reasons, such as easy access to the market where the product will be sold, lower production costs, limited currency exchange risks, availability of skilled labour and infrastructure, length of public administrative procedures, political and social stability in a country, etc.;

13. Is concerned also by the implementation, at regional and/or national level, of incentive strategies based on taxation and social provisions (and even on labour regulations) and resulting in unfair competition through tax and social dumping, the consequences of which could be not only damaging for Member States that might be the victims, in economic and social terms (relocation of activities, unemployment, dwindling tax revenue), but also disastrous in terms of political relations within the Union;

14. Believes that tax and social dumping must be averted either through a code of conduct for taxation or by a minimum degree of tax harmonization, particularly with regard to savings, taxes on companies and transfrontier taxation; asks the Commission to present an annual report on this matter to the European Parliament;

15. Recognizes that, in any event, the current political situation is scarcely conducive to abandoning the unanimity rule for tax harmonization and that, on the contrary, Monetary Union could strengthen the idea of tax sovereignty;

#### Community economic policy

16. Believes that, in accordance with the EC Treaty and the concern for democratic action and control in the Union, the economic dimension of stage 3 of EMU must be reflected in a Community policy that provides a counter- weight to a common monetary policy pursued by an independent central bank to guarantee the stability of European prices;

17. Points to the need for an independent central bank so that a policy of low inflation and low interest rates can be actively pursued;

18. Takes the view therefore that implementation and monitoring of tax coordination and the drawing up of a genuine policy mix and the putting in place of regulatory mechanisms, which will be vital if Economic and Monetary Union is to operate smoothly in stage 3, presuppose the creation of a political body composed of representatives of all the Member States and subject to strong democratic control, with significant economic powers and required to report at regular intervals to Parliament;

19. Proposes to hold in-depth discussions on the means of strengthening its ability to analyse the economic situation of EMU and to give even greater credibility to its budgetary and, in more general terms, economic choices, and proposes, as a way of initiating the debate, enlisting the help of a 'Committee of European Parliament economic advisers' made up of recognized experts and responsible for producing once or twice a year a report on the economic situation and formulating recommendations based on political objectives established by the European Parliament;

20. Instructs its President to forward this resolution to the Council, the Commission and the European Monetary Institute.