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The Political Geography Of European Tax Policy

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**40th Congress of the
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‘The political geography of European tax policy’

Abstract

At the European Summit in Feira in June 2000, a package of proposals about European tax harmonization was adopted. Free capital markets and the introduction of the euro gave rise to concerns about harmful tax competition within the European Union. At this moment, diverse and sometimes contradictory political processes are at work in the field of tax policy, in which the regional, national and European levels are intensively involved. My purpose is to detect continuities and discontinuities in this debate and to relate the issue to European integration theory in general.

Introduction

Is the introduction of the euro to be considered as the end of the European integration process, or rather as an important milestone on the road to political union? Taxation policy in an interesting test case. In this paper, I am sceptical about the idealistic presumption that European tax harmonisation will be achieved sooner or later as a result of the neofunctional spill-over effect. Moreover, the notion ‘tax harmonisation’ may have completely different meanings according to the specific agendas of its proponents.

In order to assess the recent attempts to coordinate tax policies in the EU, it is useful to recall the origins of this debate: the increasing mobility of companies and financial assets as a result of liberalisation. When liberalisation was carried through, European politicians ‘forgot’ to design a parallel tax architecture. This event and non-event fundamentally changed power relations between governments and market actors. Nowadays, the European Commission and the member states try to regain the power they lost, but this appears to be extremely difficult.

These processes can be studied from the perspective of ‘scale politics’, a paradigm that is opposed to neofunctional theory. This paradigm is also practical to evaluate regional demands for more taxation autonomy in a context of economic and monetary union. In this respect, the paradigm of ‘scale politics’ throws light on dynamics that are much less addressed by regionalist discourses about democracy and subsidiarity.

1. Is European tax harmonisation inevitable?

Many European citizens share the belief that the European integration process will ultimately lead to a genuine political union. Most likely, the European political union will be a federal construction, but with considerable powers in many policy areas, including social security, environmental protection and taxation. In part, this belief stems from the popular neofunctional spill-over theory. As the European level obtains more competence, the need for new powers in related policy areas becomes more visible. To

some extent the spill-over effect is a reality, but in an oversimplified version it is considered as an automatic mechanism. Thus, people may assume that European tax harmonisation will be a logical consequence of the economic and monetary integration. As such it is regarded as the next stage on the road to European political union.

However, this optimism may very well be nothing more than a teleological vision without any real foundations. According to more sophisticated versions of neo-functional theory, the spill-over effect is by no means an autonomous mechanism. It never occurs independently from the particular interests of the political actors involved. Whenever competence is transferred to the European Union, one may be sure that a coalition of interest groups succeeded in persuading the governments of the member states to surrender those particular powers to the European level. Therefore, every next step in the European integration process depends on the political constellation and power relations within the fifteen member states. National and international interest groups, more than governments, are suitable to be the main focus of analysis.

This line of argumentation permits to conclude that spill-over only happens selectively. At this moment, two alternative perspectives on European integration are imaginable. The first is the above mentioned teleological belief that one day Economic and Monetary Union (EMU) will spill-over in some kind of European state. According to the second view, however, the introduction of the euro could be the terminus of the European integration process, which in essence has always been an economic project. If this is the case, the coalitions that advocated economic and financial integration are not likely to support any further moves, unless some minor adjustments (e.g. additional transport and communication infrastructure or removal of technical barriers) aimed at the completion of the single market. There is absolutely no reason to be sure that other interest groups, such as trade unions or the environmental movement, dispose of the necessary leverage to force through political union.

A naive conception of spill-over theory may obscure much more important dynamics. In this paper I would like to link the selectivity of spill-over to the politico-geographical dynamics named 'politics of scale' (Swyngedouw 1997). I would like to apply this model to the current debate on European taxation. Scale politics is about the

dynamic interdependence between the regional, national, European and global levels. In paragraph 7, I would like to introduce the regional dimension.

2. Are we talking about the same thing?

European harmonisation can be defined as a high level of policy coordination within the European Union. As far as taxation is concerned, harmonisation implies that in all member states more or less the same rules apply. However, when we take a closer look at the diverse forms European tax policy could possibly take, it becomes clear that not everyone is talking about the same thing. To illustrate this, I will consider the viewpoints of two major protagonists: multinational enterprises and left-of-centre governments.

The principal objective of multinational enterprises is the maximisation of their profits. For this purpose, they seek to establish an optimal spatial configuration. The international division of labour enables them to exploit the comparative advantages of locations. European economic integration is instrumental to this. Free movement of production factors, a single currency, trans-European networks, etc. are all elements reducing the costs of pan-European operations. One of the remaining barriers to a truly internal market is the absence of a single European tax system. Every European move in the field of taxation should contribute to the efficiency of the European marketplace. They do not ask for measures meeting any other goals.

First, multinational enterprises would like the ‘compliance costs’ to be reduced. The coexistence of highly different tax systems inflates the overall complexity, which causes huge administrative and juridical expenses. Analogous to the abolition of transaction costs due to the introduction of the euro, more uniformity in the field of taxation would save a lot of money to companies. Such considerations gave rise to proposals for a European Company Statute and pan-European corporate taxation (Plasschaert 1997; UNICE 1998).

A second set of business demands concerns the kind of taxation that merely results from the cross-border nature of multinational operations. The absence of international harmonisation (e.g. in the form of adequate bilateral tax treaties) sometimes creates tax conditions that significantly differ from the conditions that would apply for the same operations within a national economy. That discrepancy usually manifests itself through double taxation, which is seen as one of the major obstacles to the internationalisation of production. European multinationals and their lobbies urge that these anomalies will be abolished as soon as possible (UNICE 1998).

A single European corporate tax would reduce compliance costs and double taxation. But this does not imply that European business circles support total harmonisation. Their goal is a uniform method to determine the tax base combined with a single EU-wide payment, while at the same time different national tax rates remain in place. Diversity of tax rates offers possibilities for arbitrage between countries, which in the long run brings down the corporate tax burden.

With respect to taxation, left-of-centre governments pursue five objectives: income redistribution, the funding of public services, the internal fairness of the tax system, the reduction of unemployment and the ability to use tax instruments for environmental goals. Left-of-centre governments argue that the diversity of national tax systems within the context of EMU and globalization puts these objectives at risk. Tax arbitrage by investors sets in motion the infamous 'race to the bottom', which significantly reduces the range of policy alternatives. To reverse globalization is not considered a viable option today. Therefore the progressive agenda consists of harmonisation efforts in order to restore the supremacy of politics over economics. In this line of thought harmonisation is a way to neutralise competitive forces between states.

Both multinational enterprises and left-of-centre governments are in favour of 'tax harmonisation'. But while using the same term, they pursue completely different goals. For the international business community European taxation efforts should be exclusively aimed at the enhancement of market efficiency. Left-of-centre governments

advocate European tax harmonisation for welfare objectives. For these reasons the term ‘tax harmonisation’ loses much of its usefulness.

3. The disciplining impact of corporate mobility and capital freedom

Tax competition results from the potential international mobility of tax bases, such as companies and financial assets. Mobility was not only boosted by technological innovations in the sphere of transport and communication, but also by political decisions to liberalise and deregulate.

The mobility of companies

The programme to complete the internal market following the Commission White Paper of 1985 vigorously encouraged multinational enterprises to operate from a pan-European perspective (Commission of the European Communities 1985). The systematic removal of physical, technical and fiscal barriers stimulated foreign direct investment and the international restructuring of production. Tax differentials between member states became more and more significant to investment decisions.

The mobility of financial assets

The most mobile production factor is undoubtedly financial capital. At this moment, the free movement of capital and especially savings stands at the centre of the tax controversy in the European Union. To understand the current taxation debate, it is useful to recall the context in which capital liberalisation was implemented.

The complete liberalisation of capital movements within the EU is a quite recent phenomenon. Money exchange linked to trade and direct investment had been liberalised for decades, but until the end of the 1980s a large number of EC countries hesitated to free all capital account transactions. Not earlier than 1988, member states decided by means of a council directive to abolish nearly all capital restrictions before 1 July 1990.

The issue of harmful tax competition as a result of capital freedom was addressed at the time the Council approved the 1988 Capital Directive. Some member states with a stringent tax regime were afraid to be confronted with capital flight. But the Commission and most member states feared it would take too much time to reach a consensus on taxation. They were not willing to postpone the liberalisation directive for this reason (Bakker 1996, pp. 207-209). Nevertheless, in order to meet concerns about tax evasion, the text of the 1988 Directive explicitly provided for a Commission initiative on this issue. The Commission was to submit to the Council 'proposals aimed at eliminating or reducing risks of distortion, tax evasion and tax avoidance linked to the diversity of national systems for the taxation of savings and for controlling the application of these systems' (Article 6, § 5). In 1989 commissioner Christiane Scrivener proposed a council directive for a common withholding tax on savings income (Commission 1989). After a while it became clear that no unanimity could be reached.

However, the multinational enterprises gained a victory with the adoption of the 1990 Parent Subsidiary Directive and the 1990 Mergers Directive. Both directives diminished tax liabilities linked to cross-border activities, thus contributing to the completion of the internal market.

With the ratification of the Maastricht Treaty in November 1993, the free movement of capital was established in Article 73. Even capital liberalisation between the EU and third countries was anchored in the Treaty. These decisions changed the juridical position of capital liberalisation fundamentally (Bakker 1996, pp.218-248). Before, capital liberalisation was provided for by a council directive that was subject to qualified majority vote. Since Maastricht, any modification of the EU capital movement regime requires unanimity. At the time of Maastricht, the taxation issue was not resolved yet.

The rationale for the removal of capital controls was three-fold (Bakker 1996). First, because of technological and financial innovations, exchange restrictions had allegedly become ineffective. Secondly, governments were convinced that capital liberalisation was a logical step towards the completion of the internal market. More efficient financial markets would have a positive impact on the European economy in

general. Thirdly, capital liberalisation was seen as instrumental to monetary stability. The other way around, monetary stability would render capital restrictions superfluous.

For decades, a cleavage between two groups of countries divided the European Community. On the one hand, countries that were devoted to a strong currency and running a balance of payments surplus (e.g. Germany and the Netherlands) insisted on price stability and monetary discipline. They contended that if all member states pursued these objectives, exchange rate stability would be met almost automatically. These countries adhered to capital liberalisation, because they believed the 'exit option' of financial investors would exert a disciplining influence on national economic, budgetary and monetary policies.

On the other hand, deficit countries (e.g. France and Italy) continued to defend capital controls, which enabled them to implement Keynesian reflationary policies. By restricting capital outflows, exchange rate stability could be maintained. Therefore capital controls could only be reduced if the EMS was strengthened. This option would include solidarity between surplus and deficit countries. Restrictive monetary policies were not considered.

In 1983 president Mitterrand and the French government decided to give up their unilateral socialist experiment and to bring macro-economic policies into line with the neoliberal mainstream. One of the most fervent advocates of this reversal was Finance minister Jacques Delors (PS), who became chairman of the European Commission in 1985. With the French U-turn the front of the deficit countries resisting monetary orthodoxy collapsed (Bakker 1996, pp.147-186) The alignment of the major EC countries actually meant that the European consensus came close to the anti-inflationary stand of the Deutsche Bundesbank. In its 1985 White Paper on the completion of the internal market the European Commission explicitly appreciated the disciplining impact of free capital flows (Commission 1985, §126). Admittedly, the deficit countries obtained a limited strengthening of EMS solidarity, but it was obvious that monetary orthodoxy had become the new doctrine. These developments cleared the path for the 1988 Capital Directive and Article 73 of the Treaty on European Union.

4. A remarkable consensus

In the light of its far-reaching political and social consequences, the abolition of capital controls without any commitment to corresponding tax provisions, must be seen as an extraordinary political occurrence. Governments handed over voluntarily a significant amount of power to the financial markets. Ever since, the latter are able to determine to a large extent both macro-economic and taxation policies of the EU member states.

It is useful to consider the sequence of an event (economic liberalisation) followed by a non-event (the failure to ensure effective taxation at the EU level) in a broader framework. At the end of the 1980s and the beginning of the 1990s we witnessed an intellectual departure from the Keynesian conviction that states and markets should always coincide geographically. These decisions were based on a political consensus that is called ‘neoliberalism’.

Although a formal unanimity among all member states was needed to consolidate the principle of capital freedom in the Treaty, the notion of ‘consensus’ must be put in perspective. As an enormously broad agreement Maastricht was based on a compromise. It is likely that not all countries fully agreed with all Treaty provisions. Every country made concessions. Though they were reluctant to lift capital controls, countries like Spain, Portugal and Greece started from a weakened bargaining position. Their principal ally France had left the coalition and they were net receivers of European funds. Moreover, the improvement of the EMS helped to change their minds.

Formally the Treaty was ratified by consensus, but in fact it is more appropriate to speak of an ideological consensus among the most influential members – i.e. Germany, France and the United Kingdom – and some smaller countries, which were able to put considerable pressure on the reluctant governments. The French turnaround was a precondition to this outcome.

5. A package to tackle harmful tax competition

Since a few years, there are many indications that the delinking of economics from politics (Coolsaet 1999, pp.15-19) is losing its political support. In the hey-day of neoliberalism most politicians believed that the interests of the financial markets and society as a whole were one and the same thing. With some lag, more and more doubts about this presumption are coming to the fore.

In 1996 the European Commission presented a reflection document on taxation in the EU. The bottom line of this document differed in many respects from the Commission's discourse during the Delors period (Radaelli 1999). According to then commissioner for taxation policy Mario Monti, tax competition between member states causes a shift of the tax burden from mobile tax bases (e.g. companies, financial assets) to less mobile ones (e.g. labour income, consumption). Governments cannot afford any considerable 'tax erosion' because they are to consolidate their budgets as provided for by the Growth and Stability Pact. If governments want to maintain their revenues they would have to raise taxes on labour, but this option would boost unemployment (Commission 1996). Apparently, heavy cuts in public spending are no longer be seen as a viable alternative either. At the informal ECOFIN-meeting in Verona in April 1996, the EU ministers endorsed the line of reasoning of the discussion text.

On 1 december 1997 the ECOFIN-Council agreed to a 'package to tackle harmful tax competition'. The package contained the following elements (OJ No. C2 of 6 January 1998, pp.1-6).

- The Commission should propose a directive to ensure the effective taxation of savings income of EU-citizens investing in another EU country. The draft-proposal of 20 May 1998 resembled in some respects the 1989 Scrivener proposal (Commission 1998b). The new one puts forward the 'coexistence model': EU member states would be allowed to operate either the 'information exchange system' or the 'withholding tax system'. In the former, the country of investment sends on information to the tax authorities of the investor's country of residence. In the latter, the investor has to pay a withholding tax in the country of investment. This system guarantees bank secrecy.

- The Commission should propose a directive to avoid double taxation on cross-border payments of interest and royalties between associated companies, i.e. within multinational groups. On 4 March 1998 the Commission submitted a proposal to the Council (Commission 1998a). This directive, just like the above mentioned 1990 directives on business taxation, would be aimed at the completion of the internal market. For the national governments the implementation of this directive would entail revenue losses.
- A voluntary Code of Conduct consisting of stand still and roll back provisions concerning special tax regimes for companies that must be considered as harmful tax competition.
- The ECOFIN-Council took note of the intention of the Commission to investigate special tax regimes for companies in connection with state aid rules.

Only one initiative – the proposed directive on interest and royalty payments – would meet efficiency objectives. The other three elements of the package were inspired by welfare objectives, more precisely fairness, redistribution and public spending, and indirectly also by employment considerations. So, the commonly used definition of ‘tax harmonisation’ has been changing in the sense outlined in paragraph 2. The recent attempts to harmonise taxation on company profits and savings income indicates that nowadays most European governments and the European Commission feel quite uncomfortable with the European taxation order.

6. Stuck with an unwanted status quo?

Today’s dissatisfaction sustains the hypothesis that the ideological consensus at the time of Maastricht was only temporary and quite accidental. However, because of the particular juridical nature of the European construction, the principle of capital liberalisation in the absence of corresponding tax provisions is firmly anchored in the Treaty. This state of affairs can only be changed if an equally extraordinary consensus occurs.

Admittedly, the need for a consensus does not mean that it must be absolute in the sense that every government enthusiastically supports the proposal, as I have pointed out already. Nevertheless, the political consensus that was necessary to construct today's capital regime and taxation order, remains an exceptional occasion that can be compared to astronomic phenomena, like certain comets, that only appear once in a lifetime. Probably, the same can be said about the political constellation needed to bring about a new regime. This is bad news for people who would like to change the contemporary European taxation order.

When social-democratic governments in Italy (1996), France (1997), the United Kingdom (1997) and Germany (1998) came into power, some observers expected a new consensus to arise. According to many left-wing observers, the time had come to upgrade the EU from a mere free trade zone with a single currency to a genuine political union including social and fiscal dimensions. However, the partisan homogeneity among the great powers did not result in a firm commitment to European tax harmonisation. What happened to the Monti package?

Taxation of savings income

In order to be effective, the directive on taxation of savings income had to apply to the eurobond market as well. The lion's share of the eurobond trade is located in the City of London. The London financial lobby succeeded in persuading the Labour government to reject the original draft proposal. They argued that a more stringent tax regime would chase away the eurobond business out of the EU, especially to Switzerland and the United States. After months of trench warfare the British government was willing to consider an alternative. The idea of a withholding tax would be dropped so that in the future only the system of information exchange would apply. The rejection of the coexistence model by the UK seriously complicated the process. What is more, this British manoeuvre made the attention shift to the countries that vehemently defend their bank secrecy rules, namely Luxembourg and Austria. I presume this was a calculated move by the Blair government realizing how vital bank secrecy is to particular countries.

My hypothesis is that the UK and Luxembourg are not enthusiastic about the harmonisation of taxation of savings income. Their aversion to tax harmonisation is historic. During the last years they did not show any warm commitment to European taxation efforts. Officially, both refer to the competition of financial centres outside the EU. As the Commission did never put the free movement of capital between the EU and third countries into question, it remains unclear how the possible delocation to third countries can be dealt with.

However, even within the existing legal framework national authorities still dispose of a wide range of instruments to monitor cross-border capital flows for tax reasons. Most significant financial transactions cannot be carried through without leaving some traces in bank accountancies. Adequate controls and appropriate criminal law provisions would discourage most small investors to hide black money outside the EU and repatriate their interests. The implementation of such a policy is even feasible at the national level, but most probably effective taxation would be facilitated by European harmonisation.

Ultimately, in June 2000 at the EU Summit of Santa Maria da Feira, Portugal, member states came to an agreement on savings income. The original proposal underwent some modifications. Let's have a look at the main elements of the Feira agreement:

- In order to ensure the effective taxation of savings income, a common system of information exchange is the ultimate goal of the EU. In terms, the system of withholding taxes will be abandoned. So will strict bank secrecy rules as regards savings of EU citizens.
- The directive can only be adopted and implemented once sufficient reassurances are obtained with regard to the application of the same measures in certain third countries like Switzerland, Liechtenstein and the United States, and dependent or associated territories like the Isle of Man and the Channel Islands. For this purpose, the EU and the member states are going to start negotiations with the relevant countries and territories.

It will not be easy to fulfill these conditions. Much depends on the pressure instruments the EU is willing to use. Apparently, the option to monitor or even restrict capital outflows to third countries is no longer considered. Financial globalisation is accepted as a fact. The only way to achieve effective taxation seems to be almost global harmonisation.

The ongoing efforts to fight harmful tax competition by the OECD and the G7 might endorse the EU negotiations with third countries, but it is doubtful whether the former initiatives will result in the lifting of bank secrecy in for instance Switzerland. Moreover, global tax harmonisation, if it can be achieved at all, may take a very long time.

- The Council has to adopt the directive before the end of 2002. Then a transition period of seven years will start. During this period, countries that have not yet implemented information exchange will be allowed to continue to operate a withholding tax. After the transition period all EU countries will be obliged to implement the information exchange system.

It is difficult to forecast the outcome of this process, but because of the intricate conditionality the effective taxation of savings income is not ensured yet.

Company taxation

With regard to special tax regimes for companies, two courses are taken at the same time: the voluntary Code of Conduct and state aid investigations. Some countries have linked the implementation of the Code of Conduct to the directive on savings income. Therefore we may conclude that the former is postponed together with the latter. In the meantime, state aid investigations are under way. In November 1998 the European Commission announced to deal with special tax regimes as severely as with other kinds of illegal state aid (OJ No. C384 of 10 December 1998, pp.3-9). However, we are still waiting for the results. We also wonder to what extent repayment will be demanded.

Interest and royalties

Because some countries have linked the draft proposal on interest and royalty payments to the directive on savings income, the former process is also submitted to the troublesome timetable of the latter.

The point I tried to make by the assessment of the Monti package is the following. The assumption that most decisions taken by political authorities can be undone by the same authorities may be theoretically right, but practically this often appears to be extremely difficult because of specific institutional and legal circumstances. Today, we witness a growing dissatisfaction with the spatial asymmetry between economics and politics, which is creating a new legitimacy problem for the EU. The hand over of political autonomy to the financial markets was based on an ideological consensus that no longer exists. At this moment, the UK is opposed to France and Germany, so that the formal consensus necessary to adopt the relevant legislation for a new order could not materialize.

7. Politics of scale and the regional dimension

In the previous paragraphs, I argued that the development of European taxation policy can better be explained by politico-geographical dynamics than by a naive conception of neofunctional spill-over theory. Now, I would like to elaborate the notion of spatial dynamics or ‘politics of scale’ with relation to taxation issues. At this point, the regional dimension must be taken into consideration.

Policy can be formulated at different ‘political scales’, such as the global, the European, the national, the regional or the local scale. In daily life and in many political studies these scales are accepted as a matter of fact and treated as independent variables. However, Swyngedouw is more concerned with the creation of political scales (Swyngedouw 1997). According to Swyngedouw, political scales are the result of political struggle. Social actors want a particular policy to be formulated at a specific scale, so that it applies to a particular territorial jurisdiction. This is essential to the promotion of their interests. Therefore the geographical structuring of politics is not

merely given, but reflects power relations. Because power relations can change over time, the construction of political scales is a dynamic process. The politics of scale can be clearly illustrated in connection with taxation policy.

Taxation is about the interaction between private actors and governmental tax authorities. The spatial asymmetry between their respective operation territories acts as a source of power to the former in relation to the latter. Current taxation policy agendas are aimed at either neutralising or consolidating this discrepancy.

A package to tackle harmful tax competition

In paragraph 5 we defined this EU initiative as an attempt to harmonise taxation for welfare objectives. By setting minimum levels at the EU scale, tax competition between member states could be neutralised, thus restoring the bargaining position of governmental authorities vis-à-vis private actors. Of course, individual national governments would have to surrender some ‘sovereignty’. However, as a whole they would regain the power lost at the time they created a pan-European single market without providing for corrective governance mechanisms.

The global scale has to be taken into consideration as well. Because of remaining escape opportunities, European harmonisation efforts could be undermined. As far as portfolio investments are concerned, European harmonisation would transfer tax policy competence from the national to the EU level, while many well-off private investors would still operate globally. Instead of global political harmonisation to restore spatial symmetry between political authorities and the global financial markets, in theory the turning back of globalisation is conceivable as well. But in the Feira agreement on savings income of June 2000, member states chose to pursue global harmonisation instead of capital controls between the EU and third countries.

Completion of the internal market

Business lobbies insist on a kind of ‘tax harmonisation’ as well, but their agendas are aimed at the enhancement of market efficiency by means of the completion of the

internal market. The removal of fiscal barriers within the EU (i.e. double taxation and huge compliance costs due to complexity) would facilitate the internationalisation of multinational operations and portfolio investments, thus extending the proper functioning of the market system geographically. Tax rates should not be harmonized, so that the ‘exit option’ for investors and ‘sound’ competition between countries can be preserved. In terms of scale politics, this agenda would deepen the spatial discrepancy between states and markets to the advantage of the latter.

Regional fiscal autonomy

In several EU countries regional authorities and interest groups demand more regional competence with regard to taxation. Those developments can be studied from different perspectives. I would like to link them to scale politics and the geographical structuring of tax policy in general. For the purposes of this paper, I define ‘fiscal autonomy’ as the principle that the regional authority establishes the tax rules applying to its jurisdiction autonomously (i.e. taxation autonomy), and it freely disposes of the revenues raised from its own tax payers.

The Belgian region Flanders may serve as an an example. More fiscal autonomy is demanded by Flemish political parties (the liberal VLD, the christian democratic CVP and the nationalist parties VU and Vlaams Blok) and interest groups (the Flemish employers organisation VEV and Flemish activist groups). They refer to the following arguments (Vanderveeren & Vuchelen 1998):

- Fiscal autonomy renders the regions financially more responsible. This would put an end to ‘consumption federalism’. Without tax autonomy, regions that contribute relatively less than others to the federal treasury, are less inclined to be economical.
- Tax policy is an instrument of social and economic policy in general. Because the Belgian regions already possess a lot of economic competencies, regionalisation of tax policy would contribute to more coherence and efficiency. In this respect, reference is often made to notions as subsidiarity or democracy.

The demands for Flemish fiscal autonomy are to a large extent driven by the willingness to cut taxes. Within the Belgian framework, this is hardly achievable because Flanders' counterpart Wallonia is reluctant for budgetary reasons. Flanders is economically more prosperous than Wallonia, so that it can allegedly afford a reduction of the overall tax burden.

These aspirations are a good example of dissatisfaction with policy formulation at a particular scale. The case for regional tax autonomy also includes taxation of company profits, a mobile tax base. This demand is not principally driven by the intention to intensify tax competition, but tax competition could result from it. Regionalisation of tax competencies would increase the number of jurisdictions, thus enhancing opportunities for tax arbitrage. The current disputes between the Basque Country, Spain and the European Commission illustrate this (Boom 1999; Muguruza 1998). Lower levels of company taxation are 'tax neutral' only if they are compensated by locational disadvantages. This is not the case for Flanders or the Basque Country. Within the context of Economic and Monetary Union, tax competition exerts a considerable disciplining impact on governments, unless it is neutralised at the EU level. The market disciplination strongly reduces the range of policy alternatives, so that we can hardly speak of 'autonomy' and 'subsidiarity' anymore. These discourses often obscure the scale politics between political authorities and markets.

8. Conclusion

Taxation developments at the local, regional, national, European and global scales are all part of one and the same story. The current taxation architecture of the EU goes back to the single market programme and the decisions to completely liberalise capital movements at the end of the eighties and the beginning of the nineties, while failing to provide for a common tax policy inspired by welfare objectives. So tax arbitrage by investors and tax competition between countries intensified. With a remarkable time lag, now the European Commission and most member states try to restore the 'spatial power symmetry' between markets and the political authorities, in casu the EU. However, because of the specific legal structure of the EU in which

unanimity voting has a central role, politicians seem to be stuck with an unwanted status quo. As far as taxation is concerned, the neofunctional spill-over effect has not appeared to occur automatically.

At the same time, regional authorities and interest groups demand more taxation autonomy, referring to notions as subsidiarity and democracy. However, from the perspective of scale politics the interaction between politics and markets is the main focus of attention, which is leading to different conclusions. Regional autonomy with regard to mobile tax bases is likely to increase the spatial asymmetry between the market sphere and the multiplicity of political jurisdictions, so that in reality subsidiarity and democracy are being undermined.

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