# Corona and Its Consequences
# Europe at the Crossroads!

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July 31, 2020

## Introduction

In Europe, too, the consequences of Corona are devastating. The virus destroys and threatens the existence of countless people and enterprises. To help people in need, to act in solidarity is a commandment of humanity – also for the EU and its member states. Equally, every person is required to contribute his or her share and take on personal responsibility. The success model of the social market economy and the EU are also based on these basic principles: subsidiarity and solidarity.

It is necessary to keep the damage for society a low as possible. Of course, the individual states and the EU have the responsibility and must do everything to protect the population and help the people and enterprises affected by the crisis. Especially, since the effects of the crisis will be felt for a long time. Immense amounts of tax monies are used to cope with its effects. Countries take on new debts and additional liabilities.

But especially during the crisis it is necessary to keep a cool head and find sustainable solutions. Public funds and resources have to be applied as efficiently as possible. Even in Corona times, the utilisation of tax funds must be monitored in order for the aid to really arrive where Corona caused damages. Whoever wants to abuse Corona to obtain aids by fraud must know: Theses tax funds will have to be repaid.

Winston Churchill is credited with the following quote: „Never waste a good crisis!" When looking at the demands and resolutions reached at the EU summit in July 2020, unfortunately this quote seems to fit perfectly. Because for years now the EU Commission and large parts of the EU Parliament have been demanding own revenue in order to finance the EU budget and enlarge the existing one. In this context it has been discussed time and again that the EU should also be able to take on debts.

Under the cloak of fighting the Corona economic crisis the supporters of EU debts and EU taxes seem to be about to reach the goal they have been striving for so long: The European Council has decided to take on 750 bn. Euro in joint debts. And this, although the EU funds and programmes at hand (e.g. EIB, ESM SURE) have not been used up, and, considering the extension of the ECB bond purchasing programmes and the suspension of the Maastricht criteria, enough possibilities would exist for the EU countries to finance themselves at "zero interest". Moreover, it is not transparent which funds thus far have been used in the individual EU countries in order to fight the Corona effects, and which measures paid for by national funds are planned.

The programme, "Next Generation", amounting to 750 bn. Euro, arranges for the provision of 360 bn. Euro in loans and 390 bn. Euro in grants for battling the Corona economic crisis.

Additionally, the EU is to receive its own source of revenue: Its own taxes.

Under the pretext of combating the Corona crisis, there is now a push to assert extensive changes in the European finance and tax policy that in the past were unenforceable for good reason. The crisis is to be used to throw basic principles of the EU overboard. **The Taxpayers Association of Europe (TAE) urgently warns against communitarisation of debts, Corona bonds, the introduction of additional taxes, tax harmonisation (minimum tax rates), the synchronisation of social security systems, or the uninhibited accumulation of debt by the EU as well as the individual member states. Also, we see a threat to the principle of unanimity in regards to tax and finance issues in the EU. One cannot stress enough: The veto right protects the individual EU member states and their citizens towards unwanted heteronomy by the EU. In this context, we vehemently reject the suggested implementation of majority decisions.** From the viewpoint of the TAE, these significant changes of important basic principles would in the long run divide the EU more than it would unite it.

Instead of advocating the communitarisation of debt, the EU members should first use up all the potentials available and take up measures in their countries in order to get people and enterprises safely through the Corona crisis.

What we are missing in the current discussion are suggestions for institutional reforms of the EU. Have we learned nothing from the BREXIT? Now they say that we need more money to cope with the difficulties. But more money will not solve the problems. To the contrary: Some countries have to pay, others will receive benefits. If this stays like that permanently, and if the receiving countries are not willing to accept changes, conflicts are inevitable.

Instead of only thinking of financial aids, it is exactly now that taxes and dues should be lowered as well as bureaucracy be reduced. A relief of the population and enterprises unleashes buying power. At the same time the conditions for future growth are improved. In the EU today there is already too much money, not too little, being redistributed. By international comparison, the citizens and enterprises in most EU member states are already burdened with extremely high taxes and dues, which hinders economic growth and reduces the per capita income of the population significantly. If we allow EU taxes and the taking on of joint debt, the situation of the people and enterprises in the EU will deteriorate further. After all, debts are nothing more than tax burdens pushed into the future for future generations to pay.

With this paper, the European taxpayers' association wants to offer approaches and suggestions on how the effects of the Corona crisis can be reduced fast, efficiently, and sustainably from the viewpoint of the taxpayers – without driving the EU into debt or introducing EU taxes.

Europe is at the crossroads! Do we want the EU to be able to take on debt and raise its own taxes? Do we want to get rid of competition – including the competition between different tax systems and rates? Do we want to redesign Europe into a transfer union in which the EU institutions will coordinate (i.e. harmonise) more and more areas and regulate issues – thus causing the EU member states and its citizens and entrepreneurs to lose more and more freedoms? Or will we continue to rely on a liberal market organisation and the social market economy, which have proven themselves in Europe over the past 75 years?

## Approaches: Examining and Questioning

1) Generally, the taking on of debt or higher taxes and dues must always be the last resort. First, all other possibilities – including cutbacks – must be exhausted.
The existing EU funds and loan possibilities (ESM, SURE) have not even been touched according to the reply by the German Parliament to an inquiry by the German Liberal Party (FDP). Nevertheless, the EU sucks itself full with more money!
See: https://www.bundestag.de/presse/hib/705256-705256

2) The guiding principle is the social market economy. In the EU the principle of subsidiarity and self-responsibility applies. It should stay that way.

3) Before further funds and programmes are set up there needs to be transparency about existing expenditures, programmes, debts, and liabilities. Thus far, it is not transparent what is and has been done in the individual countries to counter the Corona crisis.

4) The Corona buy-up programmes of the European Central Bank (ECB) have been significantly extended to 1.36 trillion Euro.
At the same time, the Maastricht criteria were suspended.
Therefore, there are enough – almost unlimited – refinancing possibilities available.

5) Of course, the countries prefer grants and transfers, and not loans that they will have to repay.
But those who reject loans, have no concept, or doesn't want to play by the rules, should not get grants.
The industrious and frugal must be rewarded, not punished!

6) At the summit 1,824.30 bn. Euro were decided on July 21, 2020:
   - Medium-term Financial Framework (MFF) 2021-2027 with 1,074.3 bn. Euro. But the EU Parliament has already stated that this is not enough and demanded more.
   - Debts in the amount of 750 bn. Euro will be incurred that will then be repaid starting with the next but one financial framework 2028 over a period of 30 years until 2058.
   See: https://www.europarl.europa.eu/news/en/press-room/20200721IPR83702/eu-summit-compromise-positive-step-for-recovery-inadequate-in-the-long-term

7) In addition to the Medium-term Financial Framework (MFF) 2021-2027, the EU Parliament and the EU Commission want significantly higher financial means (2,000 bn. Euro) than the 750 bn. Euro now decided on at the summit in order to deal with the Corona crisis.
See: https://www.europarl.europa.eu/news/en/press-room/20200512IPR78912/parliament-eu27-need-EU2-trillion-recovery-package-to-tackle-covid-19-fallout

8) The now decided 1.8 bn. Euro are only a fraction of the amounts that we are really talking about: Altogether more than 5.7 trillion Euro!

9) The formal financial framework rises to 2% of the gross national income (GNI) in order to ensure creditworthiness, so the EU can even take on loans at all. This is not supposed to be an entrance to a debt union, but factually it is, because for the first time the EU take in long-term debts.

10) The loan repayment should be laid down by law.

11) For the financing of the debt new taxes are to be introduced (e.g. on plastics and digital services). In addition, further revenues/taxes (e.g. financial transaction tax) are named.

12) The President of the Commission, von der Leyen, decidedly speaks about new own funds, not only for the compensation of the 750 bn. Euro for “Next Generation”, but as own funds for the financing of the EU budget.
See: https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_20_957

13) Legal tax planning, thus the utilisation of so-called tax loopholes, is not fraud! Fraud means that something illegal takes place. Nevertheless, this equation can be found again and again, directly or indirectly, on the European level when it about battling tax fraud. Even the legal efforts by enterprises to minimise their tax payments are viewed critically by the EU, and is planned to be fought just as much as tax fraud.
For this, see the paper by the scientific service of the EP “Battling Tax Fraud”:
http://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633153/EPRS_BRI(2019)633153_EN.pdf

14) The taxpayers’ organisation clearly argues in favour of fair tax competition. But in order to ensure such, taxes must not necessarily be increased or harmonised!
Illegal practices, favouritism and special taxes for individual enterprises are unfair and have to be fought as well as be made transparent.
This already takes place in the EU.
Nevertheless, the pressure by the Parliament and the Commission to harmonise the tax rates has continuously been increased since 2015.
See: https://www.europarl.europa.eu/RegData/etudes/IDAN/2015/549001/EPRS_IDA%282015%29549001_EN.pdf

15) The digital tax as value added tax is unfair! The criticism by the EU Commission is based on wrong assumptions. We at the European taxpayers’ association TAE have expressed this on numerous occasions.
The most important things are taxes being paid at all. Where this happens is unimportant for the purpose of tax fairness.
Of course, one can tie a tax to value added or to the usage of public services. But those who want to introduce a special digital tax have to know that as a result all exports of goods and services into the destination countries will be burdened with a comparable tax, independent of them being analogue or digital goods and services. At the G20 summit in Japan 2019 the representative of the FED has made an unmistakeable statement in this direction.
But what would it, for example, mean for the export country Germany if its exports are slapped with a turnover tax in destination countries?
Presume there would be a 3% tax on turnover: In 2019 Germany had an export volume of 1,203.8 bn. Euro. For this 3% would have had to be paid in the destination countries as well. The tax/due payable in the destination countries would be a business expense for enterprises in Germany and therefore tax deductible. It would therefore reduce the taxable profits and would even serve as loss carryforward. Germany alone would incur a tax revenue loss of 36.1 bn. Euro per year through this “stroke of genius”!
See: https://www.taxpayers-europe.org/images/pdf/TAE_Short_Statment_Digitalsteuer_EN.pdf
or Prof Fuest: https://www.econpol.eu/opinion_12

16) Wherever a harmonisation is of advantage for the trading of goods and services, where it leads to a reduction of costs and prices, such harmonisation can make sense. The taxpayers’ association sees it that way as well. For this reason, we welcomed the options model for the common consolidated corporate tax base (CCCTB). Because a common assessment basis can definitely be a simplification for enterprises working across borders. But only as an options model. Because the other enterprises (e.g. the baker next doors, who is only active regionally or nationally) do not need it.  Now, the CCCTB is supposed to become obligatory for all enterprises. The consequence for countries like Germany: By broadening the assessment basis, there are less

possibilities for deductions. At consistent tax rate (in Germany 15%), this broadening of the assessment basis will lead to a higher burden for enterprises.

17) Taxes are an important factor for enterprises when choosing their location. If the direct taxes were to be harmonized, it would force many countries (especially in Eastern and Southern Europe) to raise their taxes. They would lose and important location advantage. As a consequence, it would become less attractive to invest or produce there.
It is a false conclusion that uniform higher tax rates automatically lead to higher tax revenue. Affected low-tax countries, among them Bulgaria, Ireland, Malta, Cypress, would need compensation for the loss of this income. Ultimately, this would only be possible via transfer payments of the EU, thus a transfer union.

18) The possibility to incur debt and levy own EU-taxes allures to be less efficient, because simply said: There is no pressure to save.
The European taxpayers' association, the TAE, warns against the following scenario: if during periods of long growth phases with significantly higher revenue the EU budget is not capped, no reserves are built up, and debts are not or only barely repaid in spite of historically low interest rates, the EU and its member states will get a substantial problem once tax revenues fall away during periods of weaker economic growth. The summit, which decided to allow indebtedness the EU, should have at the same time decided on a debt ceiling for the EU

19) The extension of public debts increases the pressure on the ECB to keep interest rates permanently low. There are only few ways out of this interest rate and debt trap:
1) Repayment of debts
2) Extension of debts and keeping interest rates permanently low
3) Hyperinflation
4) Split interest rate market
The consequences and possible damages of a permanent low interest rate policy through wrong economic incentives is evident.
As always, there are winners and losers in this.
Unfortunately, except for a few laudable exemptions, the countries (their public authorities) have missed out on using the interest savings and higher incomes to repay debt.
There is a trivial correlation between interest and repayment:
Annuity = interest + repayment
If the interest drops, more can and must be repaid! This is currently neglected!

20) The topic of unanimity in regard to tax and finance issues is essential. It guarantees the consideration of all interests, and protects the individual countries from an unwanted interference by the EU.
**The veto right protects us Europeans! It does not harm us!**
The BREXIT changes the balance within the EU. With the exit of Great Britain from the EU, the northern countries lose their EU population share of 39 percent and thereby their blocking minority. With 38 percent, the Mediterranean countries under the leadership of France carry almost the same weight. Thus far, the EU contracts stipulate a blocking minority of 35 percent. Therefore, decisions cannot be reached without either the agreement of the northern or the southern countries. With the British leaving, this tared power structure of the EU gets lost. Without Great Britain, the northern countries no longer have the necessary votes in order to block EU decisions if necessary. At the same time, the weight of the Mediterranean countries grows. Simply and directly put: An elimination of the principle of unanimity would lead to countries, who have an

interest in the redistribution or communitarisation of debt or want to push the harmonisation of taxes, to be able to enforce such policies for lack of a blocking minority by the northern countries. An elimination of the principle of unanimity would throw the doors wide open for redistribution, Euro bonds, banking liability (EDIS), the elimination of tax competition, and the implementation of an EU tax! The suggested introduction of majority decisions sounds innocent enough, but packs a punch!
Therefore, the TAE demands the preservation of the principle of unanimity as well as a new definition of the blocking minority for majority decisions at 20 or 25 percent due to the exit of Great Britain.

21) Until Corona, we had no revenue problems. This is clearly demonstrated by statistics. And there will not be a revenue problem in the future, once the economy gains momentum again. For example, the German Federal Ministry of Finance (BMF) had to lower the estimate on tax revenues in May 2020 in comparison to November 2019 due to Corona. But when looking at this estimate more closely, one sees that, according to the BMF, Germany will be back to the revenue record of 2019 (799 bn. Euro) by the end of 2021. Tax revenues are rising and by the end of 2024 will amount to 883.4 bn. Euro, therefore almost 200 bn. more than in the record year 2019! This development should be mirrored in other economically strong countries. But no one talks about that. For lack of knowledge or for other reasons, the voices demanding to now increase taxes grow. "The rich" or the "high-income earners" should render a higher contribution to counter the crisis. The "bouquet of additional charges" stretches from burden sharing to capital levy to inheritance tax. The resolutions of the summit feed these demands for higher burdens further.
Also see: https://www.taxpayers-europe.org/images/pdf/TAE_Short_Statment_Digitalsteuer_EN.pdf

22) The Taxpayers Association of Europe has always warned against the current scenario of an EU indebtedness and EU taxes. The TAE paper from 2015 "No EU Taxes" describes the currently materialising threats in detail.
See: https://www.taxpayers-europe.org/images/pdf/no-eu-tax-statement-june-2015-en.pdf

## Forecast: What Could Loom When Implementing the Resolutions of the EU Summit?

A realistically possible scenario:

1) The EU takes on debt an receives the power to extend those.
2) The EU receives its own taxes as new and additional own funds.
3) The EU budget is no longer capped and grows with growing revenue. With declining revenue, further debt is incurred and/or taxes increased, and/or an emergency-GNI-key becomes effective in order to secure financing of the budget.
4) The assessment bases are harmonised, first with corporate tax (CCCTB), additional areas will follow.
5) Corporate tax and further direct taxes like income tax are harmonised, minimum tax rates are introduced.
6) Introduction of EU transfers, respectively a European financial redistribution.
7) Social security charges are harmonised.
8) Uniform minimum wages and minimum wage levels are determined for the EU (not minimum wages themselves, they factually already exist).
9) Extension of the mutual EU liability, e.g. banks.
10) Economic and financial policy of the individual countries are coordinated (= harmonised).

## Conclusion

If this scenario that we are approaching step by step is good for Europe, and if it leads to more growth and wealth, is to be doubted. The established democratic parties will certainly not profit from it.

As important as it is to keep Europe together and to do everything now to manage the Corona economic crisis: This must not lead to this crisis being abused for political gains – e.g. pushing things through that thus far could not be implemented by European decision-making processes, and would ultimately harm Europe.

It is also questionable if the EU would (be able to) act according to the wishes of their citizens with the additional power and the trillions in money. Because where there is money, desires always grow. Virtues are diminishing, and the strive to use and to keep this position grows.

People and enterprises usually know better what to do with the money than policy makers.

From the viewpoint of the taxpayers' association the EU should not be able to incur debt or levy taxes. Instead, it should improve framework conditions for their citizens and enterprises, tackle internal reforms, and be less active itself.

The European taxpayers' association demands a renaissance of values in Europe: More Europe where necessary. Less Europe where possible.

# Annex

## Overview
## Programmes and Resolutions
Summary by the Taxpayers Association of Europe (TAE)

## Decisions EU Summit of 21 July 2020

| | |
|---|---|
| **Programme "Next Generation"**<br>*Status as of 21.7.2020* | **750 bn. Euro** |
| **Grants for Investments** | 390 bn. Euro |
| **Loans** | 360 bn. Euro |
| | |
| **Multiannual Financial Framework (MFF) 2021-2027**<br>*Status as of 21.7.2020* | **1,074 bn. Euro** |
| **Total** | **1,824 bn. Euro** |

## Existing Corona Rescue Packages

| | |
|---|---|
| **Emergency Aid (Loans)** | **540 bn. Euro** |
| **ESM Euro Rescue Fund**<br>Every EU state (27) can receive 2% of its GDP,<br>[19 Euro countries] | 240 bn. Euro |
| **EIB guarantees for business loans** | 200 bn. Euro |
| **Short-time compensation of the EU Commission (SURE) for employees** | 100 bn. Euro |
| | |
| **ECB Bond purchases** | **1,350 bn. Euro** |
| **European Central Bank PEPP Programme**<br>(Pandemic Emergency Purchase Programme)<br>→ Extendable at any time<br>→ Without consideration of further purchase programmes like EAPP, PSPP SMP etc. | |
| **Total** | **1,890 bn. Euro** |

## Further planned indirect/direct EU-Packages

| | |
|---|---|
| **In addition to the MFF, European Parliament and Commission want** bonds for financial aids, loans, Green Deal, Digitalization, Health Programme etc. | 2,000 bn. Euro |
| **Total** | **2,000 bn. Euro** |

At the summit in July 2020, a total of **EUR 1,824 billion** was agreed:

- EUR 750 billion for the "Next Generation Programme"
- EUR 1,074 billion for the Multiannual Financial Framework (MFF)

In addition, however, there are concrete plans for further direct payments, loans, guarantees, etc. to cope with the consequences of the Corona economic crisis and to achieve the political goals of the EU! All added up, the EU level is **actually talking about more than EUR 5,700 billion Euro**!

This sum does not include the trillions of Euros in national contributions, aid, programmes and new debts that the EU countries themselves are shouldering. Nor does it include the Target II debts.

The sums that are now being called for go beyond anything previously imaginable!

# Overview Target II

| **Target II**<br>Claims participating National Central Banks towards ECB<br>*Status as of May 2020* | 1,381 bn. Euro |
|---|---|
| **Total** | **1,381 bn. Euro** |

| **Target II Balances May 2020** | |
|---|---|
| **Country** | **in bn. Euro** |
| Germany (DE) | 916.1 |
| Luxembourg (LU) | 224.6 |
| Netherlands (NL) | 77.9 |
| Finland (FI) | 72.7 |
| Ireland (IE) | 47.6 |
| Slovakia (SK) | 14.6 |
| Cyprus (CY) | 7.6 |
| Slovenia (SL) | 7.2 |
| Malta (MT) | 5.4 |
| Lithuania (LT) | 3.6 |
| Estonia (EE) | 0.8 |
| Latvia (LV) | -2.2 |
| France (FR) | -20.0 |
| Austria (AT) | -36.6 |
| Greece (GR) | -55.9 |
| Portugal (PT) | -72.0 |
| Belgium (BE) | -79.6 |
| Spain (ES) | -451.8 |
| Italy (IT) | -517.3 |

| | |
|---|---|
| ECB | -145.5 |
| U4*) | 2.9 |

Source: ECB, Target II Balances May 2020; https://sdw.ecb.europa.eu/reports.do?node=1000004859
Layout TAE
*) Extra euro area aggregate (changing composition): since 1 February 2016, the extra euro area countries of which the NCBs participate to TARGET2 are Bulgaria, Croatia, Denmark, Poland and Romania. Lithuania was also participating as an extra-euro area country with its NCB until 31/12/2014, Latvia until 31/12/2013, Estonia until 31/12/2010 and Slovakia until 31/12/2008. Individual TARGET balances of euro area NCBs are not provided for dates before the accession of their countries to the euro area.

# Criticism and und Suggestions by the TAE

- In the wake of the Corona crisis, there is the threat of the situation being misused to push political goals. At the same time immutable facts are to be created.
- In spite of the departure of one member (BREXIT), an increase of the Multiannual Financial Framework MFF is requested
- **From the viewpoint of the TAE there are currently already sufficient means and possibilities for financing available, because**:
  - The EU condones a breach of Maastricht criteria (stability pact is suspended),
  - There are already purchasing programmes by the ECB
  - Low interest policy of the ECB makes refinancing easier, and
  - Available funds/ means are not called up or exhausted.

  **There is currently no necessity to approve further programmes.**
- There is no comprehensive needs assessment. Transparency regarding the funds used thus far and the way in which further funds are to be used, is completely lacking.
- There is no strategic and coordinated crisis planning - neither on EU nor the national level.
- The rate of subsidies is too high. Instead, exclusively loans should be granted.
- With subsidies, there must always be national co-financing of the same amount
- The EU should not be permitted to incur debt of its own.
- EU should not be permitted to levy its own taxes (neither a Financial Transaction Tax (FTT), nor a Digital-, Plastic-, CO2-Tax, or any other taxes), hence not be awarded its own right to collect taxes.
- The planed EU taxes and the incurrence of EU debts are in no direct correlation with the Corona economic crisis and would carry no time limit.
- Especially now during the crisis, tax reductions (instead of increases), reliefs in dues, and a reduction of bureaucracy would be necessary. The reduction of value added tax in Germany, for examples, was a step in the right direction.

  → Example Germany: Decrease of VAT is a step into the right direction
- The conditioning of corona aids is overburdened and endangers the achievement of target objectives. In order to make the success of individual measures (e.g. Green Deal, digitalisation, social issues, equality; fighting unemployment, etc.) verifiable and measurable, separate budgets should be drawn up.
- There is an absence of any kind of probing to ensure that the damages were really caused by Corona. In nowhere near all economic problems is that the case. With payments, take-overs of liabilities, and loans it must be made absolutely certain that they are in fact connected to Corona.
- Every granting of a loan has to be bound to binding repayment plans. Repayment must be fixed by law.
- The EU must maintain room for manoeuvre for the future. It must not fire all its ammunition all at once because of the Corona crisis.
- A targeted R & D strategy is missing
- There is no concept for self-supply with protective products or respectively for supply security.
- There is no comprehensive analysis of the consequences of the adopted measures.

Brussels/Munich, July 31, 2020

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