A budget for Europe

Our political project is to construct an original European model for social, equitable and sustainable development. Our proposals are based on the creation of a **democratic and sovereign European Assembly** competent to adopt a **budget and taxes** at European level enabling a joint response to the **challenges** of our future. This budget is designed to be a lever for a **new transnational political space** in which the elected members along with the social movements and the NGOs regain control of, and participate directly in the definition of the European political aims.

SPOTLIGHT

Our aim is to finance the investments required to **transform our system of growth and create a common European framework** and it is not to operate transfers between member countries of the Union. We wish to reduce the inequalities within countries (and not uniquely between countries). For this reason the **revenue collected within each country must be approximately equivalent to the expenditure** from which it will benefit. The difference should not exceed 0.1% of GDP.

We would like to recall a key point: even with very limited transfer payments between States, the implementation of an ambitious joint taxation system on the profits or the top incomes and estates at European level in itself constitutes a determining advance in regulating globalisation and achieving the aims of social and ecological development. It puts an end to the race to the bottom in matters of taxation, which operates to the detriment of States, middle classes and working classes. The taxation system which we defend also plays a role in encouraging forms of behaviour which accelerate the ecological transition required in our societies.

Here, we present a proposal for what could be a European budget. The members of the European Assembly can amend it in a process of democratic consultation and submit it to the vote.

SUMMARY

What are the aims?

How is the budget financed?

How is the budget spent?

Understanding at a glance

What are the aims?

In its present version, our budget is ambitious; it amounts to **4% of GDP,** which is **4 times** the present budget of the European Union.

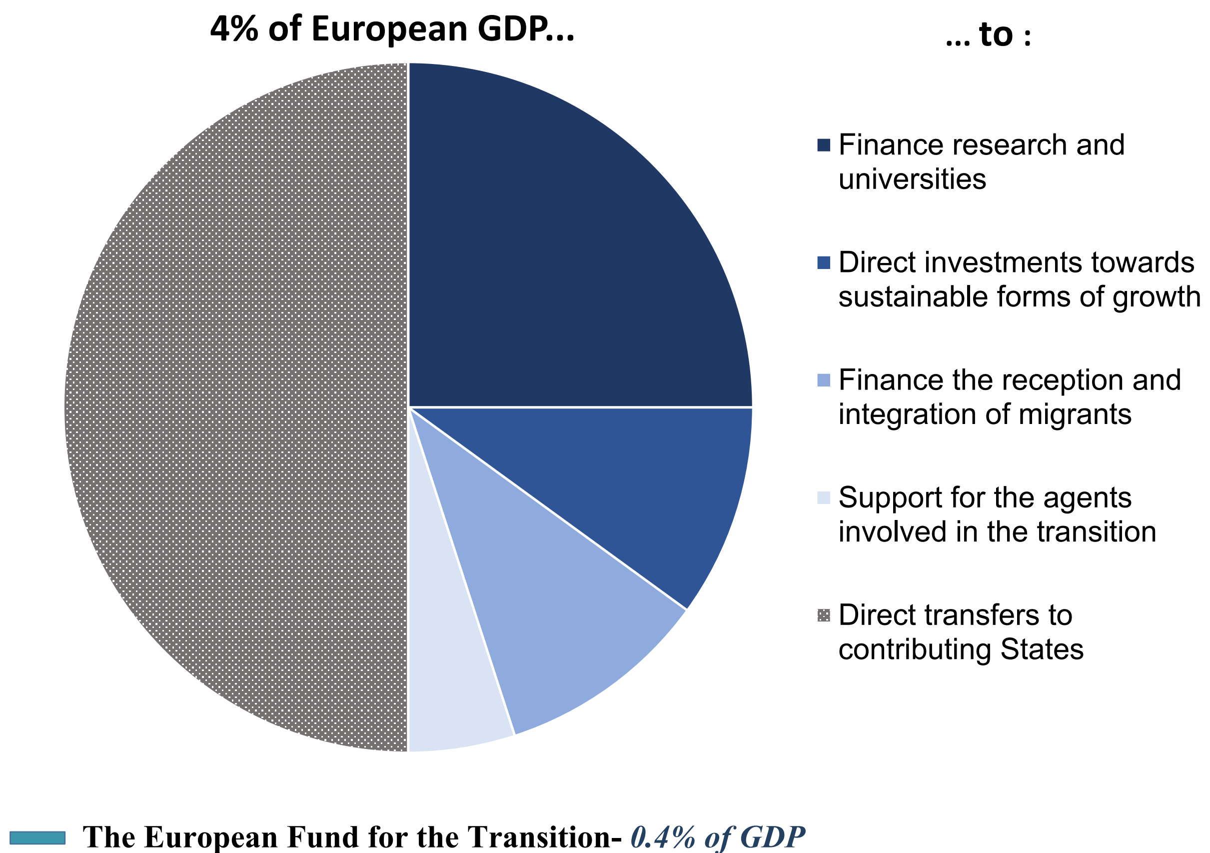
The aims are three-fold:

1. The transformation of the present system of growth into a system which is compatible with consideration of the impact on the **environment** and the evolution of **inequalities** in incomes.
2. Defence of the **right to mobility** by guaranteeing reception of migrants and integration of people who respect our values.
3. An increase in our capacity to **generate employment** by **improving European-style innovation** to protect workers.

A budget consists of revenue and expenditure. The **expenditure will be directed towards the implementation of these three objectives**: **investment projects targeted** to the transition towards a sustainable system of growth, the **support** of the actors involved in this transformation, the joint organisation of the **reception and training** of migrants, financing of **research** to restore the capacity for innovation in Europe. But the choice of **fiscal levers** is also a means of **directing the behaviour** of the agents towards the implementation of the

aims and of **responding to a number of economic and social imbalances**. The revenue of the European budget will therefore be constituted by progressive taxation on the **top incomes and estates** to reduce inequality through redistribution, by taxation on **corporate profits** to enable firms to contribute to the development and maintenance of **public goods** and by the taxing of **carbon** emissions to encourage activities which are more **respectful of the environment**.

How is the TDEM budget spent?



<u>Why 0.4%?</u> To achieve the aims of the Paris Agreement and compensate for the blatant shortcomings of the Juncker Plan.

The gap in expenditure in the investment projects to achieve the Paris COP 21 objectives has been estimated at 2.1% of GDP, or 320 Mds€ in the upper range. Now, the Juncker Plan, launched in 2015 by the European Commission, co-finances a maximum of 100 Mds€ per annum, or three times less than required and this is only until 2020. Furthermore this plan has

financed infrastructure projects which tend to increase CO_2 emissions rather than reducing them (enlargement of an motorway in Germany for example). It is therefore completely inadequate to direct investment in the direction of projects which are compatible with sustainable growth.

Our budget provides for **bridging the financial gap** and **modifying the orientation of investments.** The *European Fund for the Transition* comprises a **base of public money,** aimed at **attracting private capital to co-finance** new investment projects contributing to a new mode of growth (sustainable housing, green logistics and forms of mobility, the production and distribution of renewable forms of energy, the improvement in the quality of air, recycling waste, ..)

Spotlight: how do we move from the 0.4% of GDP provided in the Fund to the 2.1% of GDP required to achieve the aims of the Paris Agreement?

By attracting private capital to co-finance the new investment projects.

- This initial base of public funding would 'prime the pump' to enable borrowing at a favourable rate and thus increase the amount earmarked for investment. This mechanism would mean the Fund would correspond to an amount actually available for investment in the transition of approximately 1% of GDP.
- Furthermore, this would constitute a financial cushion to attract private investors and be an added attraction for investment. Indeed, by definition 'new regime' products are more of a gamble than classical projects (like a motorway) and are therefore more risky for investors. Thus, to reassure investors, the public agent has to accept to take the first losses on a project if it does not achieve the aims intended. In exchange for taking this risk, we lay down conditions governing the access to this fund, including respect for our principles of social justice and no tax evasion, a mode of production limiting the use of crop protection products, etc.

Financing of the joint management of migration - *0.4% of GDP*

A joint policy for the reception and management of migratory flows would include:

-The guarantee of conditions for the reception of asylum seekers and applicants for residence permits.

- The opening of new channels for legal immigration to meet labour requirements. Immigrant workers contribute in the same way as other workers to the social system of the host country. All the studies show that the costs and economic benefits associated with immigration balance out and tend to be positive. We should therefore support the integration of legal migrants to enable them to enter the labour market as quickly as possible.

-The distribution of costs between member States. Since 2015, irregular entries have mainly concerned Italy, Greece and Spain; these countries should receive financial aid to deal with the situation and thus guarantee reception conditions.

Supporting the agents of the transition - *0.2% of GDP*

Changing practices will be costly in terms of **jobs and incomes.** The budget provides for **compensatory payments.**

The **present agricultural model** focuses on production and small scale farms are usually fragile. We will provide transfer payments **to compensate for the loss in income of those farmers** who agree to limit, or even exclude, the use of chemical inputs and who sustainably manage the land and environmental services. The stated objective is to have a net positive impact on the environment. Thus the social function of the farmer will develop from an initial role of **providing food** (pillar I) **and ensuring and maintaining rural development** (pillar II) to one of **guaranteeing the reproduction of ecosystems and protecting the environment** (pillar III).

In industry we plan to compensate in part for the private cost of **early decommissioning** of certain types of equipment to **ensure compliance with the COP21.** On the other hand, the long chain of manufacturing value includes production from outside the European Union which poses the question of environmental and social dumping. Indeed, while European

industries are subject to more stringent regulations than other regions of the world (the chemical industries are a good example), European firms could be tempted to obtain supplies in countries which do not respect the regulations. Therefore, the budget includes **tax incentives for European firms whose practices restrict environmental and social arbitration, in order to guarantee the development and the maintenance of a European network which observes the rules**.

Financing research and universities to encourage innovation - *1% of GDP*

Why 1%? To give Europe the capacity to generate employment by improving its capacity for growth and to catch up with the United States.

According to OECD estimates, Europe has, structurally, the capacity to grow at around a rate of 1.2% per annum. On the other hand, the United States has a growth capacity of roughly 2% per annum. If Europe succeeded in increasing its growth capacity to achieve 2% that would enable the creation of approximately 500,000 jobs per annum and would mean Europe would be less vulnerable to economic crises. In order to improve the structural capacity of an economy to grow, its capacity for innovation has to be increased.

On average, expenditure on research and development represents 2.7% of GDP in the United States and 2% of GDP in the European Union. This represents a gap of 130 Mds€ per annum. This is ten times more than the amount allocated by the present European budget 13 Mds (per annum); the bulk of the financing of research and development takes place at national level which reduces our capacity to innovate.

Our budget provides not only for bridging this gap but for going further by allocating 150 Mds (million dollars) to **research** and 37 Mds (million dollars) to **the functioning of the universities to accelerate innovation (1% of total GDP).**

Direct transfers to contributing States - *2% of GDP*

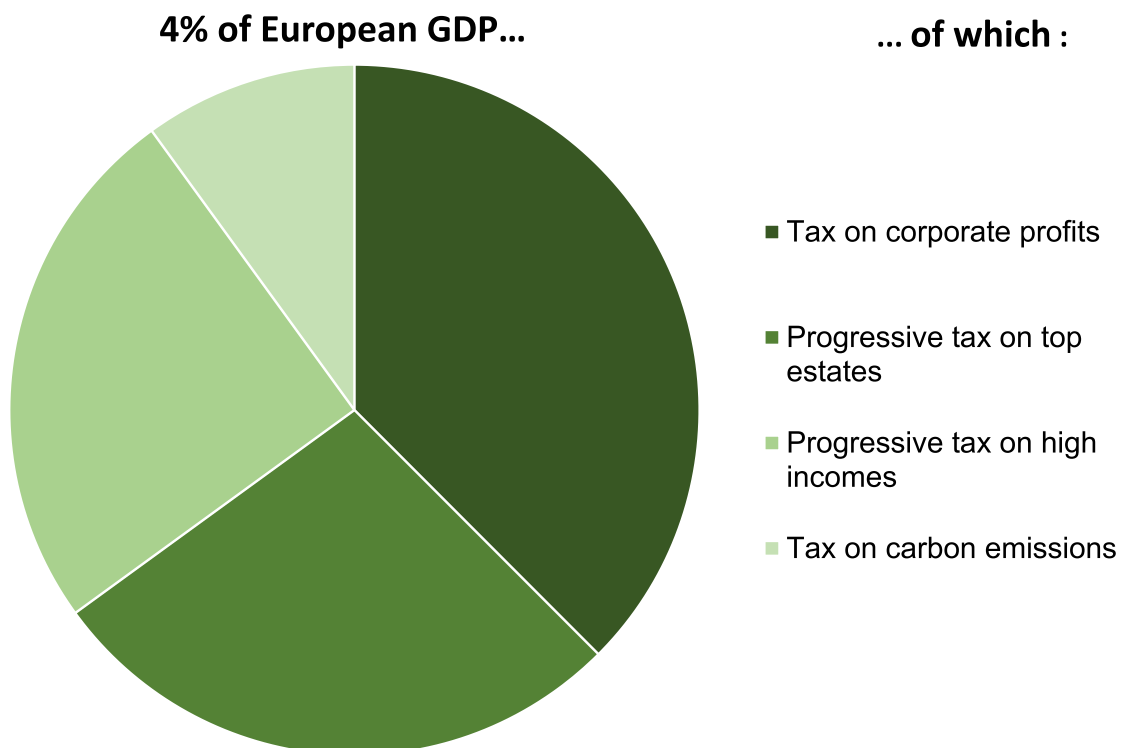
States would be free to dispose of these new tax revenues. They will enable a reduction in taxation or monetary transfers to be made to the citizens in each country.

We suggest that they be used

- To reduce income tax and deductions which weigh heavily on low-income households (VAT, indirect taxes, taxes and contributions deducted from salaries)
- To compensate for fall in income from employment or loss of activity associated with the change in growth mode
- Training in new skills in jobs adapted to the new growth mode.

How will this budget be financed?

We propose the creation of **four European taxes** to deal with the major challenges of the 21st century and to finance the common budget. The mere creation of these taxes, over and above the income which they will generate and which will enable the financing of the investments, is a mark of active participation in the aims of the budget. The four axes of this European tax are conceived to be a way of improving the regulation of globalisation through the use of **efficient redistributory mechanisms** and the campaign against tax competition as well as **redirecting the economy** towards less polluting activities.



Tax on corporate profits - *1.5 % of GDP*

At the moment the national rate of tax on corporate profits is on average 22% in the EU (whereas it was 45% at the beginning of the 1980s).[1]

We propose to levy **a common tax on corporate profits at an additional European rate of 15% and to raise the global minimum rate to 37% (the sum of the European rate and the national rate).**

We propose that the European Assembly create a common European tax at the additional European rate of 15% of profits which will be raised in all the signatory countries to finance the common budget. This European tax will not be exclusive: each Member State will be free to levy a further tax. Moreover, we propose that the European Assembly impose a minimal rate of taxation (the sum of the European and the national tax) equal to 37% of profits. In practice, this will mean that:

- In the States which today apply a national rate of supplementary tax equal to or higher than 22%, the European Assembly will introduce an additional European tax of 15%. The income from the supplementary tax of 15% will be paid into the joint budget.
- In the States which today apply a supplementary tax lower than 22% - for example 10% - the European Assembly will introduce on top of the European additional rate of 15% going towards the common budget, a second additional tax of 12% in order to raise the overall rate to 37%. The income corresponding to the second additional rate will be paid directly to the State concerned and will therefore not have an impact on the income paid into the joint budget. But this minimal global rate will enable the countering of tax competition and the race into offshoring.

The **income provided** by this additional rate of 15% on corporate profits: roughly 1.5% of GDP. This is a fairly conservative estimate: the income could increase thanks to the elimination of tax havens and improvements in the campaign against tax evasion, fraud and fiscal optimisation which is particularly intense in cases of tax on companies.[2] In particular, we propose that the European Assembly apply the same principle as is applied in the United

[1] See Taxation trends in the European Union, 2018 Edition, p.65, Graph 17

[2] This income, corresponding to the hypothesis of a fiscal basis (the totality of taxable profits) equal to 10% of GDP corresponds to the present basis. See Taxation trends in the European Union, 2018 Edition, p.35-38.

States (and defended in particular by Gabriel Zucman) which consists in allocating the global profits to companies in proportion to the sales made in the different States. The European Assembly could also vote a system of additional tax lowered to 10% for small businesses and raised to 20% for bigger ones, for equivalent total revenue.

Clarification

Why tax corporate profits?

European companies benefit from quality infrastructure, facility in commercial links between countries and numerous advantages associated with government action. These advantages enable them to make a profit and to expand their activities. These advantages are public goods because everyone benefits from them. Taxing corporate profits is a way of making businesses contribute to the maintenance of these public goods. Moreover the tax enables States to levy sufficient funds to maintain public goods which could be deteriorated by corporate economic activity; thus this would oblige businesses to include the potentially negative effects of their activity in their costs.

Many public goods are European and not national. The creation of a joint tax also enables the acknowledgement that goods shared by all, such as the quality of the environment, the level of education and European manpower, or the capacity for innovation of the productive fabric do not correspond to the administrative frontiers of States.

Why impose a common minimum rate on Europe as a whole?

Within the European common market, one of the major problems is that of tax competition. This enables European multi-nationals to benefit from the extremely favourable tax rates on their doorstep. Part of the profits are artificially transferred to European countries with low rates of taxation via practices of evasion and fiscal optimisation. These practices reduce the tax income in countries and contribute to deteriorating the capacity to finance public goods. The fact of levying a joint European tax enables authorities to limit the fiscal shortfall in certain States. In particular, this should favour the possibility of taxing firms such as the GAFAM (Google-Apple-Facebook-Amazon-Microsoft) who make a profit on the European market without paying any tax or by limiting the rate as far as they can.

A progressive tax on high incomes - *1% on GDP*

At the moment, in 2018, the marginal rate of income tax applicable to the highest incomes in Europe is on average 40% (whereas it was 65% at the beginning of the 1980s)[3].The aim is to restore progressive taxation to the upper echelons of incomes by creating additional marginal rates deducted at European level on very high incomes.

Marginal European additional rates: **10% on annual individual incomes above 100,000 Euros (**200,000 Euros for a couple) and **20% on those above 200,000 Euros (**400,000 Euros for a couple).

Given the higher marginal rate of 40% currently applied on average in the EU, this means that the **marginal global rate (the sum of the national and the European rates)** will be on average **50% on individual incomes above 100,000 Euros (**200,000 Euros for a couple) and **60% on those above 200,000 Euros** (400,000 Euros for a couple).

The revenues provided by these marginal additional rates of 10% and 20% on high incomes: approximately 1% of GDP. This is a relatively conservative estimate: the revenues could rise thanks to the elimination of tax havens and improvements in the campaign against tax evasion and tax fraud.[4]

The Assembly could also decide to vote a mechanism enabling the setting up of a minimum marginal upper rate at national level (by paying the States concerned what remains of the revenues which correspond thereto).

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[3] In 2018: 39% in EU28, 43% in EA19. It was 48% in both groups of countries in 1995. See Taxation trends in the European Union, 2018 Edition, p.26 Graph 11. It was on average approximately 65% in all the main countries of the EEC IN 1980. See World Inequality Report 2018, p.260, Figure 5.2.2 (58% in Germany, 65% in France, 72% in the United Kingdom).

[4] This estimate is made on the assumption of a fiscal basis (all taxable incomes) equal to 60% of GDP (which could be enlarged by the elimination of tax havens). Within this global tax base it can be estimated on the basis of the distribution of European incomes available in the World Inequality Database (WID. world) at approximately 12% of the GDP tax base corresponding to incomes above 100,000 Euros (2.5% of the population, 20% of the incomes) and 7% of GDP for incomes above 200,000 Euros (1% of the population, 11% of the incomes). The marginal rate is applied each time to approximately half the base (taking into account the fact that the Pareto effect is close to 2 at this level of distribution), whence revenue equal to 10%x6%+10%x3.5%=0,95%.

Spotlight:

Why impose a progressive tax on high incomes and high private wealth in Europe?

A tool for reducing the inequalities highlighted by globalisation and tax competition.

Progressive taxation is an instrument for redistribution and for the financing of the social State set up in the XXth century following the two World Wars and as the idea of equality between citizens and the creation of the Welfare State gradually developed. The fact that the concentration of private wealth after WWI never reached the level of the Belle Epoque (i.e. pre-1914 levels) is largely due to progressive taxation on the upper echelons of the hierarchy of incomes.

However, since the 1970-1980s the principle of progressive taxation, in particular on the highest incomes has been challenged by the free movement of capital which opens the door to tax evasion in a world where the tax regulations are not harmonised between countries. For lack of sufficient co-ordination, the European States are therefore encouraged to conduct policies for fiscal competition to attract capital or to avoid the flight of large fortunes. For example, Swiss banking secrecy was not undermined until the United States acted and then only timidly and incompletely. Only common taxation regulations can enable a change in direction.

Today the taxation on top incomes is often even regressive. Taxation of capital is subject to numerous exemptions in the context of this tax competition. It happens that the highest incomes are those which are based in the main on capital yields. This has the effect of reinforcing the concentration of wealth and therefore the inequalities in Europe. Today European estates have recovered their prosperity which is now comparable to the Belle Epoque or pre-1914 level.

In Europe harmonisation of fiscal policies on high incomes between the member States would limit tax competition, as we see in the case of the tax on corporate profits,

The dangers of excessive concentration of wealth in Europe

Apart from the loss of fiscal earnings which it incurs, the incapacity of the European states to impose progressive taxation on high incomes and estates has several dangerous consequences for the very stability of the continent and the European Union. The retrogressive nature of deductions at the top of the hierarchy of incomes and estates induces

a feeling of fiscal injustice and is a threat to the willingness of other taxpayers to pay taxes. This is a direct challenge to the financing and consensus associated with the social State. Furthermore, commercial globalisation which promotes the European Common Market exerts pressure on unskilled workers in the rich countries. If the European fiscal system is not capable of compensating the losers in the common market via redistribution, rejection of the European project is inevitable.

Thus the implementation of a common European tax on high incomes and estates, besides financing a common budget, would enable the maintenance of economic openness and thus thwart the retreat into protectionism. If the European Union set up the Common Market it must be capable of regulating it to avoid the unlimited development of financial inequalities.

Progressive taxation on high levels of personal wealth *– 1.1% of GDP*

At the moment, the forms of direct taxation of personal wealth in the European Union are mainly regressive in particular in the form of taxation of property assets, with no consideration of financial assets (which however form the greater part of the largest estates). We therefore propose the setting up of a progressive tax on the most valuable estates (property, financial and professional assets net of debts).

Marginal rate: **1% on net individual estates valued at above 1 million Euros and 2% on those above 5 million Euros.**

Revenues provided by these marginal rates of 1% and 2% on the biggest estates: approximately 1.1% of GDP. This is a fairly conservative estimate: the revenues could increase as a result of the elimination of tax havens and improvements in the campaign against tax evasion and fraud.[5]

[5] This estimate has been made by assuming a fiscal base equal to roughly 500% of GDP (the total of private wealth estimated by European National Accounts, see World Inequality Report 2018), of which approximately 200% of GDP for estates worth over 1 Million Euros (2.5% of the population, 40% of the wealth and 70% of GDP for incomes above 5 M Euros (0.2% of the population) on the basis of the European distribution of wealth estimated in the WID.world data base. The marginal rate is applied each time to approximately half the base (Pareto coefficient, close to 2). The revenues could rise to 1.8% of GDP in the case of a base equivalent to the totality of the economic wealth. The working hypothesis here is that of a broad base (wider than that of the ISF (Wealth Tax)) but which could be enlarged.

Spotlight: a common tax on the wealthiest European estates, yes, but how?

Why tax estates in addition to income?

Today in most European countries, the taxable income (the taxable family income) is the income which is actually paid and which is available for use. In the case of fortunes held in financial and real estate assets, the economic income may be separate from the taxable income. Those with great wealth have financial assets which have a yield each year. The holders of capital do not necessarily need to pay themselves the whole of these returns, the remainder is therefore kept, for example, in holdings. This represents a considerable loss and an under-taxation of the wealth of some people and can explain why progressive taxation is not respected in the higher echelons of incomes. To avoid this, one solution is to take as a base the value of the wealth to calculate the tax due and tax the yields from this capital at the correct rate, and not tax uniquely the income which is actually paid. We propose to tax individual estates valued at over 1 million Euros at a rate of 1% per annum and estates of over 5 million Euros at a rate 2% per annum.

Once again, theoretically each country could set up this type of tax individually, however in the absence of the automatic transmission of information between countries, the risks of tax evasion are very high. Harmonisation and the implementation of a common tax would limit this risk.

Why such a low rate?

By bearing directly on the value of the assets held, the tax bears on a stock and not on a flow of wealth (as is the case for taxation on incomes). A low rate therefore is sufficient to raise a considerable amount of revenue. Applied to the EU countries as a whole, this tax on wealth would apply to approximately 2.5% of the population and would generate each year the equivalent of 2% of European GDP. The bigger fortunes represent more than 5 years of GDP in Europe and the high end percentiles own a considerable share of this.

On the other hand, the observed yield of the largest European fortunes is approximately at least 6 or 7% per annum. Therefore a rate of 1 or 2% appears very reasonable and could, if necessary, be raised. Furthermore a progressive tax on the most valuable estates would introduce more transparency about wealth and would sustain future discussions on the rates to be applied.

Tax on carbon emissions - *0.4% of GDP*

We propose the establishment of **a minimum rate of 30 Euros on each tonne of carbon emitted on European soil**.

For a number of years now the European Union has been in a leading position in the field of reduction of CO_2 emissions. But in several European countries, the reduction of emissions is not sufficiently rapid to meet the targets fixed by the Paris Agreement.

The European States already subject many sectors of the economy to a tax on carbon emissions. This tax can be either explicit or implicit. By explicit taxation we mean either a tax on carbon emissions (as is the case in Sweden, in Ireland or in France, for example), or the participation in a market of rights to pollute within which some polluting sectors have to buy quotas of emissions (all the European countries are subject to the ETS system). In addition to these mechanisms, all the European states also have taxes on energy which act as implicit taxes on carbon.

These various systems of taxing CO_2 (by imposition of a tax, a system of quotas or by taxes on energy) **are not harmonised between countries and between sectors** within countries. Thus the carbon tax on CO_2 in Sweden for the residential sector is over 150 Euros per tonne, whereas in Germany the effective taxation of carbon via the energy taxes is less than 25 Euros. Within the same country, the carbon tax can be higher for one sector than for another as a result of the exemptions or the modulations of the carbon or energy taxation rates.

We propose the establishment of **a minimum rate of 30 Euros on each tonne of carbon emitted on European soil** in the main scenario proposed (other variants are simulated for rates of 40 Euros and 50 Euros). Even if the carbon tax rate proposed here may appear to be relatively low, we stress that its introduction on each tonne of carbon emitted on European soil represents a considerable advance. Today, despite the high rates in some sectors, others have no carbon tax at all. Moreover, here we propose a minimum rate: in order to achieve the climate goal, States will have to adopt higher rates.

The proposal therefore consists in setting up a mechanism establishing a minimum purchase of pollution quotas in the framework of the community system of exchange of emission quotas (ETS - Emission Trading System). For the systems outside the ETS (for example, the residential sector) the minimum rate either amounts to raising the level of the carbon tax if the country has this type of measurement and the rate is lower than the minimum European rate

or to introducing an additional tax to ensure that the effective taxation on energy corresponds to a tax at least as high as the minimum rate. **We also propose that the Assembly vote a calendar providing for a gradual rise in this rate in the years to come (raising it to 40 Euros as from 2020 and to 50 Euros in 2022), to send a clear signal to those involved in the economy.**

The budget of the European Assembly compared with the present European budget.

Our budget proposal is in addition to the present European budget. In real terms, it enables the amount of expenditure in common to be raised to over 5% of GDP. We have designed this budget proposal to alleviate the shortcomings in the present budget.

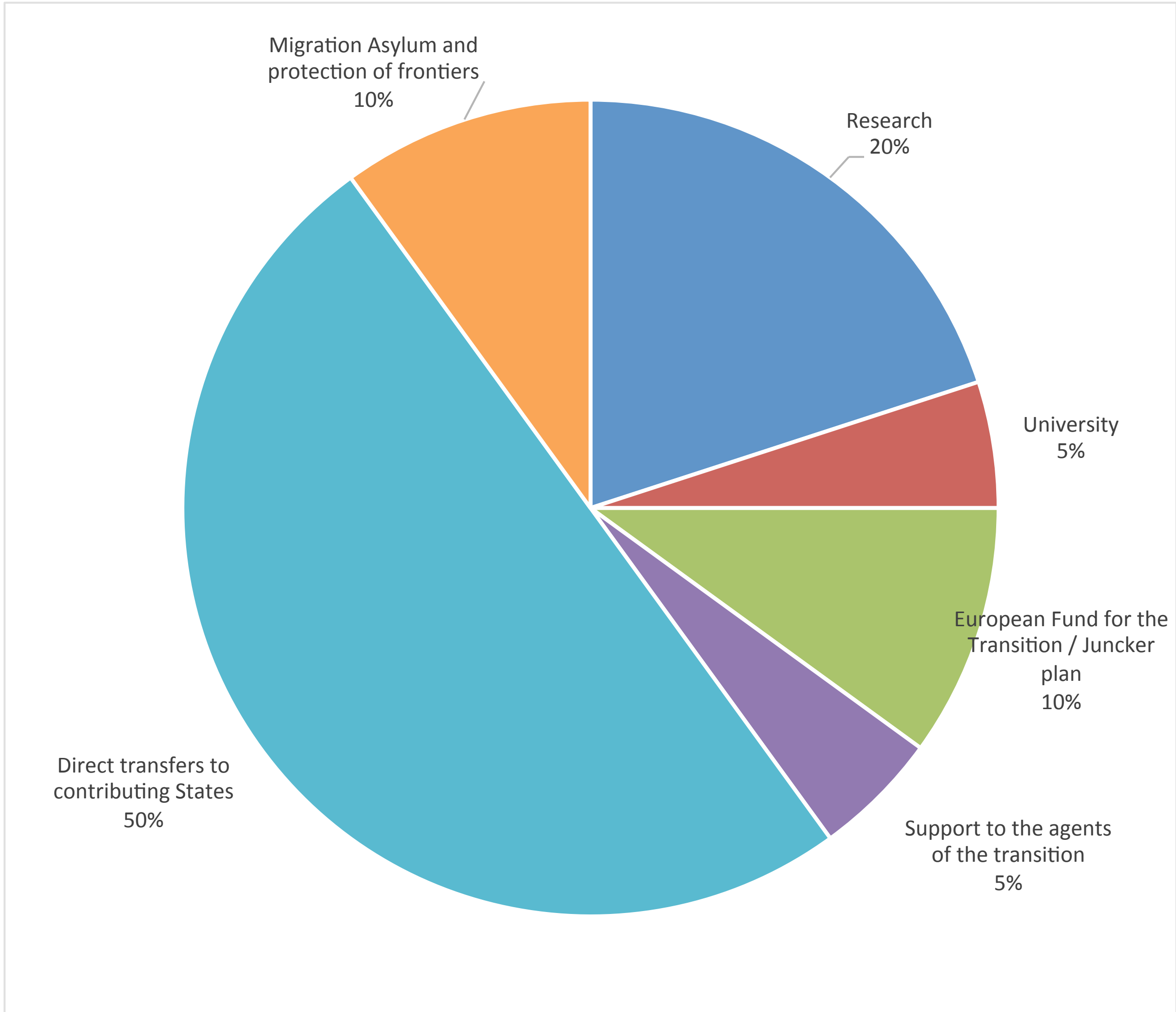
- Firstly, the present European budget is mainly financed by a deduction on the revenue of each Member State. In real terms each State pays a percentage of its gross national income to the common budget and receives in return a share in the common expenditure. **This leads governments and people to focus uniquely on the amount of their contributions, that is to say, what they gain or what they lose. Now combating climate change, the organisation of the reception and integration of migrants, investment in the environment and in academic research all produce gains which extend beyond local level.** To create European value added, from which we will all benefit, it seemed to us more logical to finance joint policies on "*own resources*" or specific resources. This is why for each aim we are creating four new common taxes, deducted at European level on corporate profits, high incomes and wealth owners and carbon emissions.[6]
- Secondly, the present European budget does not prioritise the financing of collective European goods. Over 37% of the budget is devoted to expenditure in agriculture and direct grants in the context of the CAP (which alone represents 29.9% of the European budget). Today the top item in expenditure is devoted to the Cohesion Fund (48.1% of the budget) which consists in reducing the gaps between the European Territories. While these efforts are necessary, **there is very little left to finance the common policies**

[6] This is in keeping with the original philosophy of the common European budget which provided that specific resources like customs tax and agricultural levies would be the main source. But commercial agreements have reduced customs tax and agricultural levies today only represent a marginal share.

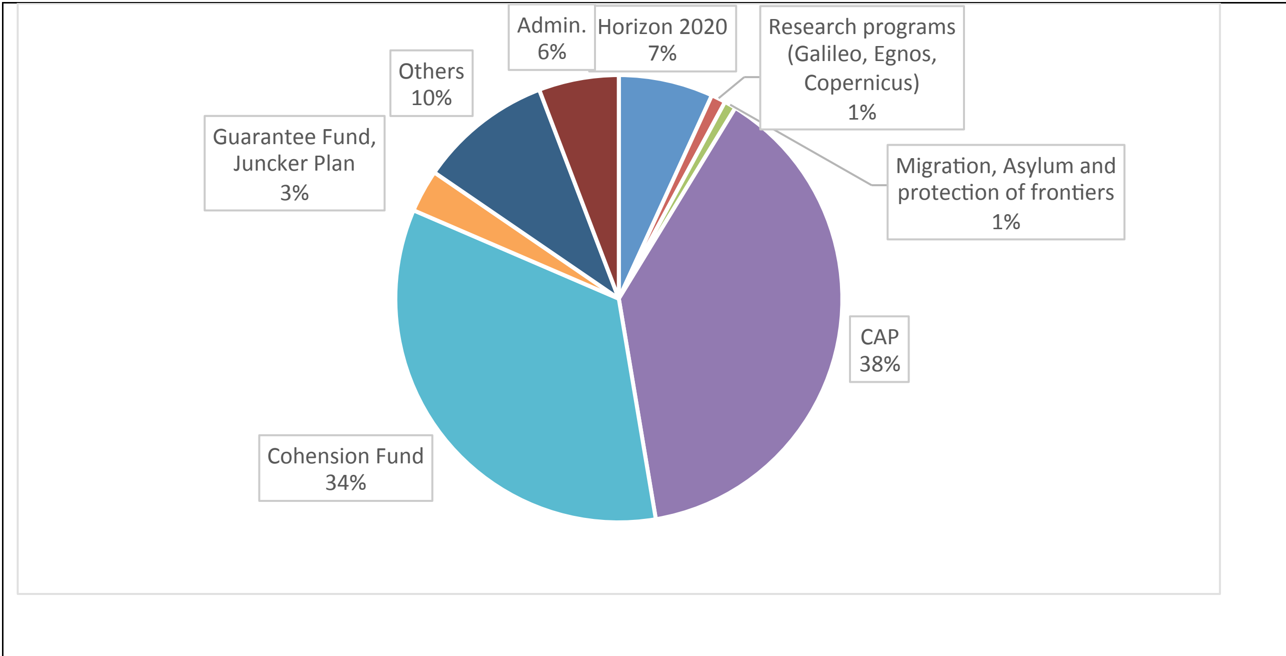
concerning the major challenges of our century. Faithful to the philosophy of European added value, our budget provides for dealing with these challenges at European level. Thus to give us the means of creating a new sustainable pattern of growth, respectful of the environment, limiting our carbon emissions, we are spending 25% of our budget on investment in research and the functioning of universities and we are creating a fund generating 2.1% of the GDP investment required to achieve the aims of the temperature targets in the Paris Agreement. Our fund is three times more ambitious that the present Juncker plan, a fund which still finances the old economy like motorways. The second challenge and collective good that our budget is wholeheartedly backing is the reception and integration of migrants. While the present budget aims to protect frontiers and prevent the arrival of new migrants, we think on the contrary that integrating these new migrants into the European labour market is a genuine economic opportunity on one hand, and our duty in keeping with European humanist values. Thus our budget is devoted to the integration of the new arrivals to ensure that they participate in revitalising our society and a more equitable distribution of the costs of the reception of refugees and migrants to guarantee reception conditions which respect our values.

- Thirdly, we are transferring half of the new resources directly to the States so that they can reduce national taxes and/or operate monetary transfers to the populations they choose. Each State will be sovereign in matters concerning the spending of these new resources. These direct transfers of specifically European resources to the member States are a radically new principle of budgetary federalism. We expect that transfers between countries will be limited to 0.1% of GDP because our aim here is not to reduce inequalities between member States but within countries.

New budget (4% GDP)



Current European Budget (1,1% GDP)


Admin.
6%
Horizon 2020
7%
Research programs
(Galileo, Egnos,
Copernicus)
1%
Others
10%
Guarantee Fund,
Juncker Plan
3%
Migration, Asylum and
protection of frontiers
1%
CAP
38%
Cohension Fund
34%