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EUROPEAN POLICY ANALYSIS

New funds for the EU: the case for a market access fee

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Summary

In 2021, a huge credit-financed spending programme called Next Generation EU (NGEU) was added to the seven-year Multiannual Financial Framework (MFF). This recovery package was accepted only after considerable hesitation on the part of several Member States as a temporary, short-term and highly exceptional measure to meet a highly exceptional crisis.

But will the NGEU really remain a one-off? Several governments, political movements and members of the think tank community would rather like to see it as a 'take-off' point – the start of an ambitious new era in European integration. With ever deeper climate concerns, calls for many new European initiatives and most recently the Russian invasion of Ukraine, there is no lack of needs for increased common endeavours at the EU level.

Financing such programmes is exceedingly difficult, however, and many proposals for new 'own resources' have so far failed to gain sufficient support. This report takes a closer look at some projects linked to the digitalisation of the global economy, in particular the idea of a market access fee (MAF) for the privilege of operating within the legal framework of the common market. Technically, this would be a very small automated levy deflected from all payment streams passing through our banks and other financial institutions.

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The opinions expressed in the publication are those of the author.

1. The recovery fund: a one-off, or a take-off?

In 2021, a huge credit-financed spending programme called Next Generation EU (NGEU) covering the years 2021 to 2023 was added to the seven-year Multiannual Financial Framework (MFF), bringing the total of EU budgetary capacity during the 2021–2027 period up to €2.018 trillion (current prices). This recovery package was accepted only after considerable hesitation on the part of several Member States as a temporary, short-term and highly exceptional measure to meet a highly exceptional crisis. But will the NGEU really remain a one-off? Several governments, political movements and members of the think tank community would rather like to see it as a 'take-off' point – the start of an ambitious new era in European integration.

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This is now the subject of lively debate. Views on the mission and purpose of the EU have always differed and accordingly so too have views on the appropriate size for the EU budget. Since the inception of the present model of long-term budgeting in 1988, every decision on a multi-annual financial framework (MFF) has been preceded by lengthy negotiations between the Member State governments. In these talks the patterns of diverging positions have been relatively stable over time: in very simplified terms, a Southern and Central European push for more expansive budgets and on the other hand a Northern preference for restraint. Gradually, the European Parliament (EP) has also established itself as a heavyweight in these deliberations. Alliances have often been forged between an ambitious Commission and EP majority on the one hand and on the other a hesitant Council, held back by the more conservative instincts of the ministries of finance.

1.1 A continuing conflict

Recent decades have seen some shifts in the balance between the two camps. During the negotiation of the 2014–2020 MFF, six states calling themselves *the friends of better spending* resisted expansionism of a more numerous grouping, *the friends of cohesion policy*. Then came Brexit, and the UK fell out of the battle. In the discussions on the 2021–2027 MFF, four states (the Netherlands, Austria, Sweden and Denmark) were active in opposing higher volumes of spending, but quantity was not their sole concern. They were also keen to defend the quality of EU expenditures by giving priority to programmes with a high European added value. In the media this group was called *the frugal four*, and they eventually assumed this label themselves. Finland was a discreet ally, but since it held the Presidency of the Council of the EU it could not take an open position. The frugal states were also encouraged by a relatively large segment of German politicians who had long been committed to the principle of budgetary balance in domestic finance (*das schwarze Null*).

Since then, however, some changes of opinion have reduced the coherence and influence of the frugal camp. The coalition agreement which is the basis for the new German 'traffic-light' government differs markedly from the programme of the former CDU-SPD cabinet. Wolfgang Schäuble, an influential defender of fiscal conservatism as CDU Minister of Finance, has modified his stance along with several others in his party. And most recently, the new Dutch government has abandoned many of its former restrictive tenets. Although composed of the same parties that formed the previous government that was something of a ringleader of the frugal quartet, the new cabinet (Rutte IV) has adopted a programme much more coloured by the activist positions of the D66 party.

Cross-border coalitions in favour of a more ambitious EU agenda have also emerged. In the new Elysée pact and in the Quirinale treaty, France, Germany and Italy have expressed their commitment to further joint investments and initiatives.

1.2 Facing the new challenges: what resources for the EU?

There are clearly, then, divergent opinions on the future needs in terms of resources for the EU, which must meet a broad spectrum of challenges in fields such as security, migration, trade policy, innovation and climate change. With several global powers taking a more assertive stance, a geopolitical perspective and a concern for Europe's responsive capacity are attracting increasing attention. The concept of 'strategic autonomy' has been introduced as a crucial objective. Meanwhile, many governments' traditional insistence on fiscal and monetary prudence is mellowing, and vocal pleas have been made for the scrapping – or at least the radical revision – of the basic rules of the Stability and Growth Pact (which stem from the Maastricht criteria for membership of the euro).

Several types of experts are engaged in this discussion. Among lawyers, there are various interpretations of the restrictiveness of the EU Treaties and of relevant national constitutions such as Germany's *Bundesverfassung* with its ban on deficits above a certain limit. Since treaty revisions are exceedingly complex, the friends of a more ambitious agenda are more interested in the elasticity of the present rules. When this matter was discussed in the negotiations on an agreement for the new German coalition, the parties managed to agree on the formula that the flexibility of the Lisbon Treaty had so far served the country well.

Among economists a pivotal issue is the extent to which the Stability and Growth Pact (SGP) limitations – formulated after a period of significant inflation and budget deficits – are still valid in an era of low and at times even negative interest rates. The procyclical elements in the pact and its weak transparency mechanisms have come under scrutiny. A sideline in this discussion concerns the dangers inherent in public indebtedness. In an influential paper Reinhart & Rogoff (2011) claimed that a ratio of public debt to GDP larger than 90% is associated with significantly reduced growth rates. Many scholars have contested this thesis, among them a graduate student (Herndon) who found errors in the authors' supporting datasets. More recently, Heimberger (2022) has published a meta-analysis based on 826 estimates from 48 primary studies which identifies the endogeneity problem in Reinhart & Rogoff's study: though there is indeed a negative correlation between government debt and economic growth, that could very well be due to other factors jointly influencing the two variables.

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The consensus now emerging is that the economic environment in which the SGP was designed has little relevance in the present situation. Even if caution is still called for and some recent trends signal recurring price spirals, the old SGP framework is obviously in need of a review. An increasingly popular argument is that the burden of servicing public debt deserves more attention than its volume.

1.3 Outline

This paper consists of four parts. After the introduction, section 2 recalls some lessons from fiscal history that may shed light on whether NGEU is likely to remain an exceptional, once-and-never-again initiative – or instead mark the start of a new and more ambitious era in European integration.

Huge, credit-based programmes are not a new phenomenon in governance. Similar steps have been taken many times before to meet acute crises, often combined with assurances that the measure is exceptional and will not be repeated. To what extent such pledges are honoured varies a great deal. In war situations the hope is often that the loans can be paid for by the adversary, through reparations, new tax receipts or a licence to loot. In many cases debts have simply been written off, or paid for by the printing press.

Substantial scholarship has also examined long-term trends in taxation and public spending. The demand for collective goods and services seems to be increasing over time. In addition, the collectives required to undertake such investments tend to grow in size. This pushes the organisation of public ventures upwards from smaller to larger political units, and from nation states to various forms of international cooperation.

A decisive element in this context is the technology of fiscal extraction. Successful taxation depends on a number of physical and logistic preconditions. With the digitalisation of the economy the administrative costs linked to taxation are declining, and in some domains nation states may lose their fiscal monopolies. This could pave the way for a channeling of economic resources straight to the EU, without any detour via the national treasuries.

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Section 3 takes a closer look at proposals for new taxes related to the digital economy. Virtually all such projects purport to bring new revenues to the national jurisdictions only. Thus, the recent breakthrough in the negotiations within the inclusive framework of the OECD/G20 aims to pave the way for reallocations between source states and market states and for supplementary national taxation of revenues earned in so-called investment hubs (previously known as tax havens). At a first glance there is no direct EU dividend involved in this agreement. This is what the Commission has tried to remedy through its Communication of 22 December 2021, suggesting various splits of the new receipts from several proposed levies between the EU and its member states.

If the OECD/G20 outline is ratified by the 137 states that have signed it, and if the recent EU-related proposals are accepted by the Council and the Parliament, there may well be a share for the union in this package. But an even more promising digital-related project may be distilled from the literature on 'automated payment levies'. Here, the idea is to extract an exceedingly tiny fraction of the gargantuan payment flows now providing the oxygen to our modern economies. If the legal and technical preconditions for such a deflection can be met, the streams could go straight from the banks and other financial institutions to the EU as a 'market access fee' (MAF) for the privilege of operating within the legal framework of the single market, without passing by the national treasuries. This could significantly enhance the policy-making capacity of the EU and facilitate the satisfaction of many vital collective needs. While summarising the benefits of this approach, section 4 also points at some aspects requiring deeper legal and economic analysis.

2. Exceptional levies and government growth: some lessons from fiscal history

In guessing what the future may have in store for the bold innovation which the NGEU represents, there are good reasons to look at antecedents in fiscal, financial and political history. The evolution of taxation and public expenditures is the subject of a very wide-ranging academic literature, and several scholars in this field have suggested regular patterns of development. Here are six of the relevant trends which might be taken into account.

2.1 Wagner's law: the growth of government spending

For several centuries there was a wide-spread expectation that as a result of continuous civilizational development, the size and scope of government would shrink. With growing moral and spiritual maturity there was reason to foresee a decline in the need for external social control of the subjects. In the philosophy of the Enlightenment, 'humanity was a baby tumbling upstairs' (Martin 1962). As for international relations, Kant was not alone in foreseeing progress towards eternal peace through international cooperation and the wise resolution of conflicts.

The steady technological and economic progress added fuel to such expectations. The political sphere was limited in predominantly agricultural economies. Throughout the 19th century, government revenues and expenditures in most European states remained stable, at around 10% of GDP, with about half of that devoted to military spending. It was only towards the end of the century that a more expansive trend was spotted, by German economist Adolph Wagner (1883, 1893). Wagner suggested that an increase in public spending was a natural consequence of economic growth. Several processes accounted for this. First of all, the cost of defence would go up as all nations invested in more sophisticated armaments. Secondly, domestic protection would also become more expensive through industrialisation. The density of modern living would lead to more social frictions, and the complexity of an advanced economy would require infrastructural investments and new forms of social control.

A third reason for higher public expenditures was the greater ability of governments to meet certain income-elastic demands. Education and culture were fields where public provision was generally more efficient than private entrepreneurs. In other areas such as railroads, the capital required would become so substantial that it could not in the long run be provided through private accumulation. Many huge investments initially undertaken by enterprising entrepreneurs ended up in public hands.

Wagner's predictions have generated a wide-ranging literature on the causes and patterns of government growth in different countries (Tarschys 1975). While the picture varies somewhat between poorer and wealthier countries, his predictions have largely been confirmed. Apart from increasing public investments and consumption, all developed countries have also set up large transfer systems in the sphere of social insurance. In Europe, taxes and governmental outlays now require some 40–50% of GDP. That does not mean that a mere 60–50% of GDP remains for private consumption, since some money turns up on both sides of the ledger. Most public transfers return to the citizens and may be used for their own spending. Hence the paradox that the sum total of public and private expenditures by far exceeds 100% of GDP.

2.2 Peacock-Wiseman's law: the ratchet wheel of public spending

The expansion of public spending in the 20th century was very much linked to the two world wars, an observation developed particularly in a seminal work by the two British scholars Alan T. Peacock and Jack Wiseman (1961). Instead of emphasising new elements in consumer demands, they focused on the citizens' opinion of a tolerable tax burden as the decisive restriction hampering growth in public spending. In normal times, this opinion is reasonably stable and does not allow any substantial increases in government expenditures. Wars and other crises, however, may drastically upset established values and make citizens more prepared to abstain from private consumption. As public expenditures are easier to shift upwards than downwards, however, they will never return to their previous level. Over time, therefore, the curve of public spending will look like a staircase. This pattern of development has been called 'the displacement effect' or 'the ratchet effect'. The ratchet wheel moves only in one direction.

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It may be premature to say whether this law applies also to the 2021 decisions on the recovery package, but some similarities are nevertheless striking. With many dangers looming because of the lockdowns and mounting unemployment in large parts of the European economy, several former enemies of joint borrowing and interstate transfers revised their positions and accepted the huge rescue operation. Large portions of the borrowed funds were channeled not to health protection but towards what were baptised the 'twin' transitions: digitalisation and climate change. While the need for collective European action in both of these areas enjoys considerable support (climate policy in particular, perhaps) it seems dubious whether the massive injections now agreed upon would have come about without the pandemic.

2.3 The role of borrowing in sudden expenditure leaps

Another similarity between the NGEU and previous responses to wars and other severe crises is the recourse to large-scale borrowing.

Wars are not foreseen in government budgets, except in contingency reserves. Even if some attacks may have been planned well in advance, it is hardly habitual to announce such intentions in public documents. When hostilities begin, the affected governments have many other things to think about than their tax systems which are difficult to expand at short notice. In consequence, mobilization for war is regularly accompanied by steep increases in public borrowing – both the wars and their aftermath require far greater resources than governments find in their coffers.

Dealing with such debts once peace has been restored is a rocky road; full of pitfalls. European history is replete with sad examples. Making the enemy pay huge reparations is one recipe for disaster; letting the printing press do the job another one. The aftermath of World War I illustrates the horrendous consequences of either approach. Plundering conquered territories is another possible solution. Some of these robberies lead to great poverty and suffering, while others may even facilitate a fresh start in the defeated areas. The German recovery after World War II offers some illustrations of how these options may work out.

While warlords often depend on their bankers, many bankers also depend on their warlords. A 'creditor' is, by definition, one who believes, but many such beliefs turn out to be less than justified. Some debtors pay back; others don't. Government lending may end in the accumulation of power and wealth, but also in misery and profound disappointments.

With singularly solid guarantees in the form of future membership contributions of the Member States, the European Commission has so far had no difficulty in raising resources for the NGEU. The programme has even had a handsome spillover effect on national public debts: before one single euro was borrowed and distributed by the Commission, the improved credit-worthiness led to lower bond rates which gave Italy substantial savings.

While a final evaluation of the programme lies far ahead in the future, one main negative feature thus far seems to be the difficulty experienced by the Commission in coming up with its promised new 'own resources'. The June 2021 deadline set for proposals on a digital levy was missed, and how Member States will respond to the proposals ultimately put forward in December 2021 remains to be seen. The Commission's estimates of potential gains from the projected levies seem a little optimistic, especially as they fail to take into account the losses of the national revenues from of similar taxes at national level.

2.4 How extraordinary levies become permanent

When the NGEU was adopted, it was a crucial condition for the frugal countries and many others that this was a temporary, extraordinary and exceptional arrangement. In the euro-ambitious camp, however, the new package was rather seen as a foot in the door for further steps forwards. As yet there is no way of knowing which of these views will prevail, but in European fiscal history we find many examples of improvised taxes eventually being permanently integrated into national tax systems. A beautiful example is the Danish stamp tax, introduced in 1657 to finance defence against the attacking Swedes. The war was lost as early as the following year, but the tax has survived till this very day, in various mutations.

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The growth of European taxation has to a very large extent proceeded through the conversion of temporary and exceptional levies into regular and permanent imposts, normally first resisted and then grudgingly accepted through a process of prodding and accustomisation. In the parliamentary bodies asked to give their consent to such new burdens, distinctions were long maintained between ordinary and extraordinary taxes. Cameralists treated extraordinary taxes (*extraordinaria onera/munera*) as a special form of imposition (Kelemen et al. 2014). Exceptional levies were often justified by the need to meet particular threats or challenges (military assaults, natural disasters) or opportunities deemed to benefit the stability of the state (such as the weddings of the king's children).

Here are a number of examples from fiscal history:

- In **ancient Palestine** Solomon's wisdom is celebrated in the Old Testament but he was less appreciated when he imposed significant extraordinary taxes on his subjects (Cleveland 2013).

- In imperial **China** the extraordinary fiscal burden imposed by the Ming dynasty was so unpopular that its Qing successors abstained from such measures (Theobald 2013).

- In ancient **Greece** extraordinary levies were introduced after the Peloponnesian war (Vereshchagin 2017).

- In medieval Europe the evolution of legislative bodies was closely linked to the widening financial needs of the rulers (Bergqvist 2020). The theoretical underpinnings were provided by lawyers referring to the Roman principle *quod omnes tangit ab omnibus debet approbari* ('what touches all must be approved by all'). Alfonso X 1252–1284 of **Castilia** incurred many extraordinary expenses and frequently summoned the Cortes to get their consent for exceptional taxes (Callaghan 2016). In **Portugal,** the entwined development of representation and taxation in the late middle ages has been described as 'the taming of Leviathan'. Fernando I sought to justify extraordinary levies by claims of imperative necessity but here, too, the Cortes drove home the principle that taxes could not be imposed without parliamentary approval (Henriques 2019).

- Families in the **Ottoman** empire were expected to contribute a son to the service of the sultan. These janissaries, duly converted to Islam, came to form the backbone of the armed forces. In addition, there were extraordinary taxes and '*corvées*' (unpaid services) including obligations to provide hospitality for soldiers and officials and maintain roads, bridges and fortifications (Brandes and Haldon 2008, Fodor 2020, Seker 2013).

- In **Russia**, the introduction of new extraordinary taxes in the 1630s has been described as a turning-point in the evolution of the military-fiscal state (Arakcheev 2018).

- In the States of **Holland,** the wars against Louis XIV in the early 18th century obliged the government to appeal for extraordinary taxes which then continued also in peacetime (Aalbers 1977).

- In **England**, a study of the earliest surviving royal accounts show that the extraordinary taxes contributed three times more than ordinary taxes (Slack 1988, Gottfried 1986).

- An exhaustive study of extraordinary taxes in **France** from 1355 to 1500 has been carried out by Gray (1932). In defence of such exceptional levies, Jean-Baptiste Say was later to argue that it was better to finance wars by way of extraordinary taxes that could be imposed while the battles were going on and then discontinued (Silberner 2015).

- Medieval law in **Sweden** specified the circumstances under which extraordinary taxes could be levied, such as the threat of a foreign army, an internal uprising, a coronation, the king's matrimony or his tour through the regions of the country to receive the oaths of their leaders (this traditional journey is known as an *Eriksgata*) (Imsen 2013).

- Social tensions generated by extraordinary taxes are a common theme in economic history. A study by Scott (2001) focuses on medieval **Florence,** another one by Szende (2005) on the frictions between Sigismund and towns in **Hungary**.

- Pledges of fiscal restraint figured prominently in many Scandinavian royal oaths. Christian I of **Denmark** promised that he would live off the crown's domains and exact no unlawful levies. Extraordinary taxes would be imposed only if it came to a war (Tjällén 2021). It has been suggested that many of the subsequent disturbances in the 17th century were due to a sharp rise in extraordinary taxes (Jespersen 2002).

- Historians have noted periods and regions in which *all* taxes collected were extraordinary. One such study refers to medieval **Norway** (Jakobsson 2013), another one to cantons in early 19th century **Switzerland** (Cohn 1889).

- A recent work on the financing of the Seven Years' War in the **Habsburg Monarchy** notes that 'an overwhelming obsession with revenue flow led to an avalanche of extraordinary taxes' (Szabo 2018).

Summarising these cases, we find ample support for the linkage between government borrowing and new taxes. In a crisis situation there is simply no time to make fundamental fiscal innovations. Governments have to improvise, and once the crisis is over comes the question of repayment. Currency depreciation or the printing press are standard solutions but, aware of this, many lenders require more substantial safeguards for their loans. Credit-financed military enterprises are frequently based on the promise or assumption of gains to be made from the eventually conquered territory. Whether this works out is a different story.

In a modern version, credits may be used both for countering present threats or avoiding future expenditures. There are also many promises of revenues that may be reaped from planned productive investments. Both of these elements have gone into the narrative of NGEU.

2.5 The upward push of collective action

According to the extensive literature on Wagner's law, technological and economic development generates a growing demand for collective goods and services. Within these two categories, however, there are communities of many different sizes that may be responsible for the funding and organization of the joint efforts. For some types of action it takes a village – no more. A small town may suffice to set up schools and other elementary types of collective service. Other investments need larger 'catchment areas', or financial bases.

The history of warfare may serve as an example. Long ago infantry forces dominated the scene, but then increasingly sophisticated artillery weapons entered the picture. The 20th century saw a number of technological breakthroughs, introducing in successive waves tanks, heavy artillery, ever larger warships, and ever more sophisticated fighter aircraft. If small states could afford the early arsenals on their own, recent advances in military technology clearly require the pooling of much larger resources.

Similar trends may be observed in healthcare. Elementary interventions may be organised at a local or regional level, but when it comes to rare diseases and the development of sophisticated pharmaceutical drugs the catchment area for efficient innovations is much larger. Over time, the communities required to sustain a great many types of joint endeavours seem to grow in size. This is what I propose should be called the 'upward push' of collective action.

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The larger communities required for these advanced types of collective action may come about in several different ways. A key strategy is political restructuring. Fusions of principalities and realms are very common in history. 19th century Europe saw the many small political units in (what are today) Germany and Italy merge into those unified states. Another avenue is intergovernmental cooperation, or varying degrees of federalisation. The continued bickering within NATO about the defence budgets of the various member states illustrates the inherent problems in such arrangements.

From the European Coal and Steel Community (ECSC), Euratom, the European Economic Community (EEC) onwards, we can observe a trend of centralisation in European integration, with successive treaties affording more powers to the common institutions. In between Treaty revisions, effective power shifts have come about through inter-institutional agreements. But there has also been some changes in the opposite direction, with national authorities obtaining more wiggle-room for their own preferences, for example within cohesion policy and the common agricultural policy. In many fields, plans are submitted from below and examined at higher levels of the machinery, following complex consultations between the two levels.

Whether such upward transfers of authority have been sufficient to meet the growing demands for high-level collective action is an open question. Interest groups in many policy areas keep asking for more. Member States wary of losing sovereignty in legal and fiscal affairs are more hesitant. The prospects for a further expansion of the Union's range of action hinges very much on changes that may be undertaken in the methods for decision-making. The need for unanimity in many policy areas acts as a brake on further advances, but also as an incentive to find other ways ahead.

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Faced with these obstacles, EU politicians have sought various ways of stretching the resources of the union. Thinking *inside the box*, they have invented many techniques for redeploying earmarked resources for more pressing purposes. *Outside the box*, they have also worked with credit facilities and many forms of extrabudgetary outlays. A common technique of circumvention is recourse to the inter-institutional agreements just mentioned. Another expanding sphere is the galaxy of arrangements outside the regular budget, sometimes involving the European Central Bank and the European Investment Bank (Arthuis 2019). Such off-budget outlays are well-known from national budgetary systems inside and outside the EU (Schick 2007). NGEU shows an advanced mastery of the art.

2.6 Revolutions in the technology of fiscal extraction

Successive refinements in the technology of fiscal extraction have been significant preconditions for the long-term expansion of public transfers and expenditures. Several stages can be discerned.

Mancur Olson Jr (2000) has vividly derived the emergence of enduring fiscal regimes from the process of sedentarisation (the settling of a nomadic population). Early conquerors practiced a tactic of hit-and-run robberies before they settled down to exact goods and services from the subjugated population. Tributes were first levied at irregular intervals and then more regularly. To evade the unpredictable assaults by Vikings, the early inhabitants of the British Isles accepted the recurring payment of what was called Danegeld. When 'roving bandits' turned into stationary bandits, the tributes originally extracted by threats or brute force were gradually transformed into regularly paid taxes. Establishing outright taxation required some form of census to keep track of the taxpayers and their property. Eventually, a cadastral register was created in the form of the Domesday book, initiated under William the Conqueror.

While states claim to exercise a monopoly of violence and taxation, the real power balance is more complicated in many societies. Where mafias are strong, enterprises may face a fiscal duopoly. There may also be other brokers capable of exacting continuous payments for particular protection services. Trade organisations may attain a legal status making membership dues or other payments to them more-or-less mandatory.

Another source of fiscal revenue was developed through the control of narrow passage-ways, such as ports or city gates. In most countries it took centuries rather than decades to establish taxpaying habits. The rulers' extractive capacity hinged very much on structural trends in economic geography and logistics. In rural society most tax receipts were non-monetary and had to be consumed where it was collected. Many kings traveled around. Royal barns were set up at strategic locations.

The growth of industry and commerce created new opportunities for regular taxation, but oversight was not easy to achieve. Various models of tax farming and entrepreneurial bailiffs preceded the emergence of national tax administrations. The cash register and other innovations in the payment systems closed some avenues for evasion. The evolution of banking and book-keeping in the 20th century brought about further opportunities for the fiscal authorities to levy taxes. Innovations in the payment systems opened up new windows for surveillance. When markets were no longer places of physical exchange but rather centres and offices for recording large-scale transactions, it also became easier for the tax officials to command a share of the traded volumes.

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A recent revolution that has not yet been fully explored or exploited is the large-scale transition to electronic payments. With cash disappearing from large parts of the sphere of economic exchange, new techniques become available to the fiscal authorities. A good deal of work is underway at the OECD and in national tax agencies to combat evasion and rationalise the interception of government revenue from the payment streams in national economies and the cross-border trade flows. In the following section we shall look more closely at this development from an EU perspective.

3. How digitalisation may facilitate the mobilisation of new resources for the EU

Few transformations are as dramatic as the digitalisation of our societies in the last few decades. Instruments that did not exist in the youth of older people (such as the personal computer, the smartphone, and the internet) are now completely decisive for our patterns of production, consumption, communication, and for our lifestyles in general. Even trying to summarise the array of policy issues that these innovations have added to the political agenda at different levels of governance is such a tall order that no attempt will be made to do so.

Given that the EU has made digitalisation a main theme of NGEU, it comes as no surprise that hardly any domain of our economies and societies is beyond the pale. According to the NGEU rule-book, a minimum of 20% of the allocations to Member States should be devoted to such investments and programmes. Included in this field is a broad spectrum of policies: measures to bridge the digital divide between urban and rural areas; deployment of 5G and other high capacity networks; cybersecurity; artificial intelligence; cyber-related training systems; e-government; computer-supported supply chains; high performance computing; refinement of electronic components; the development of digital infrastructures, and many other innovations.

Here the focus will be much narrower and more targeted: to what extent can recently introduced digital processes and methods contribute to the financing of the EU? The digitalisation of payments opens many new opportunities for cooperation and control. The OECD has long been at work in this area and helped establish wide-ranging technical cooperation between national fiscal authorities. As OECD is an organisation of states, its efforts have quite naturally been oriented towards the financing of governmental activities. Less attention has been paid to the more specific needs of international organisations. The established two step model of funding such activities by (1) national taxation and (2) member state contributions has hardly been questioned, except in some efforts to find new 'own resources' for the EU. Even in these cases most proposals have been based on the two-step model.

The following section will examine a few fiscal domains that might possibly yield such new own resources for the EU. They partly overlap and in different ways they are all connected to the process of digitalisation: (1) digital service taxes, (2) taxes on multinational enterprises, (3) financial transaction taxes and (4) automated payment taxes.

3.1 Digital service taxes

Given the recency of the various digital technologies, it is not surprising that the idea of a *digital levy* is a relative late-comer to the search for new EU revenue sources. It also resembles a political 'Nessie' (the Loch Ness Monster) in the discussions on the future funding of the EU, repeatedly appearing, disappearing and reappearing.

Under Article 311 of the Treaty on the Functioning of the EU (TFEU), the EU's expenditure is financed by contributions from each member state. A category now called 'traditional own resources' was predominant until 1987. These are principally customs duties collected on behalf of the EU, with 75% of the amount paid to the Union and the balance retained by the member states as a (very generous) compensation for its administrative costs. In recent decades these receipts have been supplemented by payments related to VAT and to the member states' gross national income (GNI).

Discontent with this system has been brewing for a long time. In 2005 the Council invited the Commission to review the whole package of own resources. The Commission responded in 2010 with a flurry of projects. As candidates for new incomes, it mentioned a financial transaction tax (FTT); a financial activities tax (FAT); a departure tax or flight duty tax on air transport; an EU value added tax; an energy levy, and a corporate income tax.

There was little success with these proposals. Some years later, many of them came back with the 2016 proposals of high-level group on EU revenue led by Mario Monti. This group gave priority to nine conceivable new income sources:

1. a CO2 levy;

2. income from the Emission Trading Scheme (ETS);

3. a motor-fuel levy;

4. an electricity tax-based;

5. an EU corporate income tax ('Common Consolidated Corporate Tax Base' or CCCTB);

6. an FTT, a bank levy or an FAT;

7. a reformed own resource based on VAT, and

8. income from seigniorage (the profit made in issuing currency)

A digital service tax was not included in this list, appearing only in a second inventory of other possible options. Nor was it put forward in the Commission's 2017 reflection paper on the future of the union. This report, original in that it listed both highly ambitious and quite frugal alternatives, presented eight potential new sources of income, among them a reformed VAT; a corporate tax-based levy; a financial transaction tax; seignorage; carbon pricing; as well as taxes on electricity and motor fuel.

Later in the same year, however, the Commission came back with a concrete proposal for a digital service tax. In a communication entitled *A fair and efficient tax system in the European Union for the Digital Single Market*, it noted a new industrial revolution: of the world's twenty largest enterprises nine now operated in the IT sector. The change had been swift. In 2006, the tech companies' share of global market capitalisation had been 7%. By 2017 it had reached 54%. Despite this, the tech companies paid scant taxes – the tax burden on their profits was on average 8.5%; less than half of the tax burden on enterprises using a traditional business model.

Drawing the line between these two types of enterprise was increasingly difficult. Electronic components began to appear in all kinds of products, to the extent that automobiles were now facetiously referred to as assemblies of mobile computers between four wheels. The digital transition also made inroads into agriculture, not to mention the quickly growing service sector.

'So where does high tech start, and where does it end? One increasingly popular way of resolving this conundrum was to embed the taxation of the digital economy in the general corporate tax framework.'

So where does high tech start, and where does it end? One increasingly popular way of resolving this conundrum was to embed the taxation of the digital economy in the general corporate tax framework. Arriving there might take considerable time, so the Commission advocated a reform in two stages. As a first step it suggested three alternatives: (1) an equalisation tax on the turnover of digitalised companies; or (2) a withholding tax on digital transactions, or (3) a levy on revenues generated from the provision of digital services or advertising.

None of these proposals led to any quick breakthrough. The great achievement in 2021, however, was the agreement at OECD/G20 level on a dramatic reform of global corporate taxes. The deal included both a minimum level of corporate taxation at 15% and a general licence to all jurisdictions to tax revenues left untaxed by by fiscally liberal states (now no longer called 'tax havens' but 'investment hubs'). So far, it is only the governments that have agreed on this construction, and the ratifications may not be easy in all the states concerned. From the EU point of view it is notable that the parties involved in the agreement are only the sovereign states. In itself, the OECD/G20 deal provides no dividend to the EU.

The push for new income sources received a new stimulus when the barriers to joint borrowing came down. With COVID-19, long-time opponents of this option modified their positions. For the European Commission, 2020-21 turned out to be an *annus horribilis et mirabilis.* A joint Franco-German initiative on 18 May 2020 broke some of the ice. This paper started out with an ambitious European health strategy and then went on to suggest a large credit-based recovery fund. The proposal was then discussed at EU level and further developed in the Interinstitutional Agreement of 16 December 2020, containing 'a roadmap towards the introduction of new own resources'. Here, a three-stage process was set down. In the first step, the Commission would accelerate its work and, among other things, propose a digital levy by June 2021, to enter into force by January 2023.

For several reasons, this timetable was not kept to. One was the resistance from the United States, which found the proposal discriminatory and claimed that it was particularly targeted at US enterprises – not an unreasonable reaction as the name of the levy in French was *la taxe GAFA(M),* an acronym for Google, Amazon, Facebook, Apple and Microsoft. Another complication was the final phase of the negotiations within OECD/G20 on the base erosion and profit shifting. Ultimately, Commission came back on 22 December 2021 with a Communication on the 'the next generation of own resources for the EU budget'. Here, three new sources of income were proposed, the first on based on revenues from emissions trading (ETS), the second drawing on resources generated by an EU carbon border adjustment mechanism (CBAM), and the third based on a share of the residual profits from multinationals that are to be re-allocated to EU Member States under the recent OECD/G20 agreement on a re-allocation of taxing rights ('Pillar One'). At cruising speed, in the years 2026–2030, these new sources of revenue were expected to generate on average a total of up to €17 billion per year for the EU budget.

> 'The basic idea in the Communication was that particular slices of the revenues generated by EU policies would be reallocated to the Union.'

The basic idea in the Communication was that particular slices of the revenues generated by EU policies would be reallocated to the Union. Thus, 25% of the income from the auctioning of emission rights under the ETS system would go the EU. In the future, this levy might be extended to aviation and to the maritime sector. As for the revenues stemming from the CBAM, 75% would go to the EU budget. Finally, with the reallocation foreseen under Pillar I of the OECD/G20 agreement, 15% of the share of the residual profits of the largest and most profitable multinational enterprises to be relocated to EU member states would accrue to the Union. In the proposal of the Commission, these new revenues constituted *a first basket of new own resources.* Further resources might later come from new models of business taxation and from a *second basket*, to be presented in 2023.

In this Communication the idea of a special levy on digital companies was scrapped in favour of targeting large enterprises with a global presence and impact. Whether this is Nessie's final disappearance remains to be seen, but the increasing difficulty of distinguishing high-tech companies from other large corporations makes this rather probable.

3.2 Taxing multinational enterprises

The post-war period has seen a dramatic increase in global trade, built on a rapidly expanding international division of labour. The result is higher living standards in virtually all parts of the globe but bought at the expense of an ever-greater dependence on external economic developments. Nation states have defended their fiscal sovereignty, but therefore have very limited capacity to tax enterprises outside their own borders. For a variety of reasons, multinational companies therefore pay significantly lower taxes than domestic enterprises. This is what the OECD has tried to get to grips with in its programme on base erosion and profit shifting (BEPS), started in 2013 and recently brought to an important but far from final agreement supported by 137 states around the world.

'The early focus on data giants or tech enterprises has gradually given way to a recognition that virtually all enterprises nowadays depend on digital technologies, in every segment of the economy.'

The early focus on data giants or tech enterprises has gradually given way to a recognition that virtually all enterprises nowadays depend on digital technologies, in every segment of the economy. This goes even for the huge armies of workers employed in agriculture and other traditionally manual occupations. Accordingly, attention has shifted from the digital multinationals towards the general problems of corporate taxation.

When the EU's Lisbon strategy on competitiveness and growth was launched in 2000, the Commission identified the 15 different systems of corporate taxes in Europe as a major obstacle to trade and growth. The problem of competing corporate tax systems had first been identified by Member State leaders and the Commission in the mid-nineteen seventies, but with little progress since then. A first proposal for a common consolidated corporate tax base (CCCTB) was launched in 2011. While rates were still to be set by the member states, this model offered a single set of rules for the calculation of EU taxes. Progress was relatively slow during the second decade of the 21st century, with resistance from Ireland and UK among others, but with the OECD/G20 agreement on corporate revenue reallocation the stage is now set for further steps forward. In a 2021 Communication on business taxation in the 21st century, the Commission withdrew its CCCTB proposal in favour of a plan to present by 2023 a new 'business in Europe framework for income taxation' (BEFIT). BEFIT will build on the OECD's two-pillar proposals and provide for the allocation of profits between member states based on an apportionment formula. BEFIT will also pave the way for further administrative simplifications, including the possibility of a single EU corporate tax return for a group of enterprises.

A noteworthy feature in the OECD/G20 package is its focus on very large companies. Presumably to facilitate the acceptance of the proposal, the parties to the agreement want to limit its applicability to multinational enterprises of a significant size. For Pillar 1, the floor is set a global turnover of €20 billion and with profitability (before tax/revenue) of more than 10%, subject to a review after seven years under certain circumstances. In Pillar 2, there is a set of rules called GloBE (Global Anti-Base Erosion Rules) that Member States may adopt if they wish to do so and which operates with a threshold of €750 million. There are other limits in the agreement which allow enterprises with modest revenues in particular countries to remain outside the system.

As originally presented, the OECD/G20 proposal would benefit only national jurisdictions. In its Communication on 22 December 2021, the Commission presented a sketch of how various slices of the foreseen gains could be passed on to the EU. Further details of how such shares would be determined are to be dealt with in the Commission's work programme for 2022.

The arguments for and against taxes on multinational enterprises fall essentially into two groups. In favour of such levies politicians have often pointed at the power of such companies to dominate markets, squeeze out domestic competitors and evade taxes by booking incomes in the most fiscally attractive jurisdictions. The profit shifting and base erosion phenomena addressed in the BEPS programme of the OECD exemplify such imbalances. The large number of voters who own or are employed by small and medium size enterprises have often been receptive to such arguments. Yet governments have also been quite sensitive to the perceived benefits of attracting foreign investment. Hence a certain split between political talk and political action: on the one hand many complaints of unfair competition; on the other rafts of subsidies and favourable tax rules for companies prepared to boost employment, particularly in disadvantaged areas.

3.3 Financial transaction taxes

Financial transaction taxes have a history spanning several centuries. The earliest and widest spread version is known as *stamp duties* or *stamp fees*.

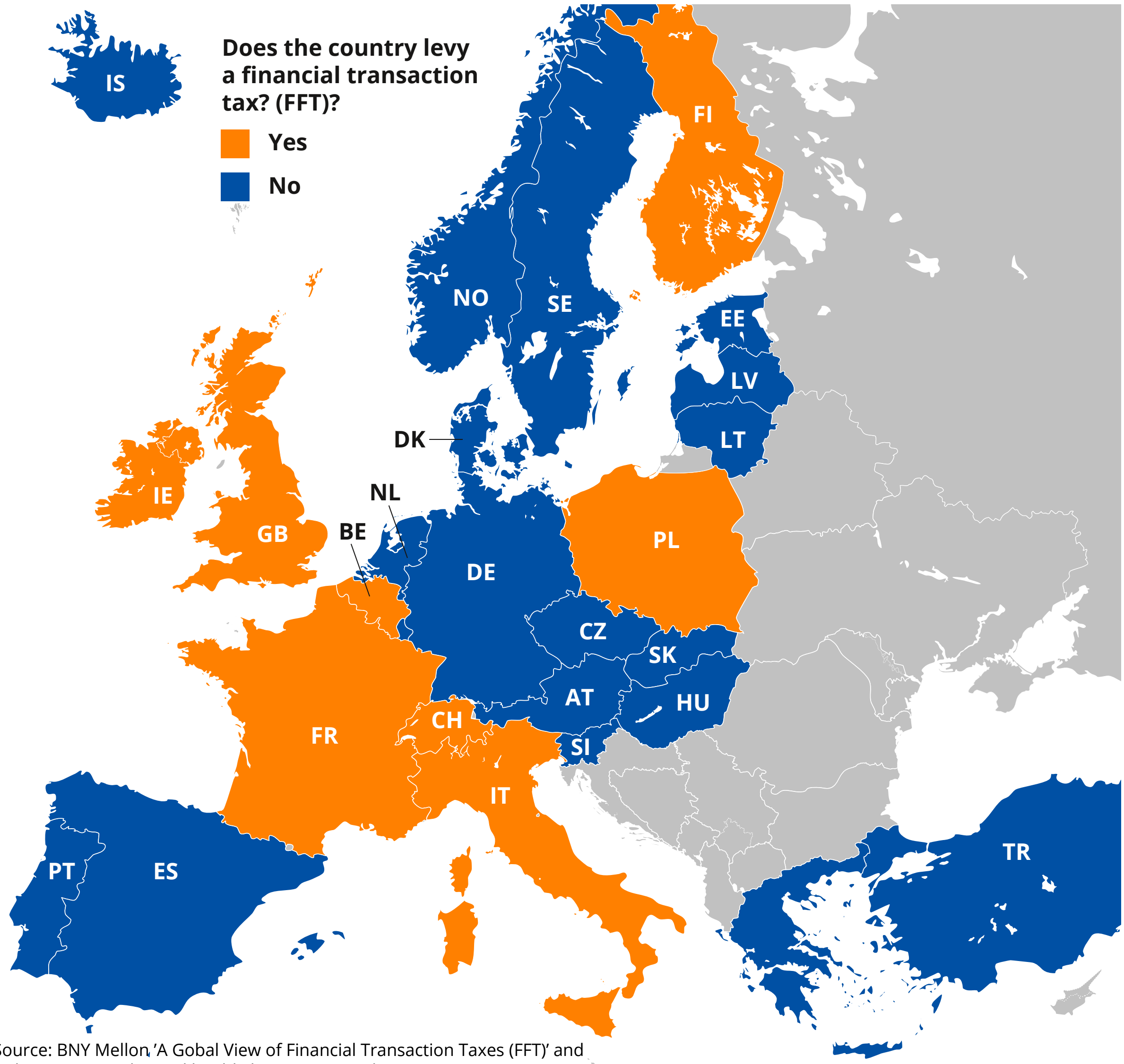
3.3.1 Stamp duties

Tobacco shops in Italy sell *bollati*, the forms required to validify a certain number of application and transaction documents. Stamp taxes have a long tradition in that country, pioneered in Venice in 1604. The habit then spread across Europe. The 1694 stamp duty payable by buyers of shares at the London Stock Exchange is the oldest tax still in existence in the UK. The 18th century saw stamp taxes proliferating for a variety of transactions, eventually extended to mortgages. Applied to commodities, the stamp could be placed on the package. The stamp collection in the British Museum includes duties imposed on newspapers, pamphlets, lottery tickets, advertisements, playing cards, dice, hats, gloves, patent medicines, perfumes, insurance policies, gold and silver plates, hair powder and armorial bearings.

Stamp taxes under various names are still widespread, particularly in connection with real estate purchases, mortgages and equity transactions. The map indicating OECD countries with such levies in 2021 gives an idea of its prevalence but is in all likelihood incomplete.

Figure 1. Financial transaction taxes in Europe

European OECD countries that levy a tax on certain financial transactions



Source: BNY Mellon 'A Gobal View of Financial Transaction Taxes (FFT)' and Deloitte, 'Tax guides and hughlights' / Tax Foundation

3.3.2 Keynes's security transaction tax

Proposals to levy stamp taxes were typically advanced as means towards covering sudden and urgent needs for additional government revenue. Starting with John Maynard Keynes, a long line of economists have instead proposed transaction taxes to cure weaknesses in the financial system. When Keynes proposed a securities transaction tax in 1936 he argued that uninformed financial traders in Wall Street created increased volatility by their excessive speculation. Fiscal instruments should be used to dissuade them from doing so.

3.3.3 Tobin's spot conversion tax

Eventually – and for a few decades – the Bretton Woods system laid some of the concerns about stability threats to rest. After its collapse, however, they returned with a vengeance to stimulate new prescriptions against exchange rate disruptions. In 1972, American economist James Tobin proposed a tax on all spot conversions of one currency into another. The idea was to promote more stability in currency markets and international trade by punishing short-term speculation. The Tobin tax was adopted nowhere but gained a great deal of support in various quarters, as it was intended to hit powerful financial actors that seemed to be beyond the reach of national legislators. An argument raised against it was the risk of market dislocation. Levies introduced in one single jurisdiction could easily drive capital abroad in search of more favourable conditions. Eventually the term Tobin tax came to be used more widely, to cover all kinds of levies suggested to hit a wide array of monetary movements.

3.3.4 Spahn's two-tier tax, with a dormant surcharge

One critic of Tobin was Frankfurt professor Paul Bernd Spahn who argued that it was impossible to distinguish between speculative trading and more normal, legitimate exchange operations. A high tax on currency exchange would inevitably harm international trade and create liquidity problems. To avoid this effect Spahn suggested a two-tier rate structure, with a low-level financial transactions tax and a much higher exchange surcharge. The latter would remain dormant in normal times and activated only under conditions of excessive volatility. A version of this tax was adopted in Belgium in 2004.

3.3.5 The European Commission's 2011 proposal

In 2011, after a request from 11 member states, the European Commission proposed a directive on a common system for financial transaction taxes (COM 2011 738 final). Commission President Barroso gave several justifications for this proposal. One was that the banking sector had received substantial assistance during the financial crisis. Other arguments were that such a tax would help to reduce competitive distortions in the single market, discourage risky trading activities and complement regulatory measures aimed at avoiding future crises. Furthermore, the addition of such a new own resource would reduce the Member State contributions to the EU.

The proposal failed to gather the required support in the Council, and the idea of adopting it within the eurozone only met with resistance from Luxembourg, Ireland and Malta.

Table 1. Revenue Estimate for EU Financial Transaction Tax

Tax base	Tax rate	Revenue estimate (€ billion)
Securities:		
Shares	0.1%	6.8
Bonds	0.1%	12.6
Derivatives:		
Equity linked	0.01%	3.3
Interest rate linked	0.01%	29.6
Currency linked	0.01%	4.8
EU total		57.1

3.3.6 The European Commission's 2013 proposal

The 11 member states backing the initiative then agreed on an enhanced cooperation solution, duly codified in a revised proposal presented by the European Commission in 2013.[1] Though the non-participating signalled their acceptance, the project landed in limbo. An important reason for this was an opinion by the Council's legal service which claimed that the proposal was illegal as it exceeded the member states' jurisdiction for taxation under international customary law. This did not prevent the Council from approving the initiative but each member state was still entitled to present a challenge to the Court of Justice (CJEU) which, if approved,

[1] https://ec.europa.eu/transparency/documents-register/detail?ref=COM(2013)71&lang=en

would annul the whole scheme. Negotiations between the states in favour continued, with a view of designing more limited taxes on equities and derivatives, but remained inconclusive.

Opposition to enhanced cooperation proposal came from several Member States. The UK brought a challenge to CJEU which gained the support of Luxemburg. When the Court dismissed this application, the UK declared that it would go ahead with further objections. Meanwhile, second thoughts on the matter were intimated by Slovenia and Estonia, and the Brexit issue moved the centre of attention to other concerns. At this stage the initiative stalled.

'The arguments against the two commission initiatives were largely identical. They circled around such issues as extra-territoriality, double taxation, pension funds and the distribution of revenue.'

The arguments against the two commission initiatives were largely identical. They circled around such issues as extra-territoriality, double taxation, pension funds and the distribution of revenue.

After this failed initiative, the idea of a FTT was largely kept on the backburner, surfacing only now and then, for example in the Commission's 2017 reflection paper on the future of the EU finances. There, as in the early discussions about a European FTT, there was also a certain ambivalence as to the channelling and destination of tax receipts. Would they go to the national coffers, or to a common treasury? And if the latter, which one?

3.3.7 The Franco-German initiative of 2019

This ambivalence persisted, evident in many signals sent out by various governments in the subsequent years. With Brexit looming on the horizon and UK resistance becoming less relevant, the FTT supporters dusted off the old proposal. In January 2019, Germany and France presented a joint paper where the new tax was presented as a contribution to a eurozone budget, but revenues from it could also be used to offset national payments to the EU.[2] The revised proposal launched by the two governments was basically modelled on the national French FTT. As described in the Council conclusions of 14 June 2019, the main features were the following:

1. The new FTT would be levied on the acquisition of shares of listed companies which have their head office in a member state of the EU and market capitalization in excess of €1 billion on 1 December of the preceding year.

2. The tax would be levied on the transfer of ownership when shares of listed public limited companies are acquired.

3. Initial public offerings, market-making and intra-day trading would not be taxable.

4. The rate would be 'no less than 0.2%', but no exact percentage was specified.

The Franco-German proposal was scorned as too timid by a cross-political grouping in the European Parliament, with members in all political families but with its epicentre in left and green camp. Their key complaint was that the French and German governments had been too submissive to financial lobby groups. Accordingly, it was said that 'they have managed to substantially water down a previously agreed arrangement, by removing derivatives transactions from the tax base. Stripping out this one asset class alone slashes the bulk of the revenue and destroys the regulatory effects, which incentivise financial actors towards longer-term investments.'[3] In the view of the signatories, the Franco-German proposal would yield less than €4 billion a year across the participating 10 EU states. Encouraged by the 2020 CJEU judgment in the case of Société Générale vs Italy, which had made short shrift of some fundamental objections to FTTs, they advocated a much steeper tax rate.

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2 https://www.euractiv.com/section/economy-jobs/news/germany-and-france-to-outline-eu-financial-transaction-tax-proposal/
https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CONSIL:ST_10097_2019_INIT&from=EN

3 'A Financial Transaction Tax deal worth fighting for.' Euractiv, 17 July 2020.

3.3.8 The 2020 enhanced cooperation agreement

In early 2020, then German Finance Minister Scholz announced that the ten Member States preparing a FTT under the enhanced cooperation procedure were very close to an agreement.[4] This would impose a tax of 0.2% on the purchase of shares in domestically listed companies with a market capitalisation in excess of €1 billion ($1.1bn). The tax would also apply to depositary receipts issued domestically and abroad and which were backed by shares in these companies. Initial share offerings would be excluded from the FTT. The German Government said that such a tax would apply mostly to institutional investors, as share purchases by private investors represent only about 3% of overall trading volume.

No common European use of this revenue was indicated at this time. For Germany, the €1.5 billion income would be used to help finance state pensions. No disclosure was made about the plans of the other nine countries, Austria; Belgium; France; Greece; Italy; Portugal; Slovakia; Slovenia, and Spain.

3.3.9 DeFazio's 'Main Street vs. Wall Street'

A reason often given for FTTs is that banks and other providers of financial services should pay their fair share of the costs of governance. VAT, a tax invented after WWII, has come to be the single most important source of public revenue in many European countries, but the financial sector is largely exempt from this tax. Honahan (2003) describes this as a historical inheritance without much political or economic rationale, but the rules in force are also linked to the undeniable difficulties in defining the contribution of financial institutions to the creation of economic wealth.

The recent advances in the digital economy and the contemporaneous set-backs experienced in many traditional forms of commerce and production have no doubt given momentum to such ideas. Examples abound in the many recent proposals for digital taxes, where an important background factor is the ever-sharper competition between physical retail companies and platform-based brokers. The tension is often framed as a conflict between the small and the big, as tellingly evoked in the name of proposal by Congressman Peter DeFazio and several of his colleagues in the US House of Representatives: *Let Wall Street Pay for the Restoration of Main Street Act* (H.R. 4191, 3 December 2009). Citing earlier US experience of a transfer tax, from 1914 to 1966, the initiators proposed a 0.25% tax on the sale and purchase of financial instruments such as stocks, options and futures. The receipts were projected to be $150 billion a year. Half of this sum would be used to pay off the federal debt, the other half deposited in a job creation reserve.

> 'A reason often given for FTTs is that banks and other providers of financial services should pay their fair share of the costs of governance.'

3.3.10 Motives for FTTs

Why financial transaction taxes? Four principal motives can be distinguished.

1. Early contributors to the discussion, including Keynes and Tobin, emphasised **macro-economic aspects**. They saw grave threats to economic stability stemming from market volatility induced by speculative movements and sought corrective instruments to counteract such tendencies inherent in the capitalist system.

2. A later group of economists were more concerned with the **level playing field between different technologies of production and distribution**. If the surging financial sector was allowed to thrive virtually tax-free, competition would be seriously skewed to the disadvantage of traditional branches of the economy. This theme has strong resonance among affected interest groups, as evident from many proposed and adopted tax projects.

3. Such initiatives have also led to considerable international tensions and most notably unleashed a tax and trade conflict between the United States and various European states.[5]

[4] https://www.tax-news.com/news/EU_Financial_Transactions_Tax_Agreement_Close_Says_Scholz____97518.html
[5] https://ustr.gov/sites/default/files/Report_On_France%27s_Digital_Services_Tax.pdf

With the strong preponderance of American enterprises among the leading tech companies, the US position has been to defend fiscal systems favouring innovation. Other states have asked for **a level playing field in international commerce between source states and market states**. This matter has most recently been dealt with by the OECD in the format of 'the inclusive framework'.[6] It remains to be seen whether this matter can be resolved through its 2020 proposal (1) to introduce a new 'nexus' concept as a legitimate basis for taxation, and (2) to establish of a minimum level of taxation through the transfer of taxing rights unused by source states to the market states.

4. A final motive for financial transaction taxes is perhaps best summed up as **Sutton's law**, named after 'Slick Willie' Sutton who earned fame through his answer to the question why he kept robbing banks: that's where the money is. Payments have gone digital. This no doubt provides new possibilities for the financing of collective goods and services. A revolution in the transfer of payments opens an entirely new chapter in fiscal engineering. Previous shifts in taxation were likewise very much linked to technological breakthroughs and subsequent changes in the patterns of trade and economic exchange.

3.4 Automated payment taxes (APT)

If these different waves of FTT proposals emphasised economic stabilisation and the need for an equitable burden-sharing, another group of projects was more focused on practical considerations of fiscal engineering. Digitalisation now facilitates the interception of taxes from the widening flows of financial payments. With cash on its way out and electronic transfers taking its place, the machinery of taxation now promises to become ever more efficient.

Extracting a minute fraction of one percentage from the massive payment streams providing oxygen to the life-blood of developed economies is then a very tempting offer in an epoch of increasing demands on the public purse. Among the adverse effects necessary to consider, the main one is probably the risks of market dislocation and capital flight. Some countries imposing FTT-type charges on purchases of stocks and bonds (notably Sweden) have seen a swift shrinking of their share of the market. As many authors point out, however, this inclination is best counteracted by international harmonisation. If many countries move in unison, the benefits of shifting financial transactions to more benign jurisdictions will diminish.

'Extracting a minute fraction of one percentage from the massive payment streams providing oxygen to the life-blood of developed economies is then a very tempting offer in an epoch of increasing demands on the public purse.'

The pioneer in this field of fiscal designs is Edwin L. Feige, a German-American economics professor at the University of Wisconsin-Madison, originally specialising in the analysis of tax evasion and the underground economy. In 1989 he proposed a broad approach to transfer taxation under the name of automated payment transaction tax (APT). He gained an audience in several countries, including Brasil, where a version of his model was piloted for a couple of years.

3.4.1 Feige's automated payment transaction tax (APT)

Feige (2001) targets all payments in the economy, such as the purchase of stocks, bonds, real estate and foreign currency but also work remuneration and consumption expenditures. His APT tax proposal promises simplification; base-broadening; reductions in marginal tax rates; the elimination of tax and information returns, and the automatic collection of tax revenues at the payment source.

This base extends far beyond a state's total GDP since transactions are double-counted; both as revenue and spending. The tax can be devoted to particular purposes but can also be used to replace all other taxes, with a rate that can be kept quite low on account of the exceptionally broad base.

[6] https://www.oecd.org/tax/beps/brochure-addressing-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2020.pdf

In one calculation Feige arrives at a rate of 0.7%, to be shared equally at 0.35% between payers and recipients. In another version, the figure is 0.6%.

Feige's tax is collected digitally whenever final payment is made in the settlement of any transaction. Just as stock-brokers and credit card companies automatically collect brokerage fees from their customers for facilitating transactions, the APT tax can be viewed as a government brokerage fee levied on all transactions to pay for the institutions (monetary, legal, and protective) that facilitate, sanction, enforce and protect property rights, contracts and exchange transactions. The tax payment is automatically assessed and transferred to the government at the time of settlement. As such, the APT tax scheme requires no additional filing of information or tax returns and the government receives its tax revenue digitally in real time. These features of the proposed tax satisfy all of the criteria for optimal tax reform, says Feige: simplification, efficiency, equity and reduction in compliance and administrative costs.

'The advantage of such a proposal is that it would establish a universal standard for real-time, automatic digital tax collection via the global financial settlement system.'

In a second version of his proposal Feige (2017) deals with the problem of acceptance. Given the stubborn resistance to radical tax reform, he now believes that the most promising avenue for progress is to lobby for the adoption of an even smaller tax. In this APT 2.0 the rate would be reduced to one tenth of one percent (0.1%) on all transactions globally and the levy would supplement rather than replace existing taxes. The revenues collected by each jurisdiction would be used to lower the tax rates of their existing tax systems, thereby reducing their inefficiencies without reducing their overall government revenues. The advantage of such a proposal is that it would establish a universal standard for real-time, automatic digital tax collection via the global financial settlement system. Adoption by the major developed nations would eliminate the incentives for tax shifting between nations currently entertaining FFT proposals while allowing every state to maintain what it regards as the advantages of its current tax system. Empirically monitoring the actual consequences of a small, globally adopted APT tax would provide the evidence necessary to guide future policy decisions concerning the desirability of its expansion. The type of leadership and cooperation that achieved the Paris climate accords would then be followed by another step toward a global tax reform that incorporates the opportunities for efficiency, equity and simplicity made possible by 21st century innovative technologies.

3.4.2 Murphy's progressive bank account tax

While Feige and some of his disciples argue that their flat tax is in effect progressive as wealthier persons transact much greater volumes of payment, another expert on tax avoidance takes a different approach. British economist Richard Murphy (2020) pleads for a progressive tax on all bank accounts in the economy, without exceptions. When it comes to businesses, he suggests rebates for smaller companies. He does not believe in Pigovian taxes aimed at reducing the demand for goods with negative externalities, such as alcohol and tobacco. On the other hand, he advocates a reverse flow of tax rebates when there is a need to stimulate the economy: once a tax on bank accounts has been put in place it can also be used to stimulate the economy when there is a need for such measures. This channel is now all the more important as the tools of traditional monetary policy have lost much of their effectiveness.

3.4.3 Bollinger-Chesney's Mikrosteuer

Two tax experts in Zürich, financier Felix Bollinger and economics professor Marc Chesney (2015), have presented a version of the Feige model that places financial flows at the centre of the fiscal system. Proposed as a national Swiss project, the Automatic Micro-Tax on Debiting and Crediting (AMTDC) is intended to replace all other taxes and fees. A taxation rate of 0.2% should be sufficient for all expenditure needs, according to the authors:

> No longer are citizens and corporations and their respective incomes and profits the sources for government revenue. Instead, flows within the financial system itself are taxed: each electronic transaction, representing a debit/credit pairing,

> becomes the grounds for this new Micro-Tax. Because it is levied automatically, the Micro-Tax is both fair and easy to administer. The processors of these payments, the financial industry itself, become collectively responsible for an automatic tax contribution, thus completely eliminating the current strain on individual taxpayers and corporations to both file and pay income- or profit-based taxes.

Signatures were collected for a federal referendum on the proposal *Mikrosteuer auf dem bargeldlosen Zahlungsverkehr*, but the initiative failed already at this stage.

3.4.4 Thorpe's flat-rate transaction tax

Simon Thorpe, a British psychologist leading a research centre at the University of Toulouse, has similarly proposed a flat-rate FTT to replace all taxes. To assess the base for such a levy he relies on Bank of International Settlements statistics which provide details for 13 countries in 2008. The grand total of payments in these countries amounts to nine billion billion dollars (nine thousand trillion).[7] Comparing this sum to the taxes levied by the 13 states, Thorpe finds that the same amount of revenue could be raised with a tax rate of 0.1%. His own proposal for a single tax rate is considerably higher, though:1%. In support of this rate he argues that this fee is close to the fee paid by many bank customers for regular transaction services. Anticipating objections from the providers and customers of high-intensity transactions, he questions the usefulness of this particular segment of the market. As for more normal types of payment, Thorpe observes that the 0.5% stamp duty introduced in the UK in 1986 has obviously not prevented the development of a thriving financial services industry in that country.

As for transnational payments, Thorpe sees no major problems if the model is adopted simultaneously by the G20 states where the overwhelming mass of all payments (97%) occur within states. When transactions occur between countries, the tax revenues can be split between the two.

Thorpe's preference for a flat-rate is based on the arguments that such a rate

- is fair
- is cheap to implement
- is virtually impossible to avoid
- would make tax-havens largely irrelevant
- would provide a level playing field
- and would place the burden on actors who can pay.

Other benefits of the switch from conventional taxes would be providing incentives for local trade and shorter supply chains.

3.4.5 Cintra's imposto único

Marcos Cintra, a Brazilian economist and politician, sees a dividing line between two paradigms in the current discussion on taxation: a traditionalist school clinging to 'declaratory taxes' based on massive amounts of paperwork while an innovative school favours the transition to 'non-declaratory taxes' levied straight from the electronic payment streams without any filings. Drawing their data from the electronic clearinghouses of the banking system, the tax authorities could simply divert a narrow trickle of the massive transaction flows. For certain types of economic activities operating at very small margins – such as high-intensity stock-trading – this might have disruptive effects and lead to much lower volumes and/or modified procedures, but for most other types of payment the burden would not be as disturbing. After all, small fees collected by the banks for their transmission services do not seem to scare away customers. The fraction diverted for fiscal purposes would not be much different.

Various forms of FTT have been tried out in a handful of Latin American states. A version of a financial transaction tax was tried out in Brazil between 1993 and 2007, but it was superimposed

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[7] Credit transfers, direct debits, card payments and cheques, payments processed by selected interbank funds transfer systems, value of executed trades, value of contracts and transactions.

upon the other taxes in force and thus not a single tax as described by Cintra. For analyses of this experience, see Cintra (2009b) and Coelho et al. (2001).

3.4.6 An assessment of the options

Taxes evolve with our forms of exchange. In fiscal history we find a long succession of technological changes, typically occurring first in one place and then spreading to others through a process of policy imitation and adaptation. The innovations cover a wide range of public revenue-related elements and processes, such as the names and justification of levies, the modus operandi of tax collectors and public treasuries, and the techniques for extracting public incomes from a variety of private assets and economic activities.

Mancur Olson Jr. (2000) vividly derived the emergence of enduring fiscal regimes from the process of sedentarisation. When 'roving bandits' turned into 'stationary bandits', the tributes previously extracted by threats or brute force were gradually transformed into regularly paid taxes. Instead of apparently random assaults by Vikings, the early inhabitants of the British Isles accepted the regular payment of what was called Danegeld. Under William the Conqueror, a cadastral register was eventually established in the form of the Domesday book.

Rulers of agricultural economies had to levy most taxes in kind and were then compelled to consume them by travelling around. Monetarisation opened new fiscal opportunities. The extraction of public revenue from trade was also linked to the growing competence to control narrow passageways. Custom duties were levied both in ports and at city gates.

Where 19th century governments struggled to extract more than some 10% of the GDP for public purposes from their barely monetarised economies, 20th century states attained fiscal quotas of up to 40 or 50% (Cardoso 2013). As explained in a classic study by Peacock & Wiseman (1961), these dramatic upward leaps came about through the two world wars after which government spending never fell back to its previous levels.

Digitalisation now sets new conditions for taxation by radically reducing implementation costs as well as the opportunities for evasion. Standard types of declaratory taxes, to employ the useful terminology suggested by Cintra, impose administrative burdens both on the authorities and on the taxpayers. For the latter, in his example, costs are twice as high as they are for the states. The electronic methods of diverting narrow trickles from the massive payment flows to the accounts of the tax authorities can virtually eliminate such costs. From a sheer efficiency point of view, there are thus very strong reasons to consider a transition towards paperless, automated transaction taxes.

'Digitalisation now sets new conditions for taxation by radically reducing implementation costs as well as the opportunities for evasion.'

The provision of collective goods and services hinges on demand, supply and finance. When it comes to global public goods, demand is exploding. The most recent examples are the pandemic and the many signs of climate crisis. The WHO and thousands of experts agree that to protect all of us not only from present versions of COVID-19 but also from unforeseeable new mutations, humanity would now be very well served by a massive campaign to vaccinate billions of people in poor countries. In spite of this clear consensus, the interventions undertaken thus far are only patchy. The responses to the climate alarms are equally tardy and deficient.

The reasons for this is not a lack of supply. In a surprisingly short time, the technology of vaccine production has proved to be highly innovative, adaptable and scalable. Nor is there is any lack of proposals to grapple with the climate challenges. Instead, the real bottleneck lies in finance. Tax systems are extremely inert, and our methods of pooling resources across borders woefully inadequate. Billions of people cannot afford to pay for their own protection, and it is only in the wealthier parts of the world that fiscal resources can be mobilised for the public provision of vaccines. We face a similar problem with the climate crisis which most people still experience as only semi-acute.

Assessing the five financing options above in this light gives little reason for optimism. The notion of a separate tax on digital services can probably be given short shrift. Digital technologies have now invaded all branches of the economy to such an extent that they no longer stand out as something specific.

The idea of a squeezing resources out of large companies still enjoys a great deal of support in wide circles, including some EU institutions. It seems to be based on the conviction that the small can be mobilized against the big and that resistance against new levies will subside if most enterprises are given exemptions. But will this line of reasoning hold water in the long run? Neutrality is a virtue in the design of fiscal systems. Large companies are not inept at resisting targeted levies. Counter-manoeuvres may include splitting up big enterprises. There are many hurdles to overcome before such taxes can be realised.

The same is true of the various versions of FTTs. Half a century has passed by since the Tobin tax was thought up. States that have experimented with this model have seen capital flight and various other forms of evasion. The appetite for new ventures along this line seems to be moderate.

> 'The idea of an automated fee on all types of payment is largely untested but more interesting.'

The idea of an automated fee on all types of payment is largely untested but more interesting. Both enterprises and households are by now rather accustomed to paying small fees to their banks for various services. Several categories of payment are already subject to small deductions, without vocal protests or rebellions or capital flight ensuing. Even large fines have been accepted by multinational companies faced with the risk of exclusion from vital payment systems in the case of refusal.

The model for the EU to consider would be a small deduction – a fraction of a percent – on all payments through banks and other financial institutions, as a fee for the privilege of operating within the EU legal system: a market entry fee (MAF). This fee would be forwarded straight to the EU, without any detour via national treasuries. It would therefore constitute an own resource in the literal sense of the word. It would be a paperless levy: no declarations, no exemptions. It would be a paragon of simplicity.

4. Conclusion: a market access fee (MAF) paid straight to the EU

Would the ECJ regard such a MAF as a tax, subject to all the rules and limitations of the treaties? Perhaps, but perhaps not. Objections would certainly be raised, as they have in the context of the FTTs and NGEU. As discussed in most of the literature presented in this report, FTTs and APTs are proposed for state jurisdictions either added on top of other national taxes or, in the more radical sketches, entirely replacing them. In the thinking of the European Commission, however, the FTT is a building block in the revenue of the EU; a new 'own resource'.

The legal basis for this indicated in the 2013 proposed directive was Article 113 of the Treaty on the Functioning of the EU. The Commission argued that the initiative, aimed at harmonising legislation concerning indirect taxation on financial transactions, is needed to ensure the proper functioning of the internal market and to avoid distortion of competition. Non-participating states' financial institutions would benefit from the enhanced cooperation as they would be confronted with only one common system of FTT applicable in the participating Member States instead of a multitude of systems.

The Legal Service of the Council contested this reasoning, and the compatibility of FTTs in general with the present treaty must at least be regarded as an open question. The same holds for the APT. What speaks in favour of its acceptability?

In a dynamic perspective there is clearly a trend towards accepting fiscal and semi-fiscal levies imposed by bodies outside the boundaries of sovereign jurisdictions. The United States has taken great strides towards taxing both its own citizens and companies abroad, and in many areas these claims to extraterritorial authority extends also to foreign companies engaged in business transactions that Washington disapproves of.

The EU is following suit with heavy sanctions on a variety of transgressions of EU law. The privilege of doing business in the US and EU markets is simply so great that such judgments are grudgingly accepted even in the absence of pertinent obligations grounded in international law. Huge fines have not only been imposed, but have also been paid.

Is this global projection of mega-state power legitimate? This argument is still open, but in a perspective of *Realpolitik* it seems clear that this is where we are heading. While adopting the EU budget requires unanimity among the member states, article 311 of TFEU does not prescribe that *all* the revenue of the Union shall come from the national treasuries. In the first place it states that the Union may establish new categories of own resources and abolish old ones. Second it says that 'without prejudice to other revenue, the budget shall be financed wholly from own resources'. An enigmatic provision: if incomes from other sources are added, the funding of the Union cannot possibly come 'wholly' from its own resources.

An important lesson from fiscal history is that levies may go under many different names. There are taxes, but also contributions. In wartime there are often compulsory loans and other forms of mandatory payments. The choice of labels is clearly linked to considerations of marketing and acceptability of new obligations. In the world of finance and commerce, enterprises similarly use many different terms for the small increments that they impose on their clients and customers. The EU could learn from this experience. The benefit of trading inside the system of EU law is certainly so great that it could merit the requirement of a regular fee for economic actors enjoying that privilege. Some of the levies discussed above could very well be construed as contributions to the maintenance of this beneficial economic order.

'The benefit of trading inside the system of EU law is certainly so great that it could merit the requirement of a regular fee for economic actors enjoying that privilege.'

Along this line of reasoning, one could easily skip the detour of state-specific levies collected via national treasuries, and instead send the small payment fractions straight to the EU, under an appropriate name. The *assiette* should probably be as wide as possible, allowing exceedingly low rates and thereby reducing the incentives for capital flight. Very few segments of the financial sector would suffer seriously from such a fee, apart, perhaps, from automated high-intensity trading whose possible decline would not inflict any great pain on our economies.

In banking, we are already used to a variety of small fees. Another one, of similarly modest magnitude, would not rock our economic system. The single market, with all its legal and social safeguards, is after all a towering achievement of the European Union, of immense value for all actors operating within its regulatory framework and enjoying its protection.

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