

European issues

n°570

15<sup>th</sup> September 2020

# The importance of the moral dimension in the European project

Francisco Juan GÓMEZ MARTOS

The Covid-19 crisis led European public opinion to believe that the European Union did not have the capacity to forecast or respond to serious health crises such as the pandemic we are now experiencing. "Europe is not responding", the Italian daily *La Repubblica* dramatically deplored.[1]

However, this initial "paralysis" was quickly resolved by the European Commission, which, using its legal competences, made it easier for the Member States to provide an immediate response to the crisis as it put forward an ambitious and innovative recovery plan. Two months later, this initiative led to a historic success for the European Union.

But the "every man for himself" attitude, the fragmentation of the European political and geographical environment and the lack of a sense of solidarity among European citizens were far more serious than the European Commission's lack of response and initial capacity to react to this health emergency. The selfish behaviour of some Member States and the lack of coordination at European level have aggravated the sense of disunity and disaffection felt by the citizens of the States most affected by the pandemic. International public opinion was surprised by the weak bonds of human solidarity between countries which nevertheless share an internal market, a common currency for the most part and which together, negotiate trade agreements with almost every country on the planet.

The management of the first months of the health crisis and the question of how to deal with the economic and social impact the unprecedented disruption in production at European level fuelled a dangerous trend: since the start of the 2008-2010 recession, this has led some governments in the North of the continent to claim so-called moral supremacy over their European partners in the South.

Some political narratives, full of stereotypes, widely used by xenophobic and nationalist parties in Europe, portrayed citizens of the North as austere, thrifty,

responsible, hard-working and "virtuous", while citizens of the South were portrayed as "bon vivants", wasteful, lazy, unmanageable and even "wicked". The citizens and authorities of the countries most affected by the pandemic have thus been negatively stigmatised.

We should remember the period 2008-2012, when the European Union imposed extremely harsh structural adjustment programmes to save States plunged into financial and budgetary crisis. No one questions the fact that these countries certainly made economic policy mistakes. However, their ostracization from the pulpit of moral supremacy[2], the reminder of their wrongs, the lessons given and the technique used by some of their partners were sometimes very humiliating.

In fact, the Union's financial solidarity worked during the sovereign debt crisis, but at an extremely high social cost, humiliating the countries concerned and their citizens, as the former President of the European Commission, Jean Claude Juncker, acknowledged with regard to Greece in his speech to the European Parliament on the occasion of the formal sitting to celebrate the 20th anniversary of the euro on 15 January 2019.

We should also remember the refugee crisis of 2015 and the impossibility of applying the temporary resettlement mechanism for applicants for international protection - the quota system adopted by the Council (and recently validated by the European Court of Justice) - due to the non-negotiable refusal of the governments of some Member States[3]. The consequences of this lack of solidarity have been extremely serious. Public opinion in the Mediterranean countries was deeply shocked by the lack of empathy and understanding on the part of some Central and

[1] Gianluca di Feo, *Europa no responde*, *El País*, 16/3/2020.

[2] See Coen Teulings : *De staatschuld mag gerust oplopen, zoals Japan laat* 17/4/2020,

[3] *Judgment in Joint Cases C-715/17 Commission v Poland, C-718/17 Commission v Hungary and C-719/17 Commission v Czech Republic. Court of Justice of the European Union*, 2/4/2020.

Eastern European countries. Therefore, it is not surprising that anti-European feeling has developed in Italy, which traditionally was the greatest champion of the European integration project.

A survey on "*Europe and the proximity of foreign States*", carried out at the end of May 2020 for the Italian daily *La Stampa*, leaves no doubt as to the Italian citizen's disaffection with the European Union[4]. Only 39% of respondents expressed "*great or fairly great*" confidence in the European Union. When asked which countries they considered Italy's enemies, surprisingly 42.2% cited Germany and 30.7% France.

Another survey carried out in Italy a week earlier, between 19 and 21 May 2020, for the Internet portal "*Termometropolitico.it*", asked the panel whether they would be in favour of leaving the euro and the European Union: 35.3% replied in the affirmative to both questions and 8.6% replied that it would be better to leave the euro but remain in the Union[5]. These polls reflect a worrying change in the state of mind of Italian public opinion regarding the European project; a change that was unthinkable a few years ago and which resembles the phenomenon that preceded the British referendum on Brexit. These polls also show a strong polarisation within society and distrust of long-term partners who have shared the same European ideal for seventy years.

In the light of these developments, it is urgent and necessary to counter the narrative of fear and stereotyping of other European peoples undertaken by some European governments and politicians as a tactic to attract part of the electorate of xenophobic, populist and anti-European parties.

These attitudes, which risk undermining the very foundation of the European political project, tackle a facet that has been neglected far too much: the moral dimension as an integrating element and the lack of deep cultural links based on mutual knowledge.

Returning to the historical origins of the European project implies a major educational effort within our societies in order to revive this moral dimension: everyone talks about it, but few respect it. The majority of European

States and citizens agree on the respect of the principles and values included in the Treaties, even if it is sometimes difficult for them to see the tangible link between these principles and their daily life within the framework of national socio-economic realities.

It is essential for this moral dimension to be decisively strengthened, since it is the real backbone of Europe, without which the latter suffers a real handicap preventing it from moving forward. This moral dimension is based on the following precepts: respect between States and citizens, without any sign of superiority that would incite extremism and intolerance; solidarity; loyalty between partners and institutions of the Union; the common defence of common values and principles and the primacy of the European legal order with, at its heart, respect for the rule of law, on which Europe should not compromise. Secondly, the fight against xenophobic populism and nationalist supremacism should be tackled jointly, and the cultural openness that facilitates emotional ties between peoples should be strengthened.

It therefore seems useful to me to analyse how this moral dimension is respected within the four fundamental pillars of the European project (the internal market, budgetary transfers, budgetary responsibility and tax policy). This exercise will perhaps enable us to counter certain inaccurate or unfounded statements that are undermining the rationality of the political debate on the European project.

## WHO DOES THE INTERNAL MARKET BENEFIT? THE FLIP SIDE OF SOLIDARITY

The single European market, launched by Jacques Delors, then President of the European Commission, in 1985, has been and remains the European Union's great asset for creating economic growth, employment and social progress, as well as for ensuring European competitiveness in the global market.

Since its completion in 1993 and up to the crisis of 2008, the internal market has had a very positive overall effect on all the national economies of the Union. However, some Member States have benefited and continue to benefit much more than others. A recent European

[4] <http://www.sondaggipoliticoelettorali.it>

[5] When asked if they were in favour of the proposed 500 billion stimulus fund, only 34% considered it a very positive objective; 30.5% would be in favour, but only if it comes without conditionality, 6% would also accept it but only if the European Commission manages it and not the governments and 27.2% of respondents would not be in favour, either because it is seen as a trap and would imply the intervention of the troika in Italy (15.9%) or would link Italy more closely to the EU, while, on the contrary, 11.3% of respondents would prefer Italy to leave the EU as soon as possible.

Central Bank working paper concludes that, in line with previous forecasts and studies, the internal market, which has been criticised in recent years by part of Europe's population, has brought a growth premium to its founding countries[6].

In fact, the Internal Market increased GDP per capita between 12% and 22% for the then twelve Member States. The benefits of the Internal Market have been comparatively greater for small and medium-sized economies than for large economies.

Over the period 1993-2008, the sharing of the Single Market has significantly boosted per capita growth in small and medium-sized economies with a positive differential of 81.5% for Ireland, 33.4% for the Netherlands, 32.9% for Portugal, 19% for Greece, 12.3% for Belgium and 5.7% for Denmark. Among the large countries, Spain obtained a differential increase in growth of 33.40%, while profits decreased up to 15.3% for the United Kingdom, 14.4% for Germany, 9.8% for France and 7% for Italy.

The European Union is privileged to have intra-Community trade as the main trading partner of each of the Member States. In 2019, the internal market represented on average 60.5% of the Union's total external trade and, with the exception of Ireland, all European economies depend mainly on the intra-EU market. This is particularly true for the Central and Eastern European Member States, which have internal market dependency rates of around 75%.

At a time when there is often talk of China's spectacular growth and the danger that Europe may foot the bill for the trade and technology standoff between the United States and China, these figures might, in principle, reassure us that the European Union is not only a huge internal market, but also one of the world's most important trading partners.

In this context, it should also be remembered that the Union's main exporting States are much more dependent on the internal market than on trade with China: Germany exports 7 times more to its 26 Community partners than to China; France 12.5 times more; the Netherlands 30 times more; Italy 18.5 times and Belgium 36 times more[7].

Concerning the adaptation to the European internal market by the Central and Eastern European Member States, Eurostat data for the period 2002-2019 show spectacular growth rates of their exports to the rest of the internal market, between 8% and 10% per year. Poland is the leader, managing to increase the amount of its exports to the rest of the Union fivefold between 2002 and 2019, closely followed by Slovakia, the Czech Republic and Hungary.

At the same time, since 2008, the four Member States that form the so-called *Visegrad* group have recorded significant trade surpluses with the rest of the Union: 12% of GDP for the Czech Republic; 8% for Hungary; 5.6% for Slovakia and 4.4% for Poland, once again confirming the benefits that the internal market has brought to these countries, where the industrial sector is prominent both in terms of added value and employment, thanks to the strong vertical integration achieved with the industries of the most powerful European economies, Germany and France.

If we use the trade balance as an indicator, the Netherlands and Germany are the two economies that have consistently run large trade surpluses in their relations with the rest of the Union and benefit in particular from the existence and strength of the European internal market. As a result, the Netherlands regularly maintains a very high positive trade balance with its EU partners, ranging from 20 to 25% of GDP. This is the highest trade surplus in the Union (€184 billion in 2019), although this may be overestimated by the "port of Rotterdam" effect, referred to by Eurostat. Thanks to the geographical location of this port and the related logistics services of all kinds, the country obtains a significant share of GDP from it. Germany has been the other major beneficiary of the internal market since 1993, but it has steadily reduced its intra-EU trade balance surplus from 4.3% of GDP in 2008 to 1.7% in 2018.

Since the introduction of the euro, the problem of persistent trade surpluses has at times caused unease among the governments and public opinion of the nineteen eurozone countries, which deem that the Union's protocols on excessive macroeconomic imbalances apply only in one direction, i.e. to the detriment of countries with trade or budget deficits. To correct this, these countries must adopt

[6] Jonne Lehtimäkiy David Sondermann: "Baldwin vs. Cecchini revisited: the growth impact of the European Single Market", ECB Working Paper Series, No 2392/ April 2020

[7] Eurostat: "Intra-EU trade in goods". March 2020.

painful adjustment measures (internal devaluations) leading to recession and unemployment[8]. Faced with these criticisms, German economists and businessmen tend to emphasise that the trade surplus is an indicator of the efficiency of their companies and the attractiveness of their products. Moreover, thanks to vertical industrial integration with the economies of Central Europe and direct investment in third countries such as China and the United States, German companies are creating jobs in all of these countries[9].

This German argument, according to which the country's trade surplus generates in exchange a significant volume of intra-industrial trade in intermediate products and employment in other European countries (Czech Republic, Poland, Netherlands, Hungary and Slovakia in particular), considers the European internal market as if it were organised according to a logic of centre-periphery. This runs the risk of creating misunderstandings, or even conflict, between the partners.

It goes without saying that much depends on the know-how and diplomacy of the leaders of the country or countries that make up the economic centre of Europe. Arrogance can affect good relations between States. Interdependent economies are subject to a strong relationship of industrial dependency, which has led to a loss of decision-making autonomy in key sectors of the economy. This is why trust between Member States is essential. It must therefore be stressed that intra-Community relations should be more symmetrical and based on mutual respect and joint responsibility.

The experience of the construction of the Nord Stream I and II gas pipelines, which provoked strong protests in Poland, teaches us that it is important for Germany not to walk alone and consult its partners on decisions of such strategic importance and which impact directly their economies. The new industrial strategy of German Economics Minister Peter Altmaier, which proposes to strengthen the industrial fabric not only of Germany but also of the EU as a whole, should perhaps take this suggestion on board, at least when it comes to its implementation[10]. More than ever before, the European Union must be united. The European recovery plan adopted by the European Council to overcome the brutal impact of the pandemic is the

counterpart to enable the internal market to survive the competitive imbalances due to inequalities in the volume of national aid granted to businesses.

Contrary to the impression that the European citizen may have had during the first months of the pandemic, the European Union, after the necessary adjustments to its production structure, is largely dependent on itself and not on other global players.

Of course, we must learn from the mistakes that were made. Europe is heavily dependent on China for health products and equipment that have been relocated there. It has been a mistake to pursue this policy in particularly sensitive and socially important sectors, due to the lack of proper assessment of risks and social costs.

It is worth recalling that China accounts for only 5.5% of the Union's external trade. In fact, the EU depends relatively little on this country (19% of non-EU imports, compared with 12% for the United States and 10% for the United Kingdom)[11]. This is despite the large trade deficit with China, which has increased by 60% over the last decade, and which affects all EU Member States, with the exception of Germany, which has a trade surplus with China. This is a good reason to defend the internal market that makes us stronger in the world, provided we stay united and act together.

## BUDGETARY TRANSFERS: THE TRUTH IN THE FIGURES

A careful analysis of the data on net budget balances reveals a much more nuanced and complex reality than that which animates the narrative of certain media, which negatively influence European public opinion.

This view presents Germany, the Netherlands, Sweden, Denmark, Finland and Austria as countries that assume the effort of solidarity with the countries of Southern and Eastern Europe, forgetting that Ireland, a country at the western end of Europe, has been one of the great beneficiaries of EU membership since its entry in 1973, and not only because of the large budget transfers received.

[8] John Springford and Simon Tilford: "Why Germany's trade surplus is bad for the eurozone". Center for European Reform. CER Bulletin Issue 93. December 2013/January 2014; Ben S.

Bernanke: "Germany's trade surplus is a problem". Brookings Institution, 3/4/2015

[9] According to a June 2017 Prognos study "Jobs for Europe", Germany was expected to create 4.8 million jobs in its European partners, 1 million jobs in China and 850,000 in the United States.

[10] National Industrial Strategy 2030: Strategic Guidelines for a German and European Industrial Policy. German Federal Ministry for Economic Affairs, 2019

[11] Luke Patey: "Europe Can Afford to Fight With China".

Without doubt, Germany has been and remains the main contributor in terms of balances to the Union's budget, but its important contribution to the intra-European solidarity effort would not allow the European Union to maintain the current level of solidarity without the substantial contributions of other Member States, including France and Italy, the second and third largest net contributors in absolute terms. Together, since the 2004-2007 enlargement, these two countries have contributed an amount equivalent to that of Germany. Even in the period 2009-2012 and in 2016, France and Italy's combined net contribution to the EU budget exceeded that of Germany. In relative terms, the percentage of the contribution in relation to Gross National Income (GNI) confirms the importance of the French net balance, which, although generally lower than that of Germany, managed to exceed it in 2009 and 2016.

The case of France is particularly significant and highlights a strong European commitment beyond the benefits received from the internal market. Despite a large deficit in intra-Community trade with the rest of the Union and the maintenance of strong intra-industrial trade links with the other Member States in the automobile and aviation sectors, France continues to make a decisive contribution to maintaining the Union's level of budgetary solidarity.

The case of Italy is also worth mentioning. Italy was a net beneficiary of the Union's budget until the year 2000. The European Regional Development Fund (ERDF-FEDER), created in 1975 to upgrade the *Mezzogiorno*, contributed to improving regional balance in Italy. From 2001, Italy became a major net contributor to the EU budget.

Not counting the United Kingdom, the comparison between Italy (third net contributor State in absolute terms) and the Netherlands (fourth net contributor State in absolute terms and second net contributor State in relative terms defined as a percentage of GNI) shows that since 2008 Italy's net contribution has grown faster than that of the Netherlands, to the extent that in the years 2009, 2012, 2016 and 2017 it exceeded the negative net balance of the Netherlands. Moreover, the "*Port of Rotterdam*" effect is likely to distort upwards the own-resources figures provided by this country.

The implicit logic of the European budgetary system teaches us that once a country converges and reaches the Community average, its relationship with the budget changes. This is also the case in Spain up to 2018: as Spain increased real convergence with the Community average, the positive net transfers it received decreased as it approached a zero balance, before the pandemic.

Paradoxically, the Danish experience is moving away from this pattern. For more than two decades and until 1997, Denmark was a net beneficiary of the Community budget despite having the highest per capita income in the Union, thanks in particular to the benefits that the Danish agricultural and agri-food industry received from the Common Agricultural Policy. Since then, with the exception of the year 2000, Denmark has been a moderately net contributor to the EU budget.

The net contribution to the EU budget of the other Scandinavian countries (Sweden, Finland) and Austria, which joined in 1995, has almost always been between 0.2 and 0.52% of their GNI for Sweden, and between 0.15 and 0.4% for Finland and Austria. However, in absolute terms, the amount of the net contribution of these three countries to the EU budget has been relatively limited since in 2018 - the latest data available to date - the negative budget balance of Italy (€5059.4 million) was higher than the combined net contribution of Denmark, Sweden, Austria and Finland (€4650.2 million).

These figures underline the modest net contribution of these countries in absolute terms to the financing of an ambitious budgetary cohesion policy after the 2004-2007 enlargement. The historic operation to reunite Europe and to upgrade the economies and administrations of the Central and Eastern European countries involved a tremendous budgetary effort on the part of the Union. However, the joint contribution of the Scandinavian countries and Austria would not even have been able to finance the amount of the positive balance from which Hungary alone benefited (€5207.4 million) in 2018.

Without the participation of Germany and the United Kingdom, but also France and Italy, which have also contributed to the financing of budget transfers since 2001, the Union's cohesion policy for Central

## 6

and Eastern Europe would not have achieved the results expected.

Undoubtedly, the spirit of European solidarity, which has been very much present over the last 16 years (2004-2018), has made this considerable budgetary effort possible without prejudice to the continuity of European cohesion policy towards Ireland and the countries of southern Europe, which have continued to benefit from the Union's budgetary transfers<sup>[12]</sup>. The data published in the Annual Financial Report of the European Commission for the above-mentioned period show the importance of the transfers to the Central and Eastern European Member States.

All indicators reflect the dimension of the effort of solidarity that has been made. A few figures suffice to understand its scale: over the last 15 years, Poland has received €116,954 million from the EU budget, which represents an annual amount of between 2 and 3% of its GNI. In the case of Hungary, the relative amount of aid is even higher: €44,981 million, which represents an average stimulus of between 3% and 5% of its GNI.

It goes without saying that the European Union has worked hard to strengthen the economic and industrial fabric and infrastructure of the countries of Central and Eastern Europe. It has made a decisive contribution to the efficient functioning of these States for the benefit of their citizens. This is why the comparison of the European Union with the former USSR, which is being made by the current Polish and Hungarian governments, is an ungrateful and sad paradox of history. At a recent election meeting, Polish President Duda referred to the Union as "*an imaginary community*", while Polish Prime Minister Morawiecki publicly welcomed the fact that the European Council had allegedly abandoned the link between the disbursement of the recovery plan funds and respect for the rule of law, which he described as "the so-called rule of law". This illustrates the extent to which a country that was once deeply committed to defending democracy and freedoms as fundamental values is now bogged down in authoritarian nationalism and neglects the moral dimension of the European project.

<sup>[12]</sup> Greece received €67,585 million, which corresponds to between 2 and 3% of its GNP; Portugal received €40,062 million, i.e. between 1.5 and 2% of its GNP and Spain received €50,014 million, funding which is gradually decreasing and is around 0.1 and 0.5% of its GNP.

It is regrettable that some Member States are fanning the flames of historical resentment through nationalist rhetoric, while at the same time benefiting greatly from the internal market and generous budget transfers. At the same time, some of them are failing to fulfil essential democratic commitments regarding respect for the rule of law, including the independence of the judiciary, the separation of powers and media pluralism. They thus endanger not only the rights of their citizens, but also the equal rights of all European citizens in the internal market.

### TAX EQUITY, A MUST FOR BUDGET STABILITY

The financial crisis imported from the United States and its aftermath - the budgetary and debt crisis - challenged the existence of the euro, while at the same time affecting the political and social stability of the European project.

The scale of the problems and the expectations of public opinion, which was severely shaken by the crisis, have had a major impact on the work of the institutions. The model of crisis management has changed radically. The intergovernmental decisions of the European Council have had, as never before, a direct, tangible impact on the daily lives of all European citizens sharing the single currency.

Saving a country from bankruptcy involved the adoption of budgetary consolidation and adjustment measures to achieve a primary surplus to pay the interest on the debt. These measures, often drastic, had serious consequences on wages, pensions, savings in bank deposits and financial investments. They have led to layoffs of public employees and reductions in public spending and investment in health and social services. On the other hand, these measures included the assumption of risks in the form of guarantees for the rest of the eurozone countries.

The constraints imposed by the Troika (European Commission, International Monetary Fund and European Central Bank) were perceived by public opinion in these countries as an imposition on the part of some provider Member States. The lack of democratic debate and control of these measures at European level undoubtedly contributed to this perception. The European Parliament was excluded from the decision-making procedure and the Community method was conspicuous by its absence.

Most of the parliamentary debates took place in the parliaments of the provider countries, where politicians occasionally gave free rein to humiliating comments to the countries. The impact of this type of political stance on public opinion has been profoundly negative, fuelling populist attitudes, rejection of "European technocracy" and, moreover, mistrust of the European project.

Although most economists agree on the need for budgetary discipline, the choice of parameters used, and their levels are open to discussion. Empirical work seems to show that public debt above 90% of GNI reduces economic growth, even if beyond this limit this evidence is inconclusive. It is therefore difficult to explain the anomaly represented by Japan with a ratio (public debt/GNI) above 200%.

For many observers, it is surprising to insist only on counting the public debt of countries and not their private debt. Can the eurozone be stable with a low level of public debt (less than 60% of GNI) and high private debt? Why are some countries in the South stigmatised for their high public debt while countries with high private debt are consciously neglected? The European Central Bank and the European Banking Agency have rightly pointed to this problem, insisting in recent years that the Dutch government should take the necessary steps to reduce the country's private debt. (Delete for example)

It is clear that the 2008-2010 crisis reversed the trend of economic convergence between EU countries and regions. Some economists argue, with some justification, that countries in the South have not implemented structural reforms as effectively as those in the North. However, it is difficult to maintain budgetary rigour and the application to all countries of the same model of reforms as a *sine qua non* for aid. Not all euro area economies are developed to the same degree, nor are they as strong in terms of their productive capacity and their social structure; they do not enjoy the same technological base or the same institutional capacity to implement reforms. Adapting the indicators to the specific situation of each country, relaxing the "fetishism" given to certain macroeconomic ratios, could facilitate the implementation of reforms with the necessary social support.

The internal devaluations that the countries of the South, subject to rigorous budgetary adjustment programmes, have had to apply, have no counterpart in macroeconomic adjustments in countries that systematically have large surpluses in their intra-community trade.

Moreover, the problems of insufficient budgetary means in countries subject to eurozone budgetary discipline are exacerbated whilst many of their largest companies decide to change tax jurisdictions in order to pay tax on their profits in other countries, albeit within the eurozone, where corporate tax rates are much lower. This behaviour constitutes unfair tax competition, causes strong distortions between Member States and reduces the tax resources of the countries affected by these practices, while undermining the respect and trust of citizens.

This problem has already acquired a worrying international dimension, as Johan Lanerock and Maarten Hietland point out in an article published in the magazine *Foreign Affairs* in November 2019 with the unequivocal title: "*How the Netherlands Built One of the World's Worst Tax Havens*".

Ten years ago, the Obama administration already accused the Netherlands of being a tax haven and of drawing tax resources from the US Treasury through its tax engineering system (shell companies or Special Purpose Entities) which allows third country multinationals to take up pro forma residence in the Netherlands and avoid paying corporate tax in their home country to a large extent on benefits, dividends or royalties obtained in third countries[13].

Thanks to the large number of tax agreements signed with third countries to avoid double taxation, this country has become an attractive country to leverage the transit of funds to other countries with a dubious tax reputation. In fact, as lawyers Vlegger and Vording point out, the Dutch tax planning industry has a 25% share of the global market for tax-based foreign direct investment diversion, which motivated the OECD's anti-avoidance measures[14]. They demonstrate the extent of the distortion problem created by Dutch legislation and its effects on other countries[15]. The accusation has also damaged the international image of the European Union.

[13] Arjan Lejour, Jan Möhlmann, Maarten van't Riet, Thijs Benschop: [Dutch Shell Companies and International Tax Planning](#).

[14] Jan Vlegger and Henk Vording: [How The Netherlands Became a Tax Haven for Multinationals](#), and U.S. PIRG "[The Use of Offshore Tax Havens by Fortune 500 Companies](#)"

[Offshore Shell Games](#).

[15] As highlighted by the article's authors: "In 2017, foreign direct investment in the Netherlands totalled \$5.2 trillion. But the vast majority of this money was not invested at all: only \$836 billion actually entered the Dutch economy. The remaining \$4.3 trillion went to shell companies or subsidiaries set up to avoid paying taxes elsewhere. The authors conclude by pointing out that "By operating as a tax haven, the Netherlands allows companies to deprive other governments of the funds they need for basic services: infrastructure, healthcare, education, etc. This hurts governments and ordinary people everywhere, but the effect is perhaps most pernicious in developing countries, where the need is most desperate and the tax base is already shrinking."

Ten years later, the system is still in place and, according to the latest analysis by the Tax Justice Network, an association of independent tax experts, the Netherlands collects at least \$10 billion in taxes a year from other EU partners. These estimates only take into account the distortions caused by the transfer of profits from US multinationals to that country (where effective corporate tax rates can even be below 4.6%) and do not include large companies from other third countries and the European partners themselves.

The damage caused to France is estimated at \$2.7 billion in lost tax revenue due to the drain of US corporate profits to the Netherlands. It is estimated that Germany and Italy lose about \$1.5 billion each, while Spain loses almost \$1 billion due to the tax distortions created by the tax laws and practices adopted by the governments of that country[16].

Tax distortions, which also exist in other Member States of the Union (Ireland, Luxembourg) and, until their exit from the Union, in islands and territorial enclaves under the sovereignty of the United Kingdom, have reduced the tax revenues of Member States subject to the euro's budgetary discipline rules.

Even the Court of Justice has just expressed its concern at the opacity of such tax laws and agreements between States and multinationals that affect the tax collection of other States[17].

The choice to investigate these tax practices as if they were State aid has shown its limits with the Court of Justice's decision on the fine imposed on Apple. While it seems difficult to demonstrate that they comprise state aid affecting competition, the European institutions should focus their efforts on putting an end to the current tax mess. They should work to ensure that corporate tax legislation is harmonised to prevent some EU Member States from taking advantage of tax distortions and models they have introduced to the detriment of citizens in other EU countries.

Fiscal responsibility is a necessary condition for maintaining the credibility of the euro area, however the appropriation of tax revenues from other partners threatens the notion

of equity and justice between citizens and/or between Member States. Citizens' rights to justice derive not only from international treaties between partners that are supposed to share the same values, a common rule of law and a common economic and trade area, but also from the moral expectations that these rights have created among the citizens of the community.

Tax equity between Member States should be a basic requirement within the Union. Without tax equity, not only competition in the internal market, but also the proper functioning of the level playing field regarding budgetary discipline within the euro area, risks collapse and, with it, European credibility.

It is regrettable that some Member States are taking advantage of the loopholes of the European Treaties in the tax area. Tax equity is a must for budgetary stability. Moreover, the exemplary behaviour of Member States in this area is essential for the moral dimension of the Union.

\*\*\*

When analysing the data on trade and budgetary interdependence between the Member States of the Union, it can be inferred that the Union's integration model has benefited all of its partners to a greater or lesser extent on the basis of a pragmatic application of the *quid pro quo* principle.

However, as the conflicts within the Union over the last decade and the departure of the United Kingdom from the European Union show, we have failed to communicate these realities to the public. Moreover, European citizens have often heard the language of 'lesson-givers', even referring to the alleged 'moral supremacy' of some States over others. The pursuit of such a policy would undoubtedly be the surest route to the fragmentation of the economic and monetary area, to disunity between Member States and, ultimately, to the international marginalisation of the Union.

In these historic times in which the Union is living, solidarity between States is mentioned as a fundamental principle enshrined in the Treaties. But it is generally conceived more as a pragmatic concept than as a moral principle.

[16] Tax Justice Network report "Watershed data indicates more than a trillion dollars of corporate profit smuggled into tax havens" 8/7/2020 /

[17] Judgment in Cases T-778/16 Ireland v Commission and T-892/16 Apple Sales International and Apple Operations Europe v Commission. Court of First Instance of the European Union. 15/7/2020.

This approach is undoubtedly simplistic if Europe is to function as a genuine community of values, backed by the full support of its citizens.

The attractiveness of the Union and its influence in the world as a global actor are being played out from within. They are built on respect for common values and interests by all national governments and on the basis of exemplary implementation of its policies.

The Union urgently needs to build trust at all levels: between Member States themselves, between States and European institutions, and between citizens and Europe by offering effective, common, high added-value solutions.

Negotiations on the content and financing modalities of the European Economic Recovery Plan (through joint debt issuance) have just reached a historic result to address the severe recession affecting the Union in wake of the pandemic. This is to be welcomed. The timetable requiring the approval of legislative standards by the European institutions, as well as the ratification by national parliaments of the amended Own Resources Decision, will mark the speed with which economies will be able to emerge from the deep economic and social slump in which the pandemic has placed European economies and societies.

Success will depend first and foremost on the efficiency with which innovative programmes of common interest

are implemented by Member States under the supervision of the European Commission. It will also depend on how the results of the negotiations are explained and presented to public opinion in all Member States. A greater effort of communication and education on the part of the European institutions is needed to counter unfounded populist criticism. These already target political and administrative procedures, which imply inevitable delays in the implementation of the plan.

Moreover, the adoption of the European recovery plan to save the economy of the Member States does not seem to refrain some of them from pursuing their nationalist and authoritarian trends, which run counter to European values, in particular judicial independence and media freedom.

The future of the Union will depend on the firmness with which it defends the values and principles that are rooted in the European project. It will depend on our ability to bring this moral dimension to life through innovative educational programmes and much greater cultural integration<sup>[18]</sup>, highlighted by Jean Monnet at the very beginning of the European project and which is today still sorely lacking.

*[18] "Le commencement de l'Europe c'était une vue politique, mais c'était plus encore une vue morale » (Jean Monnet, Mémoires) / « The beginning of Europe was a political view, but it was even more a moral view »*

**Francisco Juan GÓMEZ MARTOS**

PhD in Political Science and Economist

You can read all of our publications on our site :  
[www.robert-schuman.eu](http://www.robert-schuman.eu)

Publishing Director : Pascale JOANNIN

**THE FONDATION ROBERT SCHUMAN**, created in 1991 and acknowledged by State decree in 1992, is the main French research centre on Europe. It develops research on the European Union and its policies and promotes the content of these in France, Europe and abroad. It encourages, enriches and stimulates European debate thanks to its research, publications and the organisation of conferences. The Foundation is presided over by Mr. Jean-Dominique Giuliani.