

■ ■ ■ Politique fiscale et positionnement des Etats dans une économie globalisée

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ABSTRACT ■ ■ ■

In this paper we discuss how globalisation affects tax policy setting. There is a general consensus that the removal of non tax barriers, the increase of FDI flows and other components of globalisation have resulted in increased tax competition. A distinction has however to be made between the usual form of tax competition, by which governments try to attract mobile tax bases by lowering taxes, and yardstick competition or tax mimicking. The country reviews that are conducted by international organisation and, more formally, the open coordination method in the EU give a strong impetus to governments to consider developments in other countries and (un)formal supranational guidelines when they make their decision on tax policies. Governments are more and more inclined to position themselves in an attractive way.

We concentrate on how this process has affected direct taxes. Countries used to rely on preferential tax regimes targeted to mobile activities to position themselves, until the EU and OECD codes of conduct put an end to such a strategy that was considered as harmful tax competition. Now that those regimes have been rolled back, competition on rates has increased but this does not seem to result in revenue loss. Part of the explanation of the revenue paradox comes from base broadening and in an increase of the size of the corporate sector. These processes are not open-ended and further tax cuts might be more difficult to be financed.

On the personal income tax side, flat taxes have been widely used by countries from Central and Eastern Europe to position themselves in an attractive way. Their merits seem however to be widely overstated. There is no strong case for flatness in economic theory and the optimal tax is not necessarily a flat one. Empirical evidence is scarce and non-convincing, if we leave aside rhetoric and assertion. Many simulation exercises have been performed in countries from Western Europe on the move to a flat tax regime. They converge in concluding that it is not possible to overcome the efficiency-equity trade-off. Adding the “political economy” difficulties from base broadening, we conclude that the flat tax vague will not submerge Western Europe. What might a good way to position itself for a transition economy does not necessarily hold for a welfare state. Tax mimicking has – hopefully – some limits.

JEL classification: H20, H21, H24, H25

Keywords: Tax policy, Tax competition, Flat tax, Corporate income tax, Dual income tax.