



INSTITUT CONSTANT
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The European Tax Cartel and Switzerland's Role

About this Study

The Institut Constant de Rebecque evaluates in this study the centralizing developments of taxation at the level of the European Union and analyzes the role of Switzerland in this context.

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Summary

- Most European States expect to record high increases in public spending, due to the lack of adaptation of social dependency programs in the face of demographic change. The taxpayers' fiscal exhaustion leads some Member States to use the European Union to centralize and standardize tax systems in order to render less competitive those countries deemed too attractive for capital or residents, increasingly encouraged to "vote with their feet".
- Tax centralization at European Union level progresses at a much faster pace than is generally perceived. High minimal rates for the VAT, which represents more than one third of all tax revenues, the standardization of excise taxes and tariffs, the Savings Tax Directive and the project of a Common Consolidated Corporate Tax Base for corporate income taxes are all examples suggestive of the extent to which the European tax cartel is already a reality. The EU makes use of such dubious concepts as "harmful tax competition" or "fiscal state aid" in order to attack less penalizing tax regimes, as in the case of the current tax dispute with Switzerland.
- Arguments in favor of tax standardization generally rely on an erroneous conception of the functioning of markets and ignore the negative effects of the State's fiscal weight and the role of tax planning in the international allocation of capital. Thus, "fair competition" as advocated by the European Commission through tax standardization is nothing more than a form of protectionism. Fiscal diversity, far from endangering the financing of "public goods" provided by the State, tends on the contrary to improve their relation to the tax burden. Diversity also leads to efficiency gains in international capital markets.
- Fiscal diversity places some limits on an excessive tax burden and thus favors capital accumulation at the source of innovation and economic progress. It leads to greater overall prosperity than under a standardized tax regime. Tax competition is also an essential condition for institutional innovation by allowing comparisons between countries and the emulation of best practices. Finally, fiscal diversity is a necessary bulwark for individual freedom and legitimate rights by restraining the potential for abuse of the monopoly of force intrinsic to the State and by making "voting with one's feet" easier.
- In view of the dangers involved in the cartelization of tax systems in Europe, Switzerland continues to play an essential role. Switzerland's enlightened dissidence contributes significantly to the preservation and increase of productive capital while enhancing individual rights and choices, in the interest of all Europeans and the future of Europe.

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Insatiable States

It is an unpleasant yet hardly questionable truth: most European countries expect to record high increases in public spending due to the lack of adaptation of their social dependency programs, in particular old age pensions, in the face of demographic change. While the tax burden in the European Union (not including Bulgaria and Romania) has already reached an average of 40.9% of gross domestic product (compared to 30.0% in Switzerland¹), with a slightly upward trend,² the additional financing needs of the Member States are estimated at 3.5% of GDP for 2025 and 8.9% for 2050.³

Almost everybody agrees on the urgency for restoring the viability of public finances to meet this challenge,⁴ but little real progress has been achieved so far. The political costs of fiscal consolidation, that is, of reforms designed to shrink State programs, appear to be a powerful incentive to inaction for political decision-makers.⁵ Because of electoral calculations, rethinking social subsidies proves difficult.

At the same time, it appears increasingly obvious that many Europeans experience what can hardly be called otherwise than tax saturation. Tax hikes are no more popular than pension system reforms, and lead to increasingly elaborate avoidance operations. Even the value added tax cannot escape the trend, although for many politicians it still seems the ideal tax, being levied in small amounts and allegedly without taxpayers even noticing. In reality however, VAT fraud in the European Union is estimated at 60 billion euros per year.⁶ This takes place through the parallel economy or outright fraud by means of false declarations and undue deductions; in addition, there is a particular and widespread fraud called "carousel fraud" which exploits a combination of operations inside a State and internationally. Yet for the European Commission, this situation does not call for curbing tax rates, but for considering "more efficient methods of exchanging information, taking into account recent technological developments and the equipment used by traders". A "reinforcement of the tax declaration obligations" would also be in order.⁷

In the perspective of such measures, it is not surprising that one of the first decisions of the new German government (with Germany being the EU's main fund supplier), was to ratify the largest tax increase Germany has known since World

¹ Source: Swiss Federal Department of Finance.

² Source: Eurostat.

³ Boris Cournède, "The political economy of delaying fiscal consolidation", Economics Department Working Paper No. 548, OECD, 2007, p. 12.

⁴ See in particular the report prepared by a group of experts chaired by Ignazio Visco, Central Manager for International Affairs at the Banca d'Italia, at the request of the Group of Ten and presented at the G10 meeting of September 25, 2005, "Ageing and Pension System Reform: Implications for Financial Markets and Economic Policies", published by the OECD.

⁵ Cournède, op.cit., p. 5.

⁶ Lázsló Kovács, European Commissioner for Taxation, Introductory remarks on the adoption of a Communication on fiscal fraud by the European Commission, May 31, 2006.

⁷ Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee concerning the need to develop a co-ordinated strategy to improve the fight against fiscal fraud, May 31, 2006.

War II: in January 2007, VAT was raised from 16% to 19%, which means a rise of 23 billion euros (lessened by roughly a third by a parallel lowering of payroll taxes⁸). The stated purpose of the tax increase was to lower the German State's annual debt increase. But it would be wrong to assume that it will actually lead to a lowering of the debt or allow the German State to forego debt for its regular expenses: the net deficit is expected to continue growing by 20 billion euros in 2007, compared to 30 billion previously.⁹ Germany's public debt currently exceeds 1,500 billion euros.

As a direct consequence of the VAT increase, the German underground economy is expected to grow in 2007 by between 1.6 and 3.5 billion euros to reach 14.7% of GDP (compared to 8.2% for Switzerland, for instance).¹⁰ The German taxpayers' flight out of their country is just as illustrative: during the past three years (2004 to 2006), no fewer than 39,000 Germans have definitively crossed the south border to take up residence in Switzerland. In 2006 alone, a record 15,000 Germans settled in Switzerland.¹¹ Those numbers, even to a greater extent than capital flows, business residency transfers or legal restructuring for fiscal purposes, suggest the extent to which the tolerance threshold of Germany's productive society towards the spendthrift policies of its government has already been crossed. This explains why the German government is particularly nervous and leads head-on attacks on Europe's fiscal diversity.¹²

In addition to planning more extensive exchange of information among tax authorities, the EU is also strengthening controls of cash movements: travellers entering or leaving the EU are now required to make a declaration to customs authorities if they are carrying 10,000 euros or more in cash (or its equivalent in other currencies or easily convertible assets such as non crossed cheques).¹³ In view of the taxpayers' fiscal exhaustion, it becomes understandable that States try to stem the citizens' option of last recourse, that is, "voting with the feet" and leaving for kinder lands. The EU is therefore a welcome instrument for governments to "harmonize", in other words centralize and standardize Europe's various tax systems to render less competitive those countries deemed too attractive.

⁸ For an analysis of the VAT and the error of seeing it as a substitute for other taxes, see the study by the Institut Constant de Rebecque, "La TVA : un impôt indolore mais nocif", 2007, and Murray N. Rothbard, "The Consumption Tax: A Critique", *Review of Austrian Economics*, Vol. 7, No. 2, 1994, pp. 75-90.

⁹ Source: German Ministry of Finance.

¹⁰ Friedrich Schneider, "Erstmals wieder steigende Schattenwirtschaft in Deutschland im Jahr 2007: Fluch oder Segen?", University of Linz, April 2007.

¹¹ Source: Swiss Federal Office for Migration (2007).

¹² Ann Cahill, "Germany attacks Ireland's low corporate taxation", *Irish Examiner*, May 19, 2007.

¹³ Source: European Commission.

I. Towards a European Tax Cartel

Tax centralization at the level of the European Union progresses at a much faster pace than is generally perceived. Although the EU denies being concerned about tax rates, the European Commission openly pursues the protection of its Member States' tax bases against "harmful tax competition", promotes "co-ordination of tax policy" and aims for as extensive an automatic exchange of information as possible. In particular, the Commission considers that upholding unanimity rule for all decisions on fiscal matters will make it difficult to achieve the tax co-ordination it strives for. It has therefore made propositions to switch to qualified majority voting in many tax areas.¹⁴ To facilitate short-term advances, the Commission has also begun to favor "soft" but politically influential measures by formulating recommendations rather than presenting legislative proposals. Closer forms of co-operation among groups of States sharing the same positions are also examined.

VAT, Excise Taxes and Tariffs

In fact, fiscal centralization has been part of the EU's ambitions for a long time. The VAT was a precursor of these ambitions as soon as in 1967 and became one of the EU's sources of financing. VAT standardization is not a benign matter, for this tax represents more than the third of all tax revenues in the EU;¹⁵ the VAT also supplies 15% of the EU's budget¹⁶. The EU has standardized the minimal VAT rate at 15% and the reduced rate at 5% (by way of comparison, in Switzerland the standard VAT rate is at 7.6% and the reduced rate at 2.4%). The most worrisome aspect of this is that the EU thereby sanctions one of the costliest and most invasive forms of taxation in commercial exchanges.¹⁷

The EU itself is very much involved in the administrative management of the VAT through complex bureaucratic processes reminiscent almost to a caricature of the procedures inflicted on the former Soviet satellite States of the last century. Each Member State transmits to the Commission, by 31 July of the year following the year under review, an annual statement showing the total VAT tax base, including adjustments to take account of variations in national VAT practices. The statement contains not only the figures but also information about data, sources, methods and formulae used to establish and adjust the base. After preliminary checks to verify the credibility and plausibility of the figures, the Commission's control unit sends the data to the unit that manages budget receipts. Subsequently, each statement is the subject of an on-the-spot control visit to the Member State concerned. The control is carried out by officials of the Budget Directorate-General, usually supported by

¹⁴ Opinion of the European Commission on the Intergovernmental Conference on the Treaty establishing a Constitution for Europe, September 17, 2003.

¹⁵ Cf. European Commission, "Structures of the Taxation Systems in the European Union: 1995-2004", 2006.

¹⁶ Source: European Commission.

¹⁷ Cf. *supra*, note 7.

officials from the Taxation Directorate-General and the EU's Statistical Office (Eurostat).¹⁸ Moreover, the EU is implementing an automated system of information exchange on the VAT which enables fiscal administrations to monitor and control the flow of intra-Community trade. In the fight against tax fraud, as we have seen, tax authorities could in future have electronic access to firms' records at all times (at least for those of a certain size).

Besides the VAT, the EU has also standardized excise taxes levied on alcoholic beverages, manufactured tobaccos and energy products. European legislation sets not only the minimal excise tax rates that the Member States must respect for each type of product, but also the structure of the tax to apply to a particular group of products, and even the rules concerning production, storage and movement of products subject to excise taxes between Member States. In the same logic of total control, the European Commission is currently developing the EMCS (Excise Movement and Control System), a computerized system under which a movement of excise goods between two traders is recorded by means of an "electronic Administrative Accompanying Document (e-AAD)", from issuance by the consignor to acknowledgement of receipt by the consignee.¹⁹

In parallel to the customs union, the EU has also standardized tariffs and agricultural duties, which go directly into its budget. This standardization has often led to regressions in terms of international free trade. The example of Estonia is illustrative in this regard: after having enacted thorough free-market reforms on its own initiative, including in the agricultural sector, Estonia's government had to introduce the 10,794 tariffs in effect in the EU, thereby raising prices in particular of food and energy.²⁰ This standardization efficiently prevents any country from leading a more open trade policy and thus gaining a competitive advantage or initiating a virtuous circle of liberalizations through emulation. Further still, in the same spirit of suspicion and bureaucratic hierarchy of the European central government, the Commission's officials conduct on-the-spot inspections and other documentary controls to ensure that Member States collect the correct amount of customs and agricultural duties at the right time.²¹ In particular, the Commission resorts to follow-ups and monitoring of recovery as well as a yearly program of compliance audits. In this area as well, the Commission aims to introduce extensive electronic monitoring of national customs administrations.

¹⁸ Source: European Commission.

¹⁹ Source: European Commission.

²⁰ Marian L. Tupy, "EU Enlargement: Costs, Benefits, and Strategies for Central and Eastern European Countries", Policy Analysis No. 489, Cato Institute, 2003.

²¹ Source: European Commission.

Personal Taxation and Corporate Taxes

In addition to VAT, excise taxes and tariffs, the EU is increasingly tackling direct taxes. Although the European Commission claims to have no intention of harmonizing this type of taxation, it calls for more “co-ordination”, in particular to fight cross-border “tax evasion”.

The “Trojan Horse” of Savings Income Taxation

The most striking example of this is the Savings Tax Directive, in effect since July 2005. By virtue of this directive, all Member States must eventually proceed with automatic information exchange on interest payments made to physical persons residing in another Member State. Only Belgium, Luxembourg and Austria still enjoy a transitional period during which they levy a withholding tax instead. The EU has signed an equivalent agreement with so far five non-member European States, including Switzerland, which, after giving up to political pressure while refusing to negotiate on automatic information exchange, now levies a tax on savings income of persons residing in EU States to the benefit of those States. The tax burden implied by this new tax turns out to be relatively significant: in 2006, it amounted to 536.7 million Swiss Francs (159.4 million for the second semester of 2005).²² Acting as an intermediary, the Swiss State keeps 25% of the revenues as a “recompense for its additional operating expenses”²³, which might explain its acceptance of the agreement with the EU at the cost of a loss of competitiveness of the Swiss financial center, one of the country's most innovative and productive sectors and the world's foremost private wealth management center.²⁴

The European Commission, faced with the global mobility of capital, is attempting to include Hong Kong and Singapore in its international chase of EU savers, though unsuccessfully so far, the Asian jurisdictions being somewhat reluctant to serving as agents of European tax authorities.²⁵ In the US, where according to an official survey European residents' deposits amount to 1,742 billion dollars,²⁶ the government refused to reply to the European Commission's advances and to join the directive from the outset. The Commission, though, is not giving up the chase. It is contemplating the possibility of including in its plans Bahrain, the Bahamas, Canada, Dubai, Macao and Japan.²⁷ It is the logical next step for its ambition: a global tax cartel designed to follow European “tax evaders” fleeing from what must be seen, by the same analogy, as the EU's “tax prison”.

²² Source: Swiss Federal Department of Finance.

²³ Swiss Federal Department of Finance.

²⁴ Cf. Swiss Bankers Association, “Wealth Management in Switzerland: Industry Trends and Strategies”, January 2007.

²⁵ John Burton and Florian Gimbel, “Scepticism over EU tax plans for Asia”, *Financial Times*, September 4, 2006.

²⁶ Source: United States Department of the Treasury (March 2007).

²⁷ Dan Bilefsky, “EU looks to Asian havens for taxes on savings”, *International Herald Tribune*, September 4, 2006.

The Savings Tax Directive, however, is limited to interest income and does not include dividends, a fact that has often been characterized as a “loophole” allowing taxpayers to structure their businesses accordingly. And yet, the European Commission, in the name of ending tax discrimination of foreign dividends, is now advocating to Member States a “co-ordinated approach” in this area as well.²⁸ Officially, its intent is not to harmonize national fiscal legislations, the Member States being supposed to remain free to choose which type of tax and tax system they apply on dividends. But what exactly a “co-ordinated approach” entails for the taxation of dividends, for instance in terms of systematized information exchange among tax authorities, remains unclear. The agreement on savings taxation with European non-member States was described as a “Trojan Horse” for ever more thorough legislation. The standardization of direct taxation in Europe, to which the European Court of Justice is also contributing, seems to have reached a level at which it is no longer possible to stop it.²⁹

The Common Consolidated Corporate Tax Base

At the corporate level, the project of a Common Consolidated Corporate Tax Base (CCCTB) is one of the initiatives pushed the most fervently by the European Commission, which expects to present a legislative project in 2008. The opposition from the most competitive Member States has nevertheless forced the Commission to step back to the CCCTB being “initially” proposed as optional (among the Member States, Ireland, the UK, the Baltic States and Central European States are the most opposed to the project, while Germany—no surprise—is strongly supporting it³⁰). But corporate tax base standardization is precisely one of the areas for which the Commission wants to switch from unanimity rule to qualified majority voting. It is obvious that such a project is a big step towards tax centralization. The European Commissioner for Taxation, Lázsló Kovács, a former Hungarian communist apparatchik,³¹ is now insisting on “tax obstacles” that would be lifted by a uniform approach.³² This reasoning, however, typically resembles the superficial appeal of planned economies: the common tax base is supposed to eliminate conformity costs to 27 tax authorities in much the same way as the Plan was supposed to eliminate the costly duplication of market competition. In both cases, the benefits of centralization are exaggerated while those of competition are underestimated. For the project's opponents, the CCCTB will necessarily lead to standardized minimal tax rates, which after all is what some Member States among the least competitive are already asking for.³³

²⁸ Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee, “Dividend taxation of individuals in the Internal Market”, December 19, 2003.

²⁹ Pasquale Pistone, “The Impact of European Law on the Relations with Third Countries in the Field of Direct Taxation”, *International Tax Review*, Vol. 34, No. 5, pp. 234-244.

³⁰ Robert Goulder, “EU's Kovács Promotes Common Tax Base Despite Opposition”, *Tax Analysts*, May 3, 2007; see also the speech by the German Finance Minister Peer Steinbrück at an international conference on the CCCTB, Berlin, May 15, 2007.

³¹ Mr. Kovács has made most of his career, since 1975, inside the Hungarian Socialist Workers' Party and is currently a vice-president of the Socialist International.

³² Lázsló Kovács, “Modernising and harmonising European Corporate Tax through a Single Tax Base”, speech at the European Tax Summit, Montreux, February 12, 2007.

³³ Rainer Buergin and Claudia Rach, “Europe Needs ‘Fair’ Competition, Steinbrueck Says”, *Bloomberg*, July 3, 2007.

In a very symptomatic way, by associating taxation to the so-called Lisbon Strategy that aims to improve the EU's economic competitiveness, Lázsló Kovács never calls on the Member States to *lower* their tax burden, as if taxes in themselves were neither obstacles nor costs. In 2006, a coalition of 23 independent European research institutes, including the Institut Constant de Rebecque, submitted a petition against the CCCTB to the European Commission, the European Parliament, national governments and the media.³⁴ The text pointed out the administrative costs and the loss of tax competitiveness that the CCCTB would incur for Europe. It suggested that in order to improve the current situation, the States should eliminate the deficiencies of their own systems, and that the least competitive States in particular should try to increase their attractiveness instead of trying to lower that of others.

“Harmful Tax Competition” and “State Aid”

On the issue of corporate taxes, the European Commission also adopted the concept of “harmful tax competition” introduced by the OECD, the Organization for Economic Co-operation and Development. To remedy “harmful tax competition”, the Commission is once more prescribing the strengthening of information exchange so that tax authorities are “better able to deal with” it. The Commission also wants to strengthen the co-ordination of the Union's policies regarding offshore financial centers in order to force these jurisdictions to evolve towards an “effective exchange of information” with the EU. Again, technology should help make companies “transparent” towards tax authorities. The Commission remarks that in order to move towards a systematic traceability of all transactions “there could be a need to explore whether electronic payments, even over open networks, should be recorded and stored”.³⁵

A “code of conduct” against competition

The EU, moreover, is applying in this context a “code of conduct” aiming at the tax policies which “have, or may have, a significant impact on the location of business in the Union”.³⁶ It is thus nothing less than the “voting with the feet” of capital inside the EU that the code tries to prevent. This instrument is admittedly not legally binding, but it no doubt has political influence. By adopting it, the Member States have vowed to eliminate existing tax measures which entail “harmful tax competition” and to abstain from introducing any new measures having this alleged effect. In a report adopted in 1999, the “code of conduct” working group has counted 66 tax measures presenting “harmful features” (40 in EU Member States, 3 in Gibraltar and 23 in dependent or associated territories). Since then, it ensures the

³⁴ “Petition against the efforts of the European Commission to create a Common Consolidated Corporate Tax Base (CCCTB)”, April 11, 2006.

³⁵ Communication from the Commission to the Council and the European Parliament on preventing and combating corporate and financial malpractice, September 27, p. 15.

³⁶ Code of conduct for business taxation, Official Journal of the European Communities, January 6, 1998.

implementation of the dismantling of these measures, and regularly reports to the ECOFIN, the EU's Council of Economic and Financial Affairs Ministers, which inevitably increases peer pressure on the governments involved.

Paradoxically, while undermining fiscal diversity between States, the European Commission poses as a guardian of competition on European markets. However, both logic and experience show that bureaucratic regulation of competition artificially protects some competitors, but not competition itself, for which the absence of legal barriers to entry is decisive. On the basis of unrealistic assumptions about what competition should be, the Commission imposes substantial fines on companies and punishes selected commercial practices, thus constraining business freedom and distorting markets.³⁷

“Fiscal State Aid”

Many tax regimes have already been dismantled on the grounds of the fight against “harmful tax competition”. Further, the Commission has at its disposal another instrument for limiting tax competition: the equally dubious concept of “fiscal state aid”. This conceptual drift is dangerous in more than one respect. First, by considering favorable taxation as equivalent to a subsidy, the Commission makes no distinction between “not taking” and “giving”. Second, by characterizing less heavy taxation as “aid”, the Commission explicitly implies that all resources belong to the State, which is then entitled to determine their allocation between the private and the state sectors. This political appropriation of resources is striking when the Commission defines State aid, including “fiscal state aid”, as “*State resources* in any form whatsoever which distorts or threatens to distort competition”.³⁸

Among the most recent cases, following an “in-depth investigation” the European Commission has declared illegal Luxembourg's financial holdings formed under a 1929 law and appreciated by European families for the management (and preservation) of their private wealth. Luxembourg consequently dismantled this tax regime in December 2006 with a transitional period until 2010 for existing structures. Meanwhile, the government has introduced a new instrument to replace it, the Private Asset Management Company, which is also largely tax exempt. Interest income can be liable to a withholding tax by virtue of the Savings Tax Directive, but neither dividend nor capital gains nor inheritance of non-residents are taxed. In contrast with the so-called 1929 Holdings, however, some constraints apply to ensure that the distributed profits that the company receives from its participations are liable to pay local taxes of at least 11%.³⁹

Similarly, the European Commission has declared the Belgian coordination centers as “state aid incompatible with the common market”. A coordination center is merely a company part of a multinational group, providing services (financing, cash management, R&D, etc.) to other companies belonging to the same group. In a 2003

³⁷ Valentin Petkantchin, “Five myths about the death of competition in presence of ‘dominant firms’: The Microsoft example”, Institut économique Molinari, May 2007.

³⁸ European Commission, emphasis added.

³⁹ Jean Schaffner, “Luxembourg Replaces 1929 Holding Company Regime”, *Tax Analysts*, May 9, 2007.

decision, the Commission authorized those coordination centers whose ten-year period of approval was under way to continue to enjoy the benefits of the scheme until the end of that period and until 2010 at the latest, but prohibited with immediate effect their renewal when they expire.⁴⁰

Tax planning creativity in Europe, not to mention in the rest of the world, admittedly still has a future despite the Commission's efforts. It would nevertheless be mistaken to dismiss the EU's initiatives as harmless. International tax planning gains being often made at the margin, targeted rises of the tax burden or pre-emptive renouncing by some governments to proceed with more drastic tax reductions or tax abolitions are already unfortunate facts. In this context, it is not likely that the European Court of Justice, in particular with respect to the freedom of movement of capital, will be of much help. Both the Court, increasingly involved in tax matters, and the Commission tend to standardize national tax systems.⁴¹ All signs point more towards tax protectionism than towards an extension of fundamental freedoms.

Bad Faith at Work: The Current Tax Dispute with Switzerland

No other tax dispute demonstrates the protectionist aims, and above all the bad faith of the European Union as clearly as the current disagreement with Switzerland. The Commission maintains that some tax regimes applicable to administrative, holding, and mixed companies constitute a form of state aid incompatible with the proper functioning of the 1972 Free Trade Agreement between the EU and Switzerland.

However, the Free Trade Agreement is merely a pretext: the Agreement contains no clause on taxation and there is no contractual rule between Switzerland and the EU requiring harmonization of corporate taxation. Besides, those tax regimes are in no way discriminatory, since they apply to both Swiss and foreign companies and merely avoid the multiple taxation of profits made outside Switzerland within the same group. Further, they remain open to all economic operators, regardless of their nationality, their activity or their economic sector.

In a very revealing fashion, it is only following complaints introduced by Member States, members of the European Parliament and some companies, that the Commission has criticized these tried and tested tax regimes. There can be no doubt that the intervention against Switzerland serves to illicitly broaden the cartel-like protection of the least competitive Member States' tax revenues and, in the case of companies, to raise the production costs for competitors operating in other States. Like any cartel operating at the margin of legality, the European Commission is using intimidation to reach its ends, considering the Swiss cantons' tax regimes as "undermining the level playing field necessary for our partnership and the trade relations between Switzerland and the EU".⁴² Since Swiss companies generate 80%

⁴⁰ "State aid: Commission extends formal investigation procedure regarding Belgian coordination centres", European Commission Press Release, March 21, 2007.

⁴¹ Armin Marti et Robert P. Desax, "Europäisches Steuerrecht: Chancen und Hürden für Schweizer Unternehmen", *Der Schweizer Treuhänder*, April 2007, pp. 291-296.

⁴² "EU-Switzerland: State aid decision on company tax regimes", European Commission Press Release, February 13, 2007.

of their imports and 60% of their exports in the EU area,⁴³ the Commission is obviously counting on the fear of reprisals in the form of administrative restrictions on trade to make Switzerland submit.

It is worth noting that if the Commission managed to force Switzerland into joining the EU, the latter could count on a yearly tribute currently estimated at 4.9 billion Swiss francs, owed by the Swiss taxpayers (compared to about 439 million due under the current bilateral agreements).⁴⁴

The Swiss Federal Council has already caved in to pressure several times out of fear, be it in regards to the withholding tax on savings income, to the one-billion contribution to EU "cohesion",⁴⁵ to the problematic integration to the Schengen area,⁴⁶ or to the building of oversized railway lines across the Alps. These compromises on principle mostly rely on hasty servility that encourages the European Commission to make more frequent demands based increasingly openly on bad faith, as this tax dispute well illustrates. In this case however, it might have crossed a red line: this time, the Swiss government had to admit that the Commission's complaints were baseless,⁴⁷ while public opinion unequivocally sides with Switzerland and supports the Federal Council's declared refusal to negotiate.⁴⁸

⁴³ Source: Federal Customs Administration.

⁴⁴ Source: Swiss Federal Council, Europe Report 2006, June 28, 2006.

⁴⁵ See on this issue the analysis of the Institut Constant de Rebecque, "Le milliard de cohésion : un tribut contre-productif", September 2006.

⁴⁶ "Schengen : inquiétudes sur la protection des données", Swissinfo, October 11, 2006. See also the analysis by the Institut Constant de Rebecque, "L'association de la Suisse aux accords de Schengen/Dublin : une perspective libérale", April 2005.

⁴⁷ "Switzerland considers the decision of the European Commission to be unfounded - no infringement of Free Trade Agreement by cantonal tax provisions", Federal Department of Finance press release, February 13, 2007.

⁴⁸ "Attaque intolérable contre la souveraineté fiscale suisse", economiesuisse press release, February 13, 2007; Olivier Pauchard, "La presse soutient le gouvernement dans le différend fiscal", Swissinfo, February 14, 2007.

II. The Myths of Centralization

Paradoxically, the European tax cartel is promoted in the name of principles linked in appearance to the good functioning of a free economy: the elimination of “tax obstacles” and distortions in the allocation of capital, market efficiency and “fair competition”. However, it has to be understood that these arguments, vehemently defended by the European Commission, are above all *simplistic*, in the sense that they ignore the negative effects of the State’s fiscal weight and the role of tax planning in the international allocation of capital. In Germany, whose government, as we have seen, is one of the most passionate instigators of tax centralization and standardization, Swiss firms, for instance, own investments of up to 31 billion Swiss francs and employ no fewer than 220,000 people, which represents the equivalent of a little over 5% of Switzerland’s total working population.⁴⁹ Needless to say that the artificially high production costs in Germany arising in particular from regulatory rigidity of the labor market would hardly make such sizable investments possible if the parent corporations of these firms were taxed in Germany. Fiscal diversity outside the EU thus allows valuable capital to be preserved and later invested to productive ends *inside the EU*.

“Fair Competition”

One of the most persistent myths in favor of tax centralization, regulatory standardization or minimal tax rates relies on the idea of competition based on “fair” rules of the game or a “level playing field”: businesses active in a given market should, according to this principle, all benefit from the same conditions of production. This idea is clearly an aberration, for competition depends precisely on competitors’ differentiation, and all the more when competition is extended to the European or world level thanks to trade liberalization. It is up to the entrepreneur to best use both his own capacities and his environment, including the tax environment, to be more competitive with others.⁵⁰

Besides, taxation is but one factor among many in production costs. Following through the logic of “fair competition”, a large number of other differences would also have to be standardized, equalized and leveled out. This EU’s incongruity has been vividly ridiculed with the analogy with the “unfair” advantage that Spanish tomato producers enjoy, since they benefit from more free sunshine than their Dutch counterparts. Following the EU’s logic of “fair competition”, the Spanish producers should be forced to cover their tomatoes with a canvas sheet, to equalize conditions with their northern competitors.⁵¹ In the real world, there can of course never be a situation in which entrepreneurs are faced with the same production costs, if only for the natural differences between individuals. Thus, faced with less sunshine than the south of Europe, Dutch tomato producers have developed other, innovative methods of production. Without this diversity of human intelligence, there would be no need for

⁴⁹ Source: Association of Swiss Companies in Germany (VSUD) (2007).

⁵⁰ Pascal Salin, *Libéralisme*, Paris, Odile Jacob, 2000, pp. 458-459.

⁵¹ Salin, *op. cit.*, p. 460.

trade, since everyone would produce the same goods. It is also because of these differences that innovation, differentiation, specialization and the division of labor, all at the opposite of the homogenization implied by the chimera of “fair competition” promoted by the EU, are unavoidable characteristics of trade.

Of course, local and national tax policies do create a large number of distortions and discriminations for businesses. Progressive taxation, for instance, penalizes especially effort and success. Taxes on wealth and capital delay the accumulation of capital and slow down innovation and the production of goods and services that would better fulfill, and at a lesser cost, consumers' needs. But all these consequences are inherent to taxation and to standardize them would only extend their pernicious effects, which appears as the implicit reasoning behind the idea of “fair competition”: the goal is foremost to raise the costs of businesses in other countries to make them less competitive, instead of seeking to make the local or national tax framework more attractive. The “fair competition” promoted by the European Commission through tax standardization is therefore nothing more than a form of protectionism.

“Public Goods” Financing

Another argument in favor of tax centralization purports that because of taxpayer or capital flight to more attractive jurisdictions it would no longer be possible to finance “public goods” and redistribution policies to which Europe has become accustomed. This point of view suffers from two major problems: first, it presupposes that the financing of a maximum of “public goods” is a good thing in itself; second, it suggests that taxation is the only decisive factor in the choice of residence or investment, a notion that is clearly refuted by relevant research.⁵² Nothing suggests that those “public goods” really desired would not be produced, so long as people value them sufficiently to finance them.

But the most striking weakness of the conventional analyses of “public goods” is that they consider only the positive effects of State expenditures. Apart in cases of blatant wasting, these effects are of course visible and measurable, be it schools, roads, hospitals or social subsidies. What goes forgotten are the fiscal costs and the very nature of public spending policies.

If the State sector seems capable of providing an impressive quantity of “public goods”, its expenditures, even the most well thought through, cannot compare to services provided on the market. Without price signals and the profit measure, planned production amounts to little more than *groping in the dark*.⁵³ In the absence of information on consumers' preferences through prices, it is indeed impossible for the State to know what and in what quantity to produce: it can but determine it on an

⁵² Richard Teather, *The Benefits of Tax Competition*, London, Institute of Economic Affairs, 2005, p. 43.

⁵³ Ludwig von Mises, *Bureaucracy*, Grove City, Libertarian Press, [1944] 1996, pp. 49-58.

arbitrary basis, or according to electoral considerations.⁵⁴ Moreover, without the profit motive, the discipline of competition, and the responsibility for losses and failures, costs are never pushed down, but simply ignored or even encouraged by spending objectives in order to exhaust allocated budgets.

In this context, fiscal diversity tends on the contrary to improve the relation between the tax burden and the “public goods” provided by the State, all the more so when a jurisdiction is small and “voting with one’s feet” not too costly. Since the State finances its production through tax coercion and enjoys a monopoly on the use of force, the greatest jurisdictional diversity in a given area even proves an essential control mechanism over spending and tax policies. It would at any rate be naive to think of political democracy, in particular the election of governments, as capable of fulfilling this function of control: ballot box democracy offers only very limited, or even insignificant choice, and tends in many States towards oligarchy.⁵⁵

As a result, the production of “public goods” often depends on incentives to give favors to organized interest groups and other rent seekers, to the detriment of all taxpayers. While the cost of such policies for every single taxpayer is rather small, the aggregate electoral support of different groups of beneficiaries of the government’s favors risks to be important. This incentive structure explains the predominance of short term oriented policies (that usually foresee no further than the next election) of most State programs and their chronic need of “reforms”. Politicians that want to remain in power tend to support policies generating present benefits in exchange for future costs which are difficult to identify immediately and can be transmitted to future taxpayers through public debt.⁵⁶ From the perspective of facilitating such practices and bypassing any reappraisal of the EU’s welfare States, tax centralization at the European level can indeed appear as a godsend. For the vast majority of European residents, however, it would reinforce the distance between decisions and their consequences, alienating the populations even further from political decision-makers, with all the risks this implies in terms of crises and political conflicts.⁵⁷

⁵⁴ The Public Choice School, in particular, has analyzed this phenomenon. Cf. Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, Cambridge, Harvard University Press, 1971.

⁵⁵ Teather, op. cit., p. 54. For a detailed analysis of the functioning of contemporary democracy, see also Bertrand Lemennicier, *La Morale face à l'économie*, Paris, Éditions d'Organisation, 2006, pp. 171-226.

⁵⁶ Geoffrey Brennan and James M. Buchanan, *The Power to Tax: Analytical Foundations of a Fiscal Constitution*, Indianapolis, Liberty Fund, [1980] 2000, pp. 99-128.

⁵⁷ Noel Malcolm, « The Case Against “Europe” », *Foreign Affairs*, March/April 1995.

“Market Efficiency”

Another argument in favor of fiscal standardization is the pretence that markets could function much more efficiently in a homogenous tax environment. Conformity costs and economic distortions would thereby be reduced to a certain extent. Many multinational corporations yield for understandable reasons to the shallow appeal of this line of argument. And yet, this point of view focuses only on the costs of diversity and completely ignores the impact of institutional competition between jurisdictions. While it appears true at first glance that the suppression of diversity could lower costs, at the same time it sets in motion a monopoly process, whose effects are well known. The comparison of different policies, the emulation of best practices, institutional innovation and incentives to more budgetary discipline are all annihilated.

Experience shows that the contrary of what the Commission advances is true: fiscal diversity and the use of “tax havens” by multinational corporations for their legal structures significantly enhance market efficiency.⁵⁸ They promote investment and the growth of wealth and help avoid some unfortunate side-effects of tax systems, such as overtaxation of capital or multiple taxation of the same profits within one group. It seems particularly perverse to allow States to overtax reinvested profits which finance the economic expansion of the private sector, at whose expense, it must be reminded, States live, when taxes are already levied when a firm's profits are distributed to the stockholders. “Tax havens” serve at most as a channel for capital often used eventually to finance direct investment in the EU countries themselves. These efficiency gains in the international capital markets also encourage businesses to more efficiency in the allocation of their resources, since they can no longer count on a captive pool of local capital.

As a corollary to the myth of market efficiency, which would supposedly be favored by tax centralization, it is often advanced that standardization conditions trade liberalization. However, as we have seen, trade liberalization represents the very opposite of homogenization and instead encourages differentiation. The experience of the European Union itself illustrates how the intent to liberalize from the top down turns out to be counter-productive in the long run: although a priori preferable to potential national protectionism, the EU tends today, due to its internal dynamic, to reproduce the same overregulated protectionist pattern at the level of the continent. The process of “European construction” is driving Europe ever further from the four freedoms of the Treaty of Rome of 1957. Close to half of the European budget is used to subsidize agriculture, while the *acquis communautaire*, that is, the full body of the EU's regulations, now represents some 90,000 pages, to which must be added the 15,000 pages of “fundamental” rulings of the European Court of Justice.⁵⁹

⁵⁸ Teather, op. cit., pp. 30-34. Cf. also Daniel J. Mitchell, “Tax Havens: Myth versus Reality”, *Prosperitas*, Center for Freedom and Prosperity Foundation, Vol. VII, Issue IV, May 2007.

⁵⁹ Source: Publications Office of the European Union.

III. The Necessity of Fiscal Diversity

It is not banal to remember it: Europe owes its historical revival to its diversity and dispersion of political power. The competition of political systems and the absence of centralization were decisive factors for the Renaissance, the Enlightenment, the Industrial Revolution and the great prosperity that followed.⁶⁰ After the fall of Rome, Europe's political division allowed productive individuals to "vote with their feet", taking their capital with them. With the division of authority, political protest could develop, leading to the emergence of parliaments and free cities, limiting predatory taxation and sparking similar progress in other places later on. The current efforts of the European Commission to reverse this progress thus should be recognized as really *anti-European*, that is, contrary to the conditions of Europe's exceptional success, compared with other civilizations that were at the time technologically more advanced.⁶¹

Superior Prosperity

By limiting the States' capacity to indefinitely increase the tax burden, the diversity of jurisdictions and systems unquestionably leads to greater prosperity in Europe. The most extensive empirical research, that conducted over a long period and including a large panel of countries finds a clear relationship between State size and prosperity.⁶² The most obvious result of tax competition is its beneficial impact on savings, since high taxes discourage the accumulation of capital. Tax competition therefore leads to more investment, more jobs and more prosperity. This is also why the EU's Savings Tax Directive is so harmful.

In regards to corporate profit, taxation also has a harmful impact on economic prosperity since many investments are financed through profit retention. The higher the tax that companies are liable to, the less capital there will be to invest. Moreover, if profits distributed as dividends are heavily taxed, on competitive international capital markets businesses could be forced to pay more dividends to their stockholders in order to attract funds. This combination of lower after-tax profits and higher dividends limits substantially the firms' capacity to accumulate capital and finance their development.⁶³

The tax burden, including that on labor, also reduces prosperity by making leisure artificially more attractive than remunerated work. This effect creates a tax wedge between the remuneration derived from the transaction between a business and its client and the one that the company's employee in turn receives. This reduces

⁶⁰ Cf. David S. Landes, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some Are So Poor*, New York, Norton, 1998, pp. 36-39, also Nathan Rosenberg and L.E. Birdzell, Jr., *How the West Grew Rich: The Economic Transformation of the Industrial World*, New York, Basic Books, 1986, pp. 136-139.

⁶¹ For instance compared with China; cf. Rosenberg and Birdzell, op. cit., pp. 137-138.

⁶² See on this the study by the Institut Constant de Rebecque, "Comment le poids de l'État diminue la prospérité", 2006.

⁶³ Teather, op. cit., p. 26.

the incentives to work and undermines specialization, for it often becomes more economic to carry out work on one's own instead of hiring others and focusing on one's main remunerated activity.⁶⁴ This is especially true under progressive tax systems, which penalize economic efficiency more the greater it is. Taxation then is a direct disincentive to productive work.

With the incurred risks, diminished returns as a result of the tax burden also make entrepreneurship much less attractive. Consequently, taxes are not only unfavorable to the most taxed taxpayers, but harmful for all, since they prevent the creation of better products at lower prices. By hindering the accumulation of capital, and thus innovation and economic progress, the tax burden is particularly penalizing for low-income individuals, who consequently suffer from fewer work opportunities and lower wages.

A Condition for Institutional Innovation

Fiscal diversity implies a diversity of approaches to the role of the State. Competition, correctly understood as a discovery process with unpredictable results, allows the acquisition of new knowledge, the implementation of new practices and the testing of new policies. With knowledge being generally very scattered, diversity allows the emergence of innovative ideas and, most decisively, their implementation.

These possibilities offered by competition are especially important in a complex knowledge society organized in networks that most often transcend national borders. The need for individual, temporary and "custom-tailored" solutions is increasing, while the need for mandatory rules applying in the same way to all decreases.⁶⁵ It can therefore be expected that the necessity, the efficiency, and the sustainability of State norms and programs will be increasingly difficult to prove. Fiscal diversity allows this progress-driven evolution to unfold.

The experience of Swiss cantons and the multitude of mini-States such as Dubai, Hong Kong, Liechtenstein, Monaco or Singapore with less heavy taxation, all among the most prosperous countries in the world, illustrates the absurdity of the notion of "economies of scale" in the field of taxation: generally, the closer the decisions of a jurisdiction are taken to the residents and the easier it is for them to potentially move to a jurisdiction close to their current place of residence, the more public policies will tend to correspond to the residents' real needs and preferences. Dubai, for instance, one of the most dynamic international economic locations despite its unenviable geographic situation, does not apply any tax, but only charges user fees for services provided. Some Swiss cantons have introduced regressive tax

⁶⁴ Richard Teather uses the following illustration: faced with higher taxes, it might be more efficient for someone to stay at home and mow his lawn than go to work (the proceeds of which will be taxed) and pay a gardener (who needs higher gross pay because he will be taxed as well). The tax therefore results in this case in a reduction in productive economic activity, an unemployed gardener and poorly cut grass. Cf. Teather, *op. cit.*, p. 45.

⁶⁵ Robert Nef, *Lob des Non-Zentralismus*, Sankt Augustin, Academia Verlag, 2002, pp. 62-63.

scales, whose rates are graduated so that they decrease as the taxed amount increases.⁶⁶

Switzerland's fiscal diversity allows comparing the results of different tax policies, often between almost identical jurisdictions, most tellingly in the case of the adjacent half-cantons of Nidwalden and Obwalden. In the former, which pursued one of the most attractive tax policies for many years, GDP per capita is now 44% higher than in the latter,⁶⁷ which until 2006 had the highest tax burden in Switzerland and could only survive through central government subsidies. Thanks to a diversity allowing the tax burden to vary that much between two adjacent valleys, Obwalden's mistaken policy was finally recognized as such and its consequences remained limited to a relatively small jurisdiction, whose most productive residents could easily exile. Under a fully centralized State, on the contrary, it would have been much more difficult, with only international comparison helping, to identify and correct the perversity of a punitive tax policy, assorted with demeaning subsidies, while the effects of such a policy would have been no less harmful for the residents' economic well-being and freedom of choice.

A Safeguard for Freedom

Fiscal diversity is above all an essential condition for the preservation of individual freedom. In particular, competition tends to limit the predatory potential of the territorial monopoly on force that the State enjoys. Indeed, while private sector services must pass the consumer's test, there is no such test for State activities, which are financed through the coercion of taxes, with no free choice, with no incentive to maximize value for money and with no efficient antidote to possible abuse. The existence of small, open and competing jurisdictions is therefore the best guarantee to constrain the States' natural propensity of abusing their power: no human institution ever accumulated so many violations of freedoms and individual rights throughout History.⁶⁸ States have regularly abused their monopoly of force and massacred millions of innocents, inside and outside of their jurisdictions alike, through wars, persecutions, confiscations, famines. The most dramatic illustrations of these abuses are provided, in the last century, by Nazi Germany and Soviet Russia, with Cuba and North Korea still serving as extreme reminiscences. Even in its softer variants, with separation and relative limitation of power, the State naturally tends to continuously expand its domains of intervention and the intensity of its hold over society. In many European countries, because of progressive taxation, it has now become very difficult to accumulate and pass on over generations enough capital to attain personal financial autonomy, for example.

The State can be necessary and a guarantor of freedom if it is limited to its basic functions—the administration of justice, interior security and defense—which

⁶⁶ Regressive taxation, however, has been declared illegal by the Federal Supreme Court of Switzerland, which made a minority judge of the Court say that it is a generation late on these cantons.

⁶⁷ Source: Swiss Federal Statistical Office.

⁶⁸ See on this in particular the important work by R. J. Rummel, *Death by Government*, New Brunswick, Transaction Publishers, 1997.

represent a tiny fraction of its current expenses. The burden of proof of such an assertion, however, tends increasingly to fall on those who support it: in the complexity of the real world, private arbitration courts as well as private security services seem to face a growing demand, generated by disappointed expectations vis-à-vis State services.⁶⁹

It is therefore no less than an individual's legitimate rights to the fruit of his labor and his property in general that tax competition helps to protect. By placing limits on State confiscation, fiscal diversity acknowledges that all wealth must be created through individual effort. Even the most abundant natural resources have no intrinsic value; they only acquire value once someone finds a use for them. The process of wealth creation necessarily implies that there can be no claim on something that would not exist were it not for an individual's decision to undertake that productive activity and create it. Hence the imperative of justice to limit the State's taxing power.⁷⁰

And yet, while it is indisputable that tax competition is a powerful instrument against excess taxation, it would be careless to consider it as equivalent to market competition. Indeed, in the private sector, competition implies that each producer and consumer can conclude a trade wherever they are. This is all the more true in a world in which the costs of trade have strongly decreased and in which information can be available in real time from anywhere. Individuals thus can use their freedom of choice without restriction. In tax matters, on the other hand, the individual is subject to a monopolistic power of coercion on his place of residence.⁷¹ This distinction again shows the necessity for as great a number of small independent jurisdictions as possible, making "voting with one's feet" easier.

⁶⁹ The International Chamber of Commerce's International Court of Arbitration, for example, has administered over 14,000 international arbitration cases involving parties and arbitrators from more than 170 countries and territories since its founding in 1923. Demand for its services grows year by year. Even in domestic contexts, parties increasingly prefer the ICC's competitive offer. ICC arbitration provides confidentiality and freedom for the parties to choose the arbitrators, the place of arbitration, the applicable rules of law and even the language of the proceedings, in stark contrast with government courts.

⁷⁰ Cf. Friedrich Hayek, "'Social' or Distributive Justice", in: Chiaki Nishiyama and Kurt R. Leube, ed., *The Essence of Hayek*, Stanford, Hoover Institution Press, 1984.

⁷¹ Pascal Salin, "The Case Against 'Tax Harmonisation': The OECD and EU Initiatives", report prepared for the regional meeting of the Mont Pelerin Society, "Liberty and Property in the 21st Century", Reykjavik, August 21-24, 2005, pp. 17-18 (unpublished text).

The Role of Switzerland

On the basis of logic as well as experience, it is hardly exaggerated to see in the European Union's institutions *one of the greatest threats for freedom and prosperity on the European continent*. Of course, diversity remains vigorous in Europe, and the required unanimity of the Member States in many fiscal areas constitutes an important barrier to standardization. Excessive optimism, however, would be out of place: the experience of federal States such as Germany, the United States and Switzerland, as well as that of the European Union itself, indicates that in the long run majorities of federated States have used the central State to limit the competition of more competitive members and redistribute funds in their favor. The European Union is no exception and is particularly dangerous due to its continental scope which makes "voting with one's feet" costly. The internal dynamic of the EU's bureaucracy and the financial deadlock of most States cause Europe to be particularly vulnerable to the sirens of cartelization. In the case of the VAT, the EU also proceeded step by step, by starting to standardize the tax base, and then later adopting high minimal rates, at Germany's insistence. It would therefore be inconsiderate to underestimate the current standardization efforts of a cartel of States having at their disposal—it must be stressed—a monopoly of coercion over their territory with most often weak democratic veto institutions.

In large part thanks to such institutions, Switzerland has so far remained largely independent of the European Union's authorities, while being one of the most open countries in the world: in the latest globalization index by A.T. Kearney / Foreign Policy, elaborated according to 12 economic, political, cultural and personal variables, Switzerland ranks second in the world, behind Singapore and before the United States.⁷²

Equally significant, 10% of Swiss GDP now comes from foreign companies established in Switzerland (34% of GDP including Swiss multinational corporations making at least a quarter of their sales abroad). Foreign companies are the most important source of growth and currently employ over 210,000 people: over the last eight years, they have generated close to a quarter of Switzerland's overall economic growth, while their workforce increased by roughly 6% a year, a spectacular rise in large part due to new establishments, in particular of European group headquarters.⁷³ It would be wrong, however, to assume that such a development only benefits Switzerland: in an open economy, capital preservation in Switzerland serves the entire world. Swiss firms now employ over 2 million people abroad, which is the equivalent of more than half Switzerland's total working population.⁷⁴

In view of this reality, it is revealing of the almost mystical drift of the EU that the current president of the European Commission, José Manuel Durão Barroso, former premier minister (and former Maoist militant) of Portugal, one of the worst managed and least prosperous countries of the continent, brought to Switzerland the

⁷² Source: A.T. Kearney / Foreign Policy Globalization Index 2006.

⁷³ Swiss-American Chamber of Commerce and Boston Consulting Group, "Foreign Companies in Switzerland: The Forgotten Sector", January 2006.

⁷⁴ Source: Swiss National Bank.

judgment that a country alone would be “lost” in the global economy.⁷⁵ However, besides the Germans, the Portuguese are the most numerous to emigrate each year in Switzerland looking for a better life (roughly 6,000 people a year). And what is true for Germany and Portugal holds for other countries of the EU as well: since the enactment of the Agreement on the Free Movement of Persons with the EU, Switzerland experiences each year a new record of migrants from the EU. The (net) increase in 2006 attained 2.1% for nationals from the old 15 Member States only, which is more than two and a half times the global increase (of 0.8%) in the permanent foreign population.⁷⁶

Naturally, Switzerland cannot welcome onto its limited territory an infinite number of EU expatriates. But Switzerland's independence and fiscal autonomy, to which banking confidentiality also belongs, contribute substantially to the prosperity of the rest of Europe. Through its collective individuality, and in particular thanks to the fiscal dynamism of some cantons, Switzerland can continue to serve, with other countries in the world, as a bulwark against the standardization of tax systems. What is at stake is nothing less than the conservation and increase of productive capital in order to generate more innovation, wealth and employment, with a generally higher standard of living as a result, while enhancing individual rights and choices. It is this moral high ground that must guide Switzerland in its enlightened dissidence against the EU cartel—in the interest of all Europeans and of Europe's future.

⁷⁵ “Swiss told to ‘make an effort’ in tax dispute”, Swissinfo, April 12, 2007.

⁷⁶ Source: Swiss Federal Office for Migration.

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