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Economic governance after the crisis in the EU: what's next?

Ladies and Gentlemen,

Firstly, I would like to thank my friends from the Lithuanian Parliament and the Presidency for hosting this event.

Convening this first Conference on Economic and Financial Governance of the European Union in Vilnius, under the Lithuanian Presidency, is particularly fitting.

Geographically, the Eurozone has seen – and will continue to see – its most recent dynamic development in the Baltic area.

Now the time has come to match geographical dynamism with political dynamism.

Europe's strong response to the crisis

We are now five years into the crisis with its economic imbalances, credit booms, real estate bubbles, and unsustainable public spending in most of The EU Member States.

Europe has not been inactive in this difficult period. Collectively, we have delivered a strong policy response to these challenges, with a very clear objective in mind: the preservation of the Euro.

The Stability and Growth Pact has been substantially overhauled.

New tools have been developed to better coordinate economic policies and ensure preventive and corrective fiscal surveillance.

The ECB has developed a new policy toolkit for containing financial fragmentation in the euro area.

With the ESM, we have built a firewall to avoid sovereign financial distress spilling across borders.

The Commission is, together with the ECB and IMF, working closely with the most vulnerable Eurozone Member States in order to bring their economies back to such a sustainable path that ensures market access.

These measures are now starting to bear fruit.

Not long ago, some commentators were declaring the euro dead; yet today this scenario seems unrealistic.

The external rebalancing in the euro area is underway. And growth is gradually coming back towards a positive path.

I do not want here to play down the risks that remain or the social costs our societies are bearing. But the situation today is different from what it was just a couple of months ago.

Looking ahead: A Blueprint for EMU

Challenges still remain for the future and this is why the Commission keeps feeding the debate on the deepening of the EMU.

Our communication, which we call the “Blueprint”, outlines how we can progress towards a genuine European economic and monetary union.

Already some first steps have been taken. Legislative proposals for a banking union are currently being negotiated. You will hear more about this later today.

We have also proposed to strengthen the ex-ante coordination of major economic reforms and that the long-term European perspective should comprise a fiscal stabilisation capacity and the common issuance of public debt.

Although, in the Blueprint, we give priority to measures that can be realised under the prevailing framework, the proposals for the longer term will ultimately require Treaty changes.

I know that this Treaty changes and genuine fiscal integration is seen as difficult and demanding, notably in terms of efforts to explain, convince and get support.

However, since our proposal, the momentum is building, and possible design features of closer integration in EMU are being increasingly discussed in various forums.

Personally, I am an advocate of a gradual but firm approach towards closer economic union.

Although I am convinced that many European citizens understand that the appropriate answer to the challenges we face is more Europe, we must also bear mind the scepticism around European issues that exists in many EU Members.

Therefore we need to be sure that any steps forward we propose provide clear benefits, which citizens can understand and appreciate.

Economic governance – Expectations of citizens

Ladies and Gentlemen,

My contribution comes under the heading of “Setting the right framework for post-crisis economic governance in the EU”.

The instruments I have mentioned are important elements of post-crisis economic governance.

Many people say that closer integration for the overall EU will emerge from our response to the crisis.

They are right.

But I would go further and say that closer integration is already happening: it is our response to the crisis.

There is, however, also a worrying aspect to the story.

While crisis response has brought closer integration in institutions and procedures, it has not always fostered a sense of community among EU citizens.

Indeed, in the Member States, opinions on Europe are diverging.

These are not ideal conditions for taking bold steps towards greater integration.

Nevertheless, citizens of the EU have high expectations of their policy makers.

Eurobarometer opinion polls provide a flavour of how our citizens see the future of Europe.

- Unemployment and public debt are seen as the biggest challenges for the future. However, the emphasis on each differs between countries.
- Most Europeans see a need for greater emphasis on social equality and solidarity, in order to face major global challenges
- And the vast majority of citizens in most Eurozone countries would like stronger co-ordination of economic and budgetary policies. I am sure this view is also shared by citizens of non-Euro Member States.

What do we make of these findings? How can we move forward?

Economic governance – An approach for the Union

Beyond the issues strictly linked to the Eurozone itself, there is a legitimate expectation from our citizens that the EU should contribute to a comprehensive growth and job strategy for all.

The European reinforced economic agenda implies closer cooperation at EU level on agreed policy priorities and targets, together with country specific approaches based on the surveillance of macroeconomic imbalances and economic and fiscal policy.

For this, we have the European Semester - a comprehensive tool to improve the consistency, focus and timeliness of economic policies. The European Semester has already shown its merits.

Let me emphasise two points here where we can contribute further to setting the right framework.

First, I believe that we need stronger involvement of National Parliaments and the European Parliament in the European Semester. Elected representatives naturally have an important role to play in this process.

The involvement of National Parliaments is essential to improve ownership, ensure early discussions on national reform programmes, and make the best use of the analysis and recommendations they receive in designing growth enhancing policy reforms and budgetary decisions.

The European Parliament, on its side, is a key partner in the economic dialogue at European level. As such, it should ensure the transparency of the entire exercise and monitor the comply-or-explain principle on Country Specific Recommendations addressed to Member States.

Second, although some elements of the European semester are limited to the euro area, those outside the Eurozone must not be marginalised or left behind. Nor should our Single Market be undermined.

Therefore, important elements of the deepening of the EMU -such as banking union or ex-ante policy coordination- should, as far as it is legally possible, remain open to non-euro Member States. We must give willing member states the possibility to benefit from enhanced economic surveillance if they wish, even before they join the common currency.

This is, in my opinion, essential to guiding the entire EU towards smart, sustainable and inclusive growth, as part of the Europe 2020 strategy.

Scope for European tax policy

Ladies and Gentlemen,

Now I would like to concentrate on one aspect closely linked to economic governance which is very close to my heart.

I am referring to the area of taxation.

Let me explain to you where I do see scope for moving forward with taxation policy in the context of the European Semester and even beyond.

Firstly, our citizens rightly expect determined action to **combat tax evasion**. And this is not something on which our Member states can deliver in isolation.

It is important that honest taxpayers don't have to pay more than they should to compensate for fraudsters.

It is also vital to protect our economic model, so that our free markets and open economies are not left vulnerable to abuse.

The Commission has launched an ambitious action plan towards enhanced tax transparency and reinforced fight against fraud and evasion.

Last May, the European Council endorsed this plan, fixed deadlines for its implementation and asked for full coordination of EU positions in the global discussions at the level of the OECD and G20.

This opens the way for systematic action in areas as diverse as blacklisting tax havens, closing of loopholes in the taxation of Savings income, improving co-operation between taxation and other law enforcement bodies, tackling VAT and carousel fraud, and acting to counter harmful practices and base erosion in area of company taxation.

From a wider perspective, I believe that we also have to take tax enforcement and the fight against unreported economic activity more seriously.

In the area of taxation, we are working on an interesting new perspective on this issue.

Research has shown that there is a direct link between tax compliance and how the state and its institutions are perceived by citizens.

Therefore, in order to improve tax compliance, we also need to raise the quality of the public goods offered.

In my view, offering an environment of good governance is not only important for competitiveness; it is also a prerequisite for our citizens to believe that they are making a valuable contribution to society by paying their taxes.

Beyond fighting tax fraud and tax evasion, our citizens also expect the EU member states to implement **fair tax systems**.

There has been recently a growing interest on the distributional impacts of budgetary policies, and rightly so.

We all know that budgetary consolidation is the major challenge of our times for many Member States. Indeed it will take a generation for some countries to complete this task.

In this environment, fairness - in the sense of protecting the weakest and respecting the principle of the ability to pay - is not just about meeting citizens' expressed expectations.

There is increasing evidence that preventing socio-economic inequality from rising too high has benefits for all, indeed in a narrow economic sense.

We are all aware that there is usually a trade-off between equity and efficiency

However, it **is** possible for equity and growth to be complementary objectives. Indeed, it has been shown that equity matters for growth, as well as for fiscal and financial stability.

So there can be economic benefits in addressing citizens' concerns about fairness and in assessing how tax reforms can contribute to bridging inequality gap we are facing in the EU.

In this context I would like to draw your attention to our analysis on the nexus between equity, growth, and taxation policy provided in this year's Tax Reforms Report¹, released earlier this month.

Closer fiscal integration

Let me finish now with some words on the issue of closer fiscal integration.

A common European fiscal capacity, whatever its immediate purpose, will have to be supported by revenue.

And when it comes to revenue, we must not forget the verdict "no taxation without representation".

There are many debates about various aspects of a European fiscal capacity on the functional side.

I wish to see just as many debates and thoughtful contributions on how to strengthen European economic governance along the lines of democratic participation.

The processes of democratic decision-making should provide the foundation of a European fiscal structure. And we all know that smart architecture cannot compensate for weak foundations.

In this respect, I very much welcome this conference today, as it gathers the views of the people of Europe via their elected representatives.

We need to be more creative in setting up similar formats and events, where we can learn from each other, learn about our citizens, and provide an open space for articulating preferences at European level.

For my part, I would like to put this question to you: when considering closer fiscal integration, is there not also some truth in the inverted slogan, "No representation without taxation"?

In the end, where you put your money, that is where your interests lie.

According to this line of argument, revenue collection would raise stakes and awareness and certainly fuel public debate at the European level: precisely what is needed for healthy democracies to function.

In essence, I am arguing for a genuine *revenue* capacity at European level.

(Conclusion)

Ladies and Gentlemen,

Let me conclude with a short summary of my view on the way forward. We do need more Europe, but one where our citizens can understand and can experience its benefits.

With the crisis, we have moved towards deeper fiscal integration. We should continue moving forward gradually towards reinforced economic governance and stronger banking union.

Our focus should never be only on economic mechanisms but always keep the expectations of the Member States and their citizens in mind.

Taxation is about people's money.

And people tend to follow very closely what they pay for.

If you get value for your money, you will be more willing to pay.

This is why good governance is important. This is also why fairness matters.

Thank you for your attention.

¹ http://ec.europa.eu/economy_finance/publications/european_economy/2013/ee5_en.htm