Address by Mr. Richard BURKE, EEC Commissioner for Taxation, Transport, Consumer Affairs and Relation with the European Parliament at a lunch given in Dublin by the Association of European Journalists on 2nd December, 1977, 1.00 p.m.

The European Council, in Brussels next week, will discuss Commission proposals for speeding-up the Community's movement towards Economic and Monetary Union. Economic and Monetary Union represents the ultimate political objective of European integration; a goal towards which we must always strive.

There is a spectrum of viewpoints on the speed at which this can be achieved. There are differing views also over the best route to follow - whether by a progressive convergence of economic policies, or via a bold and rapid advance towards a single monetary unit. It is no secret that the Commission has accepted that rapid progress cannot be expected, and has set its sights on a gradual approach, with a range of specific measures to be taken over the next five years. These measures will be of value in themselves, but will also prepare the way for subsequent convergence of the nine economies.

As the Commissioner responsible for Taxation it is my job to specify the fiscal measures which our progress towards EMU will require. The actions required have been specified for the European Council.

Before discussing the present moves towards EMU, I should perhaps first put the issue in its historical context.

A basic objective of the Community has long been the free circulation of goods, services, persons and capital. There are of course those who suggest that this concept of free circulation is realised, now that customs duties in intra-Community trade have been abolished, provided that the mechanisms for detaxing exports and taxing imports at the frontier are neutral.

In reality, this view begs a very large question, because the complexities of modern tax systems, and the extent to which they have been tailored to national circumstances and policy are such that the only way to achieve the degree of neutrality necessary for fair competition is via harmonization of the tax structures. Only then can we be sure, for example, that imported goods will be taxed in like manner to similar domestic goods, that the Member States have similar concepts of what constitutes commercial profit and of the way it should be taxed when retained or distributed, and so on.

It is for these reasons that the Commission has laid such stress on structural tax harmonization. The work on Value Added Tax is well known. Since 1973, all nine Member States have applied the Community VAT system, which is neutral between imports and exports. In May this year, the Council adopted a uniform basis of assessment, which will also serve as a basis for assessing part of the Community's own resources.

The Council has so far made less progress with other taxes, and for that reason the fact is sometimes overlooked that the Commission has also made proposals for a common excise system - both as which excises to apply and their structure - and for a harmonized system of corporate taxation. These proposals - all of which await Council decision - together with the VAT directives, already provide the main outlines of a competitively neutral European tax system.

There are those who take the view that harmonized structures do not go far enough. They argue that free circulation will not be fully achieved until such time as tax rates - at least those of indirect taxes - have been sufficiently harmonized to permit the abolition of fiscal frontiers, so that goods and individuals will travel from one Member State to another as freely as they now travel within each Member State. In political terms, there is much to be said for this objective, because individual citizens will find it difficult to believe in the concept of a united Europe so long as internal frontier controls remain. But in economic terms, the harmonization of tax rates cannot be regarded as an end in itself.

It is at this point that the questions of the desirability of further progress towards EMU and of increased convergence, not only of tax structures, but also of tax rates, come together. At present, each Member State seeks to direct its own economic affairs, using taxation as the preferred instrument. But our governments are faced by problems which are international rather than national in scope. No one Member State can influence decisively, the level of European demand, or insulate itself from the price increases which have followed the 1973 oil crisis. The maintenance of a given exchange rate for any one of our currencies is more or less dependent upon the support of the monetary authories in other countries.

We therefore see that the major macro-economic policy decisions - for example, on the level of employment, on the level of the exchange rate and on the rate of inflation - are of necessity taken in response to the international economic climate. Our governments are not masters in their own house.

Economic and monetary union is the logical Community response to this situation. Like the United States, a united Europe will not only enjoy much greater independence of the international climate, but will also be in a position decisively to influence that climate.

Taxation policy would of course be of central importance in such a union. It will involve a common currency, closely integrated economic management and - almost certainly - a substantial central budget for stabilisation and redistribution policies. The factors in the formation of manufacturing costs will need to be broadly equalized. This in turn implies broad equalization of tax burdens. None of this will be possible unless the Member States adapt their taxation systems towards a common pattern.

I am sure that none of you here has any illusions that this adaptation can be easily achieved. A few figures serve to illustrate the size of the problem. Currently, taxation in the Member States is roughly equal to 40 % of Gross Domestic Product. By contrast, the entire Community budget is less than 0.7% of G.D.P. The most recent estimates suggest that the miniumum budget required to bring about worthwhile redistributive effects between the Member States would have to be between 7% and 10% of G.D.P., which implies massive transfers of competence to a central budgetary and tax authority.

The differences from one Member State to another, whether in the levels of different taxes, or in the pattern of taxation, are also formidable. Comparing Ireland with other Member States, one finds, for example, that excises account for more than a quarter of total tax receipts, compared with 6% in France; that Irish VAT accounts for about 15% of total tax, compared with less than 9% in the UK and almost one quarter in France; that direct taxes in Ireland are about 32% of the total, compared with nearly 61% in Denmark and about 18% in France.

Looking to actual tax rates, Ireland taxes beer and alcohol at about half the rate in Denmark and whereas the Italian rates are negligible. On the other hand the Irish rate for petrol is roughly half that of Italy.

These figures underline my earlier remark that the tax changes necessary for EMU will not be easily achieved. Moreover, the figures I have quoted, which are daunting enough, give no indication of the differing political and social priorities which gave rise to these different tax structures in the first place. It is therefore evident that these changes involve, not merely theoretical debates amongst economists, but major political issues.

Nevertheless, the alternative to EMU seems to be that each Member State seeks to chart its own economic course in the future - which is to forego much of the advantage which the Community offers. Consequently, the future debate on EMU should in my view focus, not solely on the economic and fiscal difficulties, but on the preparation of a realistic balance sheet of its costs and benefits.