Mutual Recognition in Regulation and Taxation

Philipp Genschel

p.genschel@iu-bremen.de

First Draft – prepared for EUSA 2005

1. Why no mutual recognition in taxation?

There is a stark contrast between the high official praise paid to the principle of mutual recognition as "the cornerstone of the Single Market" (European Commission 1999:2) and the low satisfaction with the principle's actual operation on the ground. Many studies have observed that mutual recognition contributes only modestly to the removal of regulatory barriers in the Single Market and investigate why that is (see e.g. Nicolaidis 1993; Pelkmans 2003; Schmidt 2003; Schmidt 2004). The focus of this study is different. It asks why mutual recognition is not used at all for the removal of tax barriers. A comparison between the regulation and taxation of goods is used to identify possible answers. Why is mutual recognition applied to product regulations but not to VAT?

The paper is structured into seven parts. The first part looks at product regulations and product taxation as trade barriers. The purpose of mutual recognition is to remove trade barriers. If it is not applied in taxation it may simply be because taxes make no trade barriers. As even a cursory analysis shows, this is not the case. Taxes have the potential to restrict trade, and mutual recognition has the potential to remove these restrictions.

The second part turns to mutual recognition's pre-history in regulation and taxation. Maybe it is not used for the removal of tax barriers because nobody ever suggested that it should be. The historical record reveals, however, that this is not the case. Already in the 1960s, long before anybody seriously advocated a general move towards mutual recognition in regulation, the Commission declared, and the Council agreed in principle that a switch from national treatment (destination principle) to mutual recognition (origin principle) was required in taxation (Genschel 2002). If anything, the idea of mutual recognition enjoyed a head start in taxation. It just did not catch on.

The third part turns to legal obstacles. As is well known, the European Court of Justice played a large role in establishing the principle of mutual recognition in regulation (just seeAlter and Meunier-Aitsahalia 1994). A brief review of the legal literature shows why the Court could not possibly repeat this deed in taxation. Tax barriers fall under a separate set of treaty articles, which do not offer a handle to the Court for imposing mutual recognition on the member states. The 'negative integration' road to mutual recognition is thus blocked. But, of course, 'positive integration' remains an option.[1] The member states meeting in the Council of ministers can introduce mutual recognition in taxation by way of a directive. Given the unanimity requirement in taxation, the threshold for agreement is high. But it is by no means insurmountable. The member states have already unanimously agreed to the harmonization of the VAT system, the VAT base and the range of VAT rates. Why not also on mutual recognition in VAT?

The fourth part examines the probably most obvious obstacle to political agreement: fear of tax competition. Mutual recognition is an "important trigger of regulatory competition" (Radelli 2004:3). It may also trigger tax competition. Indeed, the analysis reveals some reasons to believe that competitive constraints would be stronger in taxation than in regulation. It is hardly surprising, therefore, that high VAT countries have always insisted that a move towards mutual recognition in VAT (i.e. the origin-principle) should be preceded by a close harmonisation of (effective) VAT rates.

This leads to the fifth part and another potential obstacle to political agreement: tax diversity. It has often been noted that a harmonization of effective VAT rates is difficult given the large differences between VAT levels in EU member states (just see Genser 2003). A brief inspection shows, however, that this hurdle is not as high as it used to be. National VAT levels and rates are much more similar today in a Community of 25 than back in the 1970s in a Community of nine. Is it just a matter of

[1] On positive and negative integration see Scharpf, F. W. (1999). Governing in Europe. Effective and Democratic? Oxford, Oxford University Press..

time until the process of de facto convergence erodes all remaining obstacles to de jure harmonization?

The sixth part shows that tax competition and diversity are not the only political problems on the way to mutual recognition in taxation. There is also the issue tax administration. Mutual recognition ends the operational self-sufficiency of national tax administrators. Regulatory outcomes no longer depend on the vigilance of national regulators alone but also on the vigilance of foreign regulators (Nicolaidis 1993:497). Also, VAT revenues would no longer depend on the efforts of national tax officials alone but also on the cooperation of foreign officials. What used to be a purely national levy would in effect be turned into a collective tax. “Individual responsibility will be replaced by a collective responsibility” (European Commission 1996:21)

The seventh part concludes.

2. Trade barriers

Taxes and regulations affect economic decisions – taxes because they are costly to pay, regulations because they are costly to conform with. This obviously includes the ability to affect decisions concerning cross-border trade. Taxes and regulations may bias economic decisions towards domestic activities because they impose extra-costs on cross-border trade. This makes them relevant from a market integration perspective. Market integration aims at the removal of trade barriers. The goal is to reduce differences in the tax and regulatory treatment of domestic and cross-border trade. In the fully integrated market, no such difference remains. Borders lose their economic significance. This is, of course, is the promised land of market integration in the EU, a Single Market “without internal frontiers” (article 14).

Trade barriers come in two basic forms, discriminatory and non-discriminatory. Discriminatory barriers hinder cross-border trade directly by imposing extra burdens on imports. Tariffs and quotas are the most obvious examples of discriminatory barriers. However, internal taxes and regulations can also serve to discriminate against foreign goods. Non-discriminatory barriers, by contrast, hinder cross-border trade indirectly. They refer to taxes and regulations which apply to domestic and foreign goods alike, but which nevertheless put foreign goods at a competitive disadvantage. If, for example, domestic product regulations differ fundamentally from foreign regulations, this may make it more difficult for foreign producers to comply with them. Foreign competitors are not discriminated against, but they are at a disadvantage.

The EU's original approach to market integration focused on the removal of discriminatory trade barriers. The Treaty of Rome set a timetable for the elimination of tariffs and quotas between the member states until 1970 (?) (Customs Union). It also banned discriminatory internal taxes and regulations. Article 90 (ex 95) of the Treaty states:

> No Member State shall impose, directly or indirectly, on the products of other Member States any internal taxation of any kind in excess of that imposed directly or indirectly on similar domestic products.

Article 28 (ex 30) provides that:

> Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between the Member States.

In short, the Treaty obliged the member states to grant imports 'national treatment' in taxation and regulation.

While the removal of tariffs and quotas progressed rapidly during the 1960s, the implementation of national treatment proved to be more difficult. The problem in taxation was that five of the six member states operated turnover taxes of the cascade type. These taxes applied to every sale at nearly every stage of production or distribution with no allowance for tax already paid at earlier stages. This made the tax cumulative and capricious. The effective tax burden varied widely, even for products sold at the same price and taxed at the same nominal rate (Cnossen and Shoup 1987:61). Even the most well intended government was unable to equalize tax burdens across imports and domestic goods because the tax burden of a cascade tax was basically an unknown. This offered less well intended governments room for protectionist abuse and manipulation. To remedy the situation, the Commission proposed a collective switch to non-cascading tax systems in 1962. The Council obliged by adopting the VAT system in 1967. The VAT avoids the cumulation of the tax burden by allowing tax payers a credit for VAT paid on inputs at earlier stages of production. This ensures that the effective tax burden always equals the nominal VAT rate, i.e. the tax burden is known exactly under VAT. This made it technically possible to impose equivalent tax burdens on imports and domestic goods, and, hence, to implement national treatment in taxation (Genschel 2002:70-75).

The problem in regulation was lack of information. The quantity and scope of national regulations expanded rapidly during the 1960s. The Commission sent out questionnaires in 1963 to survey the extent of discriminatory regulation. In 1969, the Council passed a catch-all (?) directive banning regulations imposing any additional cost or restriction on imports (Egan 2001:67-69,91). In general, however, the issue of regulatory discrimination was perceived as less pressing than the issue of tax discrimination during the 1960s. If governments want to deter foreign competition, it is more straight forward for them to impose additional levies on imports than to impose additional rules and regulations. Therefore, a preoccupation with taxation was an almost natural corollary to the EU's original focus on removing discriminatory barriers.

As the removal of discriminatory barriers advanced, the focus started to shift towards non-discriminatory barriers. It became obvious that market integration was hindered not only by brute protectionism but also by the member states freedom to impose any non-discriminatory tax or regulation they liked. In regulation the paramount problem was disparity. Each member state had its own set of technical product specifications. This forced producers to make more or less different products for each national market they wanted to enter in the Community. The extra-costs involved deterred market entry and kept market integration at a sub-optimally low. Production runs remained lower than they could have been had producers been able to market similar products across the entire Community. Potential economies of scale were wasted, to the detriment of the international competitiveness of European companies (see e.g. Servan-Schreiber 1968).

In taxation, by contrast, disparity was not a problem. While each member state charged – and continues to charge – VAT at different rates (see table 1 and figure 1 below), these differences did not affect the structure of production: Producers did not have to make a different product just because the VAT rate in a foreign market was a few percentage points higher or lower than at home. The problem was rather that cross-border trade had to pass through so-called border tax adjustments. These adjustments were necessary in order to make sure that foreign goods carried exactly the same VAT burden as domestic goods. For this purpose, exports received a refund on VAT paid to the exporting country (country of origin) and imports were assessed for the VAT of the importing country (country of destination). These procedures imposed extra-compliance costs on international trade. While it is difficult to measure these costs exactly, estimates suggest that they are considerable even today (Verwaal and Cnossen 2002). In the eyes of the Commission, however, border tax adjustments also had a detrimental "psychological" (White Paper ???) effect on cross-border trade because they usually took place at custom posts: truckers had to stop at the border, have their goods checked and fill in tax forms. This, it was argued, made nonsense of Customs Union: "Customs borders are eliminated but tax borders remain." (Groeben 1962:10)

In short, …

3. Historical legacies

How could mutual recognition contribute to the removal of non-discriminatory tax and regulatory barriers in the Internal Market? The Commission was rather sceptical about mutual recognition's potential to solve the problem of regulatory disparity. The Community's first commissioner for competition remarked on this issue:

> At first, the key word of 'mutual recognition of controls' seemed to guide a way out [from regulatory fragmentation]. … If each member state accepted that a product approved by the authorities of another member state is also fit for consumption by its own citizens, the problem of trade impediments and economies of scale would be solved. …[Unfortunately, however, this solution is up against] almost insurmountable difficulties. … There is the legal argument that the mutual recognition of controls implies the creation of new institutional mechanisms and, therefore, is not covered by the harmonisation provisions of the Treaty. Also, some member states have already signalled their unwillingness to accept the loss of sovereignty implied by giving foreign controls, i.e. acts of foreign sovereignty, domestic effect, and this even if the

> foreign controls are based on material and procedural regulations which are identical to domestic regulation. (Groeben 1967:137)

The misgivings about mutual recognition did not only reflect doubts about its feasibility and effectiveness but also the availability of a better alternative: harmonization. Harmonization was perceived as a more effective solution to the removal of regulatory barriers because it aimed straight at the root of the problem of regulatory diversity. It also appeared to be more politically feasible because it left the member states in control of regulatory policy. In case of doubt, a government could always veto the adoption of a particular regulation in the Council of Ministers, and, thereby prevent its application on the domestic market. Harmonization, therefore, became the standard approach to regulatory integration. In 1968, the Commission presented a 'General Programme for the removal of technical obstacles to trade' containing long lists of regulations to be harmonized. Only when large parts of this programme where stalled in the Council during the 1970s, did the Commission start to look more favourably again at mutual recognition (Egan 2001).

Harmonization did not offer a solution to the problem of tax borders. Even if all member states applied identical VAT rates and VAT base definitions, international trade would still have to pass through border tax adjustments. The need for border tax adjustments did not arise from cross-national differences in taxation but from the fact that the right to tax international trade rested with the importing country (country of destination) rather than the exporting country (country of origin). The only solution to the problem of border tax adjustments was, therefore, to move from a destination-based to an origin-based taxation of international trade, i.e. from national treatment (the country of destination taxes international trade) to mutual recognition (the country of origin taxes international trade). The German government proposed this solution already during the negotiations of the Treaty of Rome because in its mind border tax adjustments were incompatible with the spirit of a true Common Market (Genschel 2002:58). The proposal fell through during the Treaty negotiations but was re-launchedby the Commission in the early 1960s – this time with more success. While the member states refused to switch to origin-based taxation right away, they at least formally endorsed "the aim of abolishing the imposition of tax on importation and the remission of tax on exportation", and instructed the Commission to prepare plans for the implementation of this aim (Europäische Gemeinschaft 1967:article 4). Mutual recognition in taxation was thus established as an official policy goal of the Community.

In short, mutual recognition enjoyed a head start in taxation. However, it was in regulation that it finally prevailed. Why?

4. Legal regimes

The story of mutual recognition's rise to prominence has been told many times and need not be told again (just see Nicolaidis 1993:ch.4; Alter and Meunier-Aitsahalia 1994; Egan 2001:ch.5; Schmidt 2004:ch.2.2.2). Suffice it to say that the European Court of Justice played a major role in it. By reading the logic of mutual recognition into the text of the Treaty, it prepared the legal ground for mutual recognition's final political triumph. Two landmark decisions were especially important in this context, Dassonville 1974 and Cassis de Dijon 1979. Both concerned the scope of article 28's (ex-article 30) prohibition of "measures having equivalent effect" to quantitative restrictions. During the 1960s, there had been considerable uncertainty about the precise meaning of this concept. Did it apply to discriminatory measures only or did it also cover non-discriminatory regulations? In Dassonville, the Court established a very broad interpretation considering any measure "capable of hindering, directly or indirectly, actually or potentially, intra-Community trade" as equivalent to a quantitative restriction. According to this reading, not only discriminatory measures but also non-discriminatory trade restrictions contravened article 28 and had to be removed. In Cassis de Dijon the Court spelled out one important implication of this broad interpretation: member states cannot deny market access to goods produced according to foreign standards unless they can invoke a valid public-policy purpose – the so-called *rule of reason*. In other words, except for those special cases where mandatory requirements of safety, health, environmental and consumer protection differ across member states, the member states are obliged to mutually recognize their regulations as equivalent. "By judicial fiat" the principle of mutual recognition had gained constitutional protection (Scharpf 1999:56). The Commission, long disenchanted with the "old" harmonization approach to regulatory integration (Pelkmans 1987), quickly seized this opportunity in order to establish mutual recognition as the new standard approach to the removal of technical barriers in the Single Market (Alter and Meunier-Aitsahalia 1994).

The 'constitutional protection' of mutual recognition did not extend to taxation, however, because taxes fall under the purview of article 90 (ex 95) rather than article 28 (ex 30). The wording of article 90 (see above) provides a legal basis for subjecting national tax policy to very strict tests of national treatment – and this is how the Court actually used it (see e.g. Craig and Búrca 2003:593-612). Article 90 provides no basis, however, to compel member states to mutually recognize their taxes as equivalent. Stating explicitly that taxes on imports should be non-discriminatory, it implicitly allows that imports are taxed. This is where it differs most dramatically from article 28. While individuals, corporations and the Commission can rely on article 28 to force governments to accept origin-based regulation, they cannot rely on article 90 to force governments to accept origin-based taxation. There is no way, in other words, to impose the mutual recognition of taxation by judicial fiat. But, of course, this does not rule out imposition by political fiat. The Commission prepared numerous proposals for the introduction of an origin-based VAT. However, the Council ignored or rejected all of them. Given that the member states already agreed the removal of tax adjustments in principle in the late 1960s why don't they also agree on their removal in practise?

5. Tax competition

One possible explanation for the lack of political resolve is fear of a race to the bottom in taxation. Mutual recognition exposes states to inter-jurisdictional competition. It allows economic operators to arbitrage between national tax and regulatory regimes. Because goods lawfully produced and taxed in their country of origin can be sold throughout the Community, business firms are free to establish origin where taxes and regulations are most attractive. This, in turn, may force governments to improve the attractiveness of national taxes and regulations – by lowering them. As a consequence, the move to mutual recognition in regulation gave rise to dire warnings of excessive competition and deregulation in the 1980s (Gatsios and Seabright 1989), and all proposals for an origin-based VAT invariably met with warnings of a dangerous race to the bottom in tax rates.

Are these fears justified? With the benefit of hindsight, it seems fair to say that they were unjustified in regulation. Observers agree that there is hardly any evidence of a regulatory race to the bottom (Radelli 2004:4). Two factors have prevented this: the rule of reason and the high transaction costs of regulatory arbitrage. The rule of reason provides a safety net against excessive competitive deregulation. It allows member states to refuse market access to imports from countries with regulations that are not equivalent to domestic regulations in terms of mandatory requirements of safety, health, environmental and consumer protection. Since the member states are entitled, by the case law of the Court as well as by the Treaty, to insist on a high level of protection there is little competitive advantage to be gained by undercutting other member states' safety standards. To the contrary, tough regulations may be a competitive advantage because they are a prerequisite for unrestricted market access. Even intense regulatory competition is unlikely, therefore, to undermine essential regulatory objectives in the Community (Scharpf 1999:96). Moreover, the high transaction costs of regulatory arbitrage largely prevent regulatory competition from ever getting intense. For all its theoretical beauty, the principle of mutual recognition is often difficult and costly to apply in practise. Even where mandatory requirements are equivalent across member states, importers sometimes have trouble to convince the member state of destination that their goods meet these requirements in reality. National authorities tend to distrust foreign testing bodies of other states and take an "overly cautious attitude" when it comes to safety certificates in languages which they do not understand (European Commission 1999:8). Of course, importers can take recourse to the courts. Often, however, they lack the time and nerve to do so and opt for bringing their products into line with the regulations of the member state of destination instead. Put bluntly, they waive their right to unrestricted movement because the cost of using this right are too high (Pelkmans 2003).

The fears of tax competition appear better justified by comparison. First, there is no safety net against a race to the bottom. Tax revenue is not among the accepted rule of reason justifications. The Court has always refused to consider it as a mandatory requirement of public policy (Terra and Wattel 2001:81; Lang 2002:376). Also, there is no Treaty provision that would entitle member states to deny market access to imports from member states with significantly lower taxes. Essential revenue objectives do not enjoy the same protection under EU law as essential regulatory objectives. There is no legal safeguard against excessive competitive de-taxation. Second, compared to regulatory arbitrage the transaction costs of tax arbitrage are likely to be lower, and competitive pressures correspondingly higher. The problem of proving equivalence that makes the application of mutual recognition so difficult and costly in regulation is absent in taxation. Tax revenue is not a mandatory requirement. Hence, governments would have no legal means to deny market access to any import lawfully taxed in its member state of origin. Once introduced, mutual recognition would apply without derogations. This should greatly reduce the transaction costs of its application. Some transaction costs would, of course, remain even then. The size of these costs depends on how perfectionist the principle of mutual recognition is implemented, i.e. how far it goes in eliminating differences in the tax treatment of domestic and cross-border sales. Note, that this is largely a matter of how origin is defined for tax purposes.

Originally, the Commission proposed to define origin as place of sale (just see Neumark Report 1963:155; Europäische Kommission 1987:???). Under this rule a Danish consumer would have to travel to Luxembourg in order to profit from the low Luxembourg VAT rate, or buy from a long-distance seller in Luxembourg. This clearly involves higher transaction costs than buying in Denmark, and would tend to restrict tax arbitrage to a few high priced brand products such as cars, cosmetics, or consumer electronics. Also from the perspective of sellers, the Common Market would remain fragmented. While at the national level businesses have to register only once for VAT purposes, at the European level they would remain obliged to register in each member state, in which they effect sales. This involves extra costs such as the need to deal with foreign tax authorities and VAT laws, and, thus, is likely to deter market entry. In order to avoid these imperfections, the Commission recently proposed a different definition of origin: place of residence of the business that effects the sale. This definition would bring the right to a “single place of taxation” (European Commission 1996:15)to the EU level, i.e. a business or business group headquartered in Luxembourg would pay the entire VAT for all its European-wide sales in Luxembourg and under Luxembourg VAT laws. This would not only make life easier for the Luxembourg business group but also greatly reduce the arbitrage costs for the Danish consumer. He would no longer have to travel to Luxembourg to take advantage of Luxembourg’s low VAT. He could simply go to a Danish shop owned by a Luxembourg company and achieve the same result. Danish companies would be forced to arrange for take-overs from Luxembourg or other low VAT member states in order to defend market share. The Danish government would be hard pressed to defend the high level of Danish VAT.

6. Tax diversity

Given the threat of tax competition, it is not surprising that many member states insist on a close approximation of tax levels as a precondition for a switch to an origin-based VAT. The Commission has, over the years, presented numerous proposals to this effect, and, the unanimity requirement notwithstanding, the Council adopted some of them. Most importantly, it harmonized the VAT base in 1977 (Europäische Gemeinschaft 1977), and restricted the range of VAT rates to a single standard rate of at least 15 percent and a maximum of two reduced rates of at least five percent in 1992(Europäische Gemeinschaft 1992). Despite these measures, large cross-national differences remain (see table 1). Standard VAT rates vary between 15 percent in Luxembourg and Cyprus and 25 percent in Denmark, Sweden and Hungary. VAT revenues as a percentage of GDP (VAT ratios) range from a low of 6,1 percent in Spain to a high of 9,7 percent in Denmark.[2] Given these differences, agreement on closely aligned or even identical rates is likely to be costly for at least some member states. Calculations by Bernd Genser suggest, for example, that a switch to a uniform EU standard VAT rate of 19 percent – close to the current average rate of 19,4 percent – would cause a revenue loss of 2.4 percent of GDP or 4.7 percent of total tax revenue in Denmark and a revenue gain of 1,5 percent of GDP or 3,7 percent of total tax revenue in Luxembourg. Nine other EU-15 states would be forced to accommodate revenue changes of more than 0,5 percent of GDP or 1,4 percent of total tax revenue (Genser 2003:742). These adjustment costs work as a disincentive to VAT harmonization.

[2] The standard VAT rate and the VAT ratio are, of course, imperfect indicators of the effective VAT burden. The standard rate applies to different shares of the total VAT tax base in different member states. Identical standard rates do not necessarily indicate identical effective tax burdens, therefore. The VAT ratio depends not only on the VAT rate and tax base definitions but also on other factors, such as the size of the underlying macroeconomic tax base. If the share of consumption in total GDP goes up, the VAT ratio will rise as well, even if rates and base definitions remain unchanged. More fine-grained indicators such as the "Implicit VAT Rate" control for these factors but are not available in time series format. Also, data for the year 2000 suggests that the implicit VAT rate is highly correlated with the standard VAT rate (r=0,92) and the VAT ratio (r=0,83). It is not unreasonable, therefore, to take these two measures as proxies of the effective VAT burden.

Table 1: VAT rates and ratios in the EU

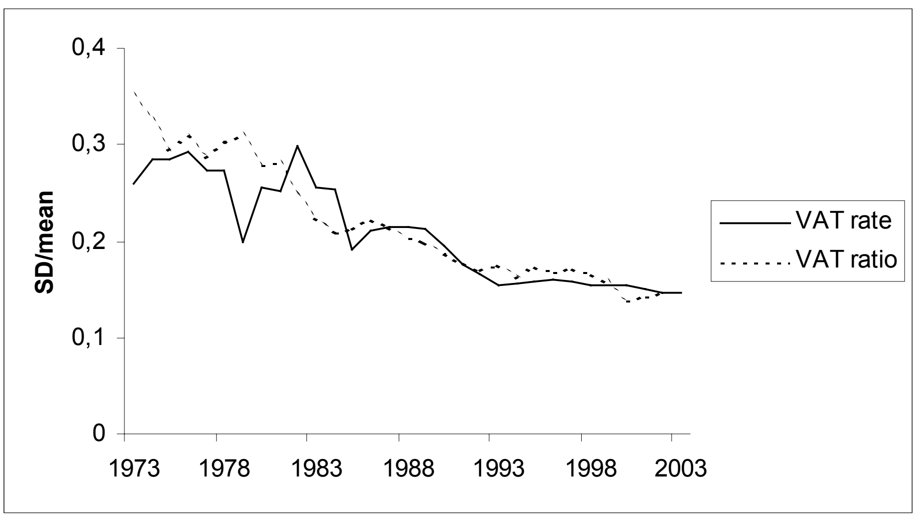
	EU-15	EU-25
VAT rates 2004		
Max.	25 (DK, SE)	25 (DK, SE, HU)
Min.	15 (LU)	15 (LU, CY)
Mean	19,6	19,4
SD	2,9	2,75
SD/ Mean	0,15	0,14
VAT ratios 2002		
Max.	9,7 (DK)	9,7 (DK)
Min.	6,1 (ES)	6,1 (ES)
Mean	7,5	7,7
SD	1,0	1,0
SD/ Mean	0,14	0,13

Source: European Commission 2004 (rates), Eurostat 2004 (ratios)
Note: VAT rate refers to the standard VAT rate, VAT ratio refers to VAT revenues as a percentage of GDP.

Note, however, that disincentives can be thwarted by more powerful incentives. Economists in the public choice tradition suggest that tax collusion may offer such an incentive. It is seen as a powerful driver of fiscal centralization in federal states: Sub-national governments coordinate their tax policies at the national level in order to collectively protect their revenues from competitive and electoral pressures, and it is surmised that the same incentive could also facilitate tax harmonization in the EU (e.g. Brennan and Buchanan 1988:9.4; Vaubel 1992). Pressed by tax competition in direct taxation, faced with domestic opposition to increases in indirect taxation, and settled with high spending requirements in social policy, some governments may indeed regard agreement on a high uniform VAT rate as an attractive escape route from the fiscal conundrum that is well worth considerable domestic adjustment costs. Note that this is not without precedent. Take the switch to the common European VAT system in 1967 as an example. It forced five member states to fundamentally reform their turnover taxes in order to adopt the tax system of the sixth member state, France. The five agreed nevertheless, because the French VAT had a clear advantage – it caused less economic distortion than cascade taxes and, therefore, allowed to raise more revenue. Harmonization made it easier for governments to gain this advantage. Deciding collectively on the introduction of VAT in Brussels helped each of them individually to overcome political opposition to VAT at home (Genschel 2002:70-75). Tax harmonization allows for tax collusion, and this, in turn, facilitates the accommodation of tax diversity.

Note also that tax diversity is constantly decreasing in the EU. As figure 1 shows VAT rates and ratios were much more dissimilar in the 1970s Community of nine than in the early 2000s Community of fifteen. While the trend towards VAT convergence slowed down considerably during the past decade, it was not even stopped by the most recent round of enlargement. Table 1 suggests that the addition of ten new member states has not fundamentally changed the distribution of VAT rates and ratios in the EU, and may even have slightly increased the concentration around the mean. The problems associated with tax diversity are unlikely to disappear any time soon. However, if recent trends continue, they will become smaller in the future.

Figure 1: Convergence of VAT rates and ratios in EU member states, 1973-2003



Source: European Commission 2004 (rates), OECD Revenue Statistics 2005 (ratio)

Note: EU member states refers to the EU-9 for the period 1973-1986, the EU-12 for 1987-1994, and the EU-15 for 1995-2003.

7. Tax administration

- to be written –

8. Conclusions?

- to be written –

References (incomplete)

Alter, K. J. and S. Meunier-Aitsahalia (1994). "Judicial politics in the European Community. European integration and the pathbreaking "Cassis de Dijon" decision." Comparative Political Studies **26**(4): 535-561.

Brennan, G. and J. M. Buchanan (1988). Besteuerung und Staatsgewalt: Analytische Grundlagen einer Finanzverfassung. Hamburg, S+W Steuer- und Wirtschaftsverlag.

Cnossen, S. and C. S. Shoup (1987). Coordination of value-added taxes. Tax coordination in the European Community. S. Cnossen. Deventer, Kluwer**:** 59-84.

Craig, P. and G. d. Búrca (2003). EU Law: Text, Cases,and Materials. Oxford, Oxford University Press.

Egan, M. P. (2001). Constructing a European Market. Standards, Regulation, and Governance. Oxford, Oxford University Press.

Europäische Gemeinschaft (1967). "Erste Richtlinie 67/227/EWG des Rates vom 11. April 1967 zur Harmonisierung der Rechtsvorschriften der Mitgliedstaaten über die Umsatzsteuer." Amtsblatt der Europäischen Gemeinschaften **071**: 1301-1303.

Europäische Gemeinschaft (1977). "Sechste Richtlinie 77/388/EWG des Rates vom 17. Mai 1977 zur Harmonisierung der Rechtsvorschriften der Mitgliedstaaten über die Umsatzsteuern - Gemeinsames Mehrwertsteuersystem: einheitliche steuerpflichtige Bemessungsgrundlage." Amtsblatt der Europäischen Gemeinschaften **L 145**: 1-40.

Europäische Gemeinschaft (1992). "Richtlinie 92/77/EWG des Rates vom 19. Oktober 1992 zur Ergänzung des gemeinsamen Mehrwertsteuersystems und zur Änderung der Richtlinie 77/388/EWG, Annäherung der MWSt.-Sätze." Amtsblatt der Europäischen Gemeinschaften **L 316**: 1-4.

Europäische Kommission (1987). Gesamtmitteilung der Kommission. Vollendung des Binnenmarktes: Annäherung der Sätze und Harmonisierung der Strukturen der indirekten Steuern (KOM (87) 320). Brüssel, Europäische Kommission.

European Commission (1996). A Common System of VAT. A Programme for the Single Market. COM (96) 328 final. Brussels, European Commission.

European Commission (1999). First Report on the Application of the Principle of Mutual Recognition in Product and Service Markets, SEC (1999) 1106. Brussels, European Commission.

Gatsios, K. and P. Seabright (1989). "Regulation in the European Community." Oxford Review of Economic Policy **5**(2): 37-60.

Genschel, P. (2002). Steuerharmonisierung und Steuerwettbewerb in der Europäischen Union. Frankfurt a.M., Campus.

Genser, B. (2003). "Coordinating VATs between EU Member States." International Tax and Public Finance **10**: 735-752.

Groeben, H. v. d. (1962). "Nationale Steuersysteme und Gemeinsamer Markt." Europäische Steuerzeitung **1**: 6-14.

Groeben, H. v. d. (1967). "Zur Politik der Rechtsangleichung in der Europäischen Wirtschaftsgemeinschaft." Zeitschrift für Rechtsvergleichung **8**(3): 129-140.

Lang, M. (2002). "CFC Legislation and Community Law." European Taxation **September 2002**: 374-378.

Neumark Report (1963). The EEC reports on tax harmonization. The Report of the Fiscal and Financial Committee and the Reports of the Sub-Groups A, B and C. Amsterdam, International Bureau for Fiscal Documentation.

Nicolaidis, K. (1993). Mutual Recognition among Nations: The European Community and Trade in Services. Cambridge, PhD thesis, Harvard University.

Pelkmans, J. (1987). "The New Approach to Technical Harmonization and Standardization." Journal of Common Market Studies **25**(3): 249-269.

Pelkmans, J. (2003). Mutual Recognition in Goods and Services: An Economic Perspective. Brussels, ENEPRI Working Paper No. 16/ March 2003.

Radelli, C. (2004). "The Puzzle of Regulatory Competition." Journal of Public Policy **24**(1): 1-23.

Scharpf, F. W. (1999). Governing in Europe. Effective and Democratic? Oxford, Oxford University Press.

Schmidt, S. (2003). "The impact of mututal recognition - inbuilt limits and domestic responses to the single market." Journal of Public Policy **9**(6): 935-953.

Schmidt, S. K. (2004). Rechtsunsicherheit statt Regulierungswettbewerb: Die nationalen Folgen des europäischen Binnenmarktes für Dienstleistungen. unveröfftl. Habilitationsschrift, Fernuniversität Hagen.

Servan-Schreiber, J.-J. (1968). Die amerikanische Herausforderung. Hamburg, Hoffmann und Campe.

Terra, B. and P. Wattel (2001). European Tax Law. London, Kluwer Law International.

Vaubel, R. (1992). "The Political Economy of Centralization and the European Community." Journal des Economistes et des Etudes Humaines **3**: 11-48.

Verwaal, E. and S. Cnossen (2002). "Europe´s New Border Taxes." JCMS **40**(2): 309-330.