

Discussion Paper No. 08-027

**Who's Afraid of an EU Tax and Why? –  
Revenue System Preferences  
in the European Parliament**

Friedrich Heinemann, Philipp Mohl,  
and Steffen Osterloh

**ZEW**

Zentrum für Europäische  
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Centre for European  
Economic Research

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## **Non-Technical Summary**

The idea to establish some kind of EU tax as a new (and true) own resource has been widely and controversially debated as a reform option for the revenue side of the EU budget. Given these controversies we study in our contribution how the heterogeneity of preferences with regard to an EU tax can be explained among important political actors across EU countries. For that purpose our empirical study makes use of a unique data base: a survey among Members of the European Parliament which has successfully been conducted in spring 2007. Based on this outstanding database this study sheds light on the question how this diversity of views on the idea of an EU tax is understandable and, thus, contributes to a better understanding of the heterogeneous opinions which is essential for the development of realistic reform options in the coming general review on the EU budgetary system.

In the theoretical part we develop testable hypotheses on the likely determinants of EU tax preferences. On the one hand, the “ideological approach” would simply suggest that a MEP’s view at the idea of an EU tax is predominantly driven by her party’s tax ideology, so that ideological positions related to the preferred level of European integration, the role of government or the acceptability of tax competition could be important aspects. A contrasting view, the “principal-agents approach”, points at the role of national interests, which implies that EU tax preferences should be linked to nationality of a MEP rather than to party membership. Therefore, expectations on the national advantages/disadvantages, for example with respect to the distributional consequences of a specific EU tax, should be of importance. Moreover, individual characteristics of MEPs should play a role, as theory stresses that the degree of information should impact views.

Our empirical results confirm an important role for ideology but they also demonstrate that both individual and country characteristics are equally important in shaping the support for an EU tax. Regarding the preference for specific tax bases for the EU tax, additional dimensions of the national interest are important. Parliamentarians from high tax countries are particularly supportive of an EU corporate tax which points to the motive of alleviating pressure from tax competition. With respect to an EU tax on financial transactions the distributional consequences are significant and representatives from countries with important financial centres tend to be opposed.

## **Zusammenfassung**

Die Einführung einer EU-Steuer als neue (und “wahre”) Eigenmittelquelle ist als Reformoption für die Einnahmeseite des EU-Haushalts bereits seit langem kontrovers diskutiert worden. In Anbetracht dieser Kontroversen untersuchen wir in unserem Beitrag, wie die Heterogenität der Präferenzen wichtiger politischer Akteure in den EU-Mitgliedstaaten hinsichtlich einer EU-Steuer erklärt werden kann. Zu diesem Zweck nutzt unsere empirische Untersuchung eine einzigartige Datenbasis: eine Umfrage unter Mitgliedern des Europäischen Parlaments (MdEP), die im Frühjahr 2007 durchgeführt wurde. Auf der Basis dieser Datengrundlage wirft diese Untersuchung Licht auf die Frage, wie die Unterschiedlichkeit der Ansichten gegenüber der Idee einer EU-Steuer verstanden werden kann und trägt dadurch zu einem besseren Verständnis der heterogenen Ansichten bei. Dieses ist insbesondere von Bedeutung für die Entwicklung von realistischen Reformoptionen in der bevorstehenden Überprüfung des Haushaltssystems der EU.

Im theoretischen Teil entwickeln wir testbare Hypothesen bezüglich der wahrscheinlichen Determinanten der Präferenzen für eine EU-Steuer. Einerseits deutet der „ideologische Ansatz“ darauf hin, dass die Sicht eines MdEP zur Idee einer EU-Steuer vornehmlich von der Ideologie seiner Partei getrieben wird, so dass ideologische Positionen bezogen auf das gewünschte Ausmaß der europäischen Integration, die Rolle des Staates oder die Akzeptanz des Steuerwettbewerbs bedeutsame Aspekte sein könnten. Eine gegensätzliche Perspektive, der „Prinzipal-Agent-Ansatz“, deutet auf den Einfluss von nationalen Interessen hin. Dieses impliziert, dass die Einstellungen gegenüber einer EU-Steuer eher mit der Nationalität eines MdEP verbunden sind als mit dessen Parteimitgliedschaft. Daher sollten die Erwartungen in Bezug auf nationale Vor- und Nachteile, beispielsweise hinsichtlich der Verteilungseffekte einer spezifischen EU-Steuer, von Bedeutung sein. Zudem sollten auch individuelle Charakteristika der MdEP eine Rolle spielen, da die Theorie nahelegt, dass der Informationsstand eines MdEP einen Einfluss auf die Präferenzen hat.

Unsere empirischen Ergebnisse bestätigen eine bedeutende Rolle der Ideologie, aber sie zeigen ebenfalls, dass sowohl individuelle als auch landesspezifische Charakteristika ebenso wichtig in der Meinungsbildung zur EU-Steuer sind. Hinsichtlich der Präferenzen für spezifische Steuerbasen einer EU-Steuer sind zusätzliche Dimensionen des nationalen Interesses von Bedeutung. Parlamentarier aus Hochsteuerländern unterstützen besonders eine EU-Körperschaftssteuer, was auf deren Motiv hindeutet, den vom Steuerwettbewerb ausgehenden Druck mindern zu wollen. Hinsichtlich einer EU-Steuer auf Devisentransaktionen sind die

Verteilungseffekte signifikant und Vertreter aus Ländern mit bedeutenden Finanzplätzen lehnen diese tendenziell ab.

**Who's afraid of an EU tax and why? -  
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ZEW Mannheim

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**Abstract:**

The EU's revenue system is still typical for an organisation based on international cooperation and stands in contrast to the Union's far advanced legislative and political role. This contrast feeds the debate on granting the EU an autonomous tax source. Our contribution explores the factors which shape the acceptance of the EU tax option among European policy makers. We make use of a unique database: A survey among Members of the European Parliament (MEP) which resulted in a response of some 150 of the representatives. Our results confirm an important role for party ideology and individual characteristics but they also demonstrate that country-specific factors are important to understand the support for an EU tax. In the light of our findings the status quo bias in the EU's revenue system can be attributed to the persistent importance of national interests with respect to fiscal burden sharing and tax policy.

**Keywords:** European Parliament, EU tax, revenue system

**JEL Classification:** D78, H29, H87

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## **1. Introduction**

Judged by its substantive legislative competencies, the European Union constitutes rather the top level of government in a European federal system than an international organisation. By contrast, the Union's revenue system is still missing the typical ingredients of a mature federal level. The European budgetary authorities do not possess a general competence to cover expenditures by issuing debt. Neither do they command over any tax resources in an autonomous way. Instead, the EU budget depends largely on contributions from the member states. Although these payments are termed "own resources" they hardly imply a significant degree of revenue autonomy for the budgetary organs of the Union. This contrast feeds a continuing debate on the adequacy of the revenue system. In this context the idea to establish some kind of EU tax as a new (and true) own resource has been widely and controversially debated as a reform option for the revenue side of the EU budget at least since the 1980s (Biehl 1988). Supporters point at the gain of cost transparency which they hope to achieve through an EU tax. Opponents fear lower budgetary discipline at the EU level as a result of such a reform.

While we only briefly touch upon the arguments in this normative controversy our main objective is to shed light on a positive question: We want to explore which forces can explain why some European decision makers favour and others oppose the idea of a fundamental reform of the EU's revenue system towards an autonomous tax source. In a more general sense, we thus want to understand the factors that explain the evolution or stickiness of an international organisation's financing system. For this purpose, we make use of a unique database: a survey among Members of the European Parliament (MEP) which was conducted in spring and summer 2007 and which resulted in a response of some 150 Members of the European Parliament. The survey includes questions with regard to the desirability, specification and likely consequences of granting the European Union an autonomous tax competency.

To the best of our knowledge, empirically based positive analyses of international organisations' revenue systems and their evolution do not exist so far. Early contributions like Kravis and Davenport (1963) or more recent ones like Euler (2005) or Meermagen (2002) are characterised largely by classifying and normative approaches: For example, Euler (2005) makes a distinction between financing models for international organisations based on either an ability-to-pay principle or on the principle of equivalence. A normative recommendation of that literature is that organisations with a particular focus on a single public good are best suited for a contribution scheme based on the principle of equivalence. In line with this recommendation, contributions to the World Trade Organisation are calculated according to a country's

share in world trade whereas organisations with a broader spectre of tasks – such as the European Union – should rather opt for the ability-to-pay principle. Overall this literature is silent on positive explanations for the observable evolution of the contribution systems so that our work complements it.

Apart from the literature on international organisations' financing systems our contribution is of importance at least with respect to two further strands of literature: firstly, to the literature on decision making within the European Parliament and secondly to the literature on the formation of economic beliefs.

Empirical analyses on decision making in the European Parliament have centred on the question whether MEPs vote rather along (European) political group than along country lines. Recent contributions (Hix 2002; Hix and Noury 2006; Hix et al. 2007; Kreppel et al. 1999) based on the empirical inspection of roll-call votes consistently stress that party cohesion of voting behaviour in the EP clearly exceeds national cohesion. Interestingly, however, budgetary votes compared to other policy fields are characterised by slightly larger national cohesion (Hix and Noury 2006). The same holds for policy fields with strong and heterogeneously defined national interests such as foreign policy (Aspinwall 2002). These results suggest that the existence of strong national interests tends to undermine party cohesion in the EP. A natural shortcoming of the roll-call (i.e. recorded) vote literature is that this data does not allow to identify individual policy preferences directly: Actual voting in the EP is not only determined by MEPs' preferences but also by explicit or implicit sanctions for group members whose votes defect from the party line. In this sense, the roll-call vote literature answers the question to which extent MEPs *vote* along the party or along the country dimension but it is unable to decide whether this voting behaviour really reflects *preferences*. Our survey is unrelated to an immediate voting decision in the European Parliament and, hence, related to the preference dimension.

Furthermore, this study contributes to the understanding of formation of economic beliefs in general and tax policy beliefs in particular. Comparisons of economic beliefs between the general public and economists (Caplan 2002; Blinder and Krueger 2004) do not only point to significant differences between both groups but also towards a strong link between ideology and the perception of economic phenomena. The same ideological bias has recently been demonstrated for Members of the German Bundestag with respect to the perception of globalisation constraints for corporate tax policy: Party ideology does not only determine equity preferences but also shapes the perception, e.g., about the tax elasticity of corporate invest-



ment decisions (Heinemann and Janeba 2007). Obviously, this literature on tax beliefs in national parliaments is only of limited relevance to belief formation in an international organisation where conflicting national interests potentially play a role.

The starting point of our empirical approach is that preferences with regard to desirable finance options for the EU budget can be assumed to be driven by a bundle of aspects. On the one hand, ideological positions related to the preferred level of European integration, the role of government or the acceptability of tax competition could be important – aspects which should be closely related to party preferences. On the other hand, views related to the individual, institutional or national self-interest of political decision makers may play a role as well. As to the national perspective the attraction of an EU tax among MEPs should be influenced by expectations on the national advantages/disadvantages, for example with respect to the distributional consequences of a specific EU tax.

Our results confirm an important role for ideology (measured by party affiliation) but they also demonstrate that both individual and country characteristics are equally important in shaping the support for an EU tax. MEPs from new member countries but also members from net payer countries tend to be sceptical about an EU tax in general. When it comes to the preference for specific tax bases for the EU tax additional dimensions of the national interest are important: With respect to an EU corporate tax, parliamentarians from high tax countries are particularly supportive pointing to the motive of alleviating pressure from tax competition. With respect to an EU tax on financial transactions the distributional consequences are significant and representatives from countries with important financial centres tend to be opposed. Our empirics can be regarded as a conservative test for the relevance of national interests in the debate on reforming the EU's revenue system because compared to members of national governments or parliaments, MEPs have a more European perspective. The results help to understand the contrast between the EU's mature legislative and political role on the one hand and its limited revenue autonomy on the other hand: National interests with respect to the revenue system are still too powerful and heterogeneous for a unanimous agreement on substantial reforms.

The paper's outline is as follows: We continue in the following section 2 with a brief institutional description of the revenue side of the EU budget and a summary of arguments pro and contra an EU tax. Section 3 presents our testable approach to belief formation. Section 4 describes the survey and discusses descriptive findings while section 5 is devoted to econometric tests. Section 6 concludes.

## **2. The revenue side of the EU budget and the EU tax debate**

Currently, the EU is financed by the so-called “own resources”<sup>1</sup>. Although this term suggests a certain degree of autonomy, the revenue side of the budget has rather the character of a contribution system where the EU depends on the member states to unanimously accept their contribution obligation. Only a very small part of the revenues (13.9% in 2006; European Commission 2007d) are raised in the context of policies with full EU competency: the so-called “traditional own resources” which accrue from agricultural duties and levies as well as customs duties. The lion’s share, however, consists of contributions which are paid by member countries financed out of their national tax revenues. The smaller part of these, the “VAT own resource” (15.9% in 2006), was initially the dominant financial source of the EU and is linked to the national VAT tax base. With the reduction of the VAT own resource in recent years the “GNI own resource” has become the dominant source for the European budget (64.7% in 2006). This resource tops up the revenues of the other resources (which in addition include revenues from taxes on EU civil servants or fines by companies paid to the EU). The GNI resource is shared in proportion to national GNI by member countries and has the function to balance the budget. Deficits are not allowed.

The calculation of member state shares in contribution is complicated by several special provisions:<sup>2</sup> Best known is the UK rebate which exists since Margaret Thatcher’s success in the Fontainebleau agreement in 1985. Additional abatements were introduced in the course of time, the most recent ones in the last Financial Perspective benefiting four further countries, namely the Netherlands, Sweden, Germany and Austria (European Council 2005).

Although the system in its current form has endowed the EU with stable and reliable revenues in the past, in the literature, e.g., the Commission’s report on the operation of the own resources system, several shortcomings are criticised, such as the fact that “there is virtually no direct link to citizens or tax-payers” (European Commission 2004: 12). The critics argue that the increasing complexity has rendered the system intransparent from the citizens’ perspective so that they are unable to identify the fiscal costs of EU activities. Moreover, the rebates and special provisions are regarded to have undermined the perceived fairness and acceptance of the system. It is furthermore argued by the Commission that the lack of an autonomous source of finance were the root for the “juste retour” thinking of national governments who are fix-

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<sup>1</sup> For a survey on the EU own resources system see European Commission (2002; 2004).

<sup>2</sup> For details, see European Council (2005).

ated on national budgetary “net positions” (i.e. the gap between contributions to the budget and backflows, mainly through structural and agricultural spending). This in turn would lead to the neglect of European public goods on the EU budget’s expenditure side and a priority for transfer policies such as regional policy or agricultural spending.

In order to overcome these shortcomings, the introduction of a “genuine” own resource has been proposed several times, i.e., a tax which would be directly payable to the EU.<sup>3</sup> Supporters can be found both in the academic literature as well as in the political debate. Examples for positions of political actors are the Own Resources Report by the European Commission (2004), statements by national representatives such as the former Austrian chancellor Wolfgang Schüssel (Schüssel 2006) or the present French President Nicolas Sarkozy (Sarkozy 2006). In academia pro-EU tax contributions are, for example, Cattoir (2004), Le Cacheux (2007) or earlier Biehl (1988). These supporters particularly regard the EU tax as a means to increase the system’s transparency. In their view, a tax which is paid to the EU budget would create a direct link between citizens and the EU. As a consequence, an EU tax should also increase the accountability of the European institutions and contribute to a more efficient budgetary policy and foster budgetary discipline. Moreover, the above mentioned supporters of an EU tax contend that such a tax would solve or at least alleviate the “juste retour” problem. Since the dependence of the European budget from national treasuries would decrease, national actors should cease to focus on the net position and become more open for shifting budgetary shares to the financing of European public goods.

In contrast to these favourable assessments, other authors are less convinced that an EU tax is desirable. Most national politicians refrain from expressing their support for an EU tax. Critical academic positions can be found in Caesar (2001) or Heinemann et al. (2008). These opponents come to unfavourable conclusions about the impact of a tax resource on financial discipline at the EU level. They argue that an EU tax would reduce tax competition and therefore de facto lower spending restrictions for the budget. Furthermore, they expect that national governments of net payer countries would have fewer incentives to prevent EU budgetary authorities from overspending. While in the current contribution system a direct link between national budgets and the EU budget is given this would be cut with the introduction of an EU tax. From the critics’ perspective this would lower fiscal discipline and increase the fiscal burden on tax payers. Neither do these authors expect that an EU tax could overcome the net

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<sup>3</sup> See Heinemann et al. (2008) for an extensive overview on the debate pro and con EU tax.

position thinking. They offer two arguments for this: First, any EU tax would have significant inter-country distribution effects so that tensions on net payments could even increase. Second, they regard the transfer focus of the expenditure side as the key reason for the net position problem so that innovations on the revenue side were unable to solve the problem.

Notwithstanding this general debate, EU tax supporters have become more specific with respect to the tax base candidates for a possible EU tax (Cattoir 2004; European Commission 2004). In these contributions, mainly the following tax bases are reflected: Among direct taxes: corporate and personal income tax; among indirect taxes: VAT, excise duties (on tobacco or alcohol), energy taxation (on kerosene, motor fuel or CO<sub>2</sub> emissions) and taxes on foreign exchange transactions.

In the past, Members of the European Parliament have regularly voiced their preference for a tax source which should at least partially finance the EU budget (for example in the Haug report; see European Parliament 2001). Recently, a joint position of the Parliament was stated (European Parliament 2007a): This report took a cautious stance on a possible EU tax. Nevertheless, it stuck to the long-term aim of a genuine own resource. Remarkably, even this cautiously worded report failed to receive unanimous support in the EP: 117 parliamentarians opposed it, 458 voted in favour of it and 61 abstained (European Parliament, 2007b). The heterogeneity of views can also be illustrated through officially recorded explanations of vote by the members of the Parliament which can be found in the minutes of the meeting: The opposition towards an EU tax was first and foremost stated as reason for “no”-votes by parliamentarians covering the whole political spectrum (left-wing, social democratic, liberal as well as EU-sceptic parties).<sup>4</sup> This diversity of views makes the European Parliament a promising base for studying belief formation in the context of a possible EU tax.

### **3. Tax policy belief formation**

It would not be surprising if the European Parliament as an institution was rather supportive of the idea of financing the budget through a tax. At the national level, tax competencies are a key parliamentary competence. Thus, striving for an augmentation of revenue sources is part of the European Parliament’s objective of extending its powers towards the usual parliamen-

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<sup>4</sup> In particular, Jim McAllister (NI), Jan Andersson and Anna Hedh (both PES), Liam Aylward, Brian Crowley, Seán Ó Neachtain and Eoin Ryan (all UEN), Pedro Guerreiro (GUE/NGL) and Olle Schmidt (ALDE) stated in their explanations of vote the aim of an EU tax as reason for their no-vote.

tary prerogatives. Even though we thus expect our survey to show a pro-EU tax preference, we nevertheless also expect a considerable degree of heterogeneity on this issue across MEPs as has become obvious in the debate and vote on the report mentioned above.

A key question we intend to address is to which respect EU tax preferences of MEPs are driven by national interests or by ideological judgements. In their analysis on voting behaviour in the US Senate, Poole and Rosenthal (1996) term these two classes of explanations the “principal-agent” and the “ideological” approach.<sup>5</sup> In the “principal-agent approach” a legislator is regarded as the agent acting on behalf of the principal who could be modelled, e.g., as the median voter of the representative’s constituency or as a particularly well-organised interest group. By contrast, with the “ideological” perspective a politician is described on some continuum, e.g., from left to right or from liberal to conservative, and the individual location along that dimension should determine political beliefs or voting behaviour.

In addition to the interests of the constituency and the ideological position, individual characteristics should matter in belief formation. From the above mentioned studies on the formation of economic beliefs (e.g., Caplan 2002; Blendon et al. 2004; Heinemann and Janeba 2007) it is known that education or socio-economic characteristics of an individual can play a role. There is no reason to exclude this possibility a priori for members of a parliament. Moreover, a MEP’s field of specialisation should matter: Members of a committee responsible for the budget can be expected to have a more informed and clearer view on issues like the EU tax.

This leaves us with the following conceptual approach to the formation of beliefs on the desirability of an EU tax:

$$(1) \quad GTP = GTP(IND, IDE, CC)$$

The general preference of a MEP with respect to the EU tax (general tax preference, *GTP*) should depend on:

- first, a number of individual characteristics (*IND*) related to the individual MEP’s education, his informative situation linked, e.g., to his field of policy specialisation or socio-economic characteristics such as age or gender,
- secondly, his ideological position (*IDE*) according to the “ideological approach” and

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<sup>5</sup> Precisely, Poole and Rosenthal (1996) make a distinction between the „economic or principal-agent“ and the „political or ideological“ approach.

- thirdly, country characteristics (*CC*) which are of relevance for the interests of national voters represented by the MEP according to the “principal agent approach”.

An equivalent conception applies to the preferences with regard to a specific EU tax (specific tax preference, *STP*), e.g., the position towards a European VAT or a European CO<sub>2</sub> tax.

$$(2) \quad STP = STP(IND, IDE, CC)$$

It cannot be expected that the functional dependencies are identical between (1) and (2). MEPs who might agree on the general desirability of an EU tax may have very different beliefs about the specific choice of a tax base. Only the empirical assessment can decide the actual relative weight of the described different dimensions. However, based on existing empirics and theoretical reasoning we can derive expectations about the signs of ideology and certain country characteristics.

For the impact of ideology on the preference for an EU tax two distinct considerations are relevant. An EU tax can clearly be regarded as a movement towards a higher state of integration and towards a more mature European budgetary authority. Preference for integration in general, however, has empirically been shown to depend in a non-linear way on a party’s position on the left-right spectre (Aspinwall 2002): Centrist parties typically are the clearest supporters of integration while left and right parties in Europe are more hesitant to give up national autonomy. If this single-peakedness of integration support translates to the EU tax issue we would also expect centrist parties’ MEPs to be particularly sympathetic towards that potential new resource. In addition, however, parliamentarians on the left might view an EU tax not primarily as a means of integration but as an instrument to extend the role of the state in general, which is a traditional left position. If this government expansion motive outweighs the integration motive in the perception of left MEPs they should favour an EU tax equally as those from the centre. In summary, we have the clear expectation that liberal or right EU-sceptics should tend to reject an EU tax and centrist MEPs should favour it. For the left the expected sign is ambiguous.

For the national interests influencing a MEP’s position vis-à-vis an EU tax the following different aspects could play a role:

- EU tax opponents argue (see above) that the introduction of an EU tax must be seen as a preparation for a further expansion of the European budget. If this is the dominating view in the EP, representatives from net recipient countries should welcome this while net payers would rather be opposed. By contrast, EU tax supporters argue that direct tax financ-

ing would increase the transparency with respect to the fiscal burden from EU activities. If this is the dominating view, representatives from net recipient countries might be concerned whether the level of transfers can be sustained once the financial burden becomes transparent for EU citizens. Thus, the expected sign of a country's net position is ambiguous if an EU tax is really regarded as a means to increase transparency. If the transparency effect is judged to be negligible, net recipients can be expected to favour the tax.

- Because different tax bases would imply significantly different distributional effects among member states (Heinemann et al. 2008), the preference for a specific EU tax should not simply depend on the net payer/recipient profile of the current budget but in addition also on the distributional effects related to the choice of a specific tax base. This implies that equation (2) would require additional variables – proxies for the distributional consequences of a specific tax base – compared to equation (1) for a complete specification.
- Besides its revenue consequences for the EU budget, an EU tax can be regarded as a step towards European tax harmonisation. In the collusion view on tax harmonisation pioneered by Brennan and Buchanan (1980), tax harmonisation is equated with the building of a tax cartel motivated by the desire of politicians and bureaucrats to eliminate tedious tax competition. In this view, preferences for an EU tax should differ between countries according to their tax system's competitiveness. Representatives from countries with relatively high taxes could regard an EU tax as a means of raising rivals' costs and to alleviate pressure from tax competition. The motivation to neutralise tax competition by harmonisation steps should be most pronounced with respect to highly mobile tax bases such as corporate profits. Countries with a high tax burden on mobile factors should then be more supportive of an EU tax compared to countries with a low tax burden.
- Finally, a country's general integration preferences could also belong to the relevant country characteristics. MEPs from countries with an EU-sceptical population should be less inclined to accept an EU tax compared to their colleagues. Note that integration preferences thus feed into our conception of belief formation over two distinct channels: via the MEP's own ideology linked to his party affiliation and via his country's integration preferences.

#### **4. Survey and descriptive findings**

The survey among the members of the European Parliament was conducted between March and July 2007. The parliamentarians were addressed by written letters and – in case of no reaction – by subsequent phone calls. Five language versions were sent out: German, French, Polish, Spanish and English. Where available, MEPs were addressed by letters and questionnaires in their mother tongue or in English otherwise. 158 members participated by returning the filled in questionnaires. The overall response rate of 20.1 per cent differed significantly between political groups and countries (see Appendix, Table 6 and 7). Responses could be obtained from all but two small member countries (Estonia and Malta). We return to the problem of selection bias in the econometric section.

Our survey included the following questions:

**Question 1 (Q 1):** *It has repeatedly been proposed to replace elements of the current system of EU own resources by an EU tax which is paid directly to the EU.*

*What is your attitude towards such an EU tax?*

*Answer scale: From -4 (“very negative”) to +4 (“very positive”)*

**Question 2 (Q 2):** *Which type of tax do you think to be particularly suitable as an EU tax?*

*Offered options: Value added tax (VAT), Corporate income tax (CIT), Personal income tax (PIT), Green taxes (GT), Tax on financial transactions (TFT), Excise tax on alcohol/tobacco (TTA)*

*Answer scale: From -4 (“not suitable at all”) to +4 (“very suitable”)*

**Question 3 (Q3):** *What do you think might be the effect of the introduction of an EU tax on the ...?*

*Offered effects: Financial burden of the citizens, transparency of the EU budget towards the citizens, budgetary discipline on the EU level, stability of EU revenues, fair sharing of the financial burden between the member states, political struggles between national governments regarding the budget, support of the EU by its citizens.*

*Answer scale: From -4 (“decrease”) to +4 (“increase”)*



Table 1 presents descriptive statistics with respect to the general EU tax preference. Interestingly the EP as a whole is only modestly in favour of an EU tax (mean answer +0.83) which corresponds to the cautious position on the EU tax taken in the 2007 report described in section 2.<sup>6</sup> The large standard deviation indicates that the EP is characterised by a substantial heterogeneity of views which makes our analysis promising.

The comparison of means along different indicators referring to our dimensions of belief formation reveals interesting first insights (Table 1): The general EU tax preferences differ with high significance across both countries and political groups. Regionally, strong opponents to the EU tax come from the UK, Czech Republic and Poland and politically from the EU-sceptic parties (see appendix for a political characterisation of political groups in the EP). The strongest supporters belong to the Greens and Socialists. MEPs from the largest political group, the Conservative/Christian-Democrat EPP-ED, and from the liberal ALDE are rather split on the issue with means positive but close to zero.

Analyses of variance do not result in significant findings with respect to the budgetary net position no matter whether the overall position or specific policy field related net positions (Common Agricultural Policy and Structural Policy) are chosen (for data definitions see next section and Table 8 in the appendix).

By contrast there are significant results if one classifies MEPs according their countries' tax burden or public support for the integration process. Positive positions towards an EU tax are strongest in countries which are characterised by a large public revenue-GDP ratio. If one restricts the classification to the ratio of direct revenues to GDP the finding about low popularity in low tax countries is robust whereas the strongest support for the EU tax is then observable in the medium category. Thus, our results at least partially support the link of EU tax preferences to tax competition considerations. A finding already obvious from the country comparison is made more explicit through the classification by the support for integration question from Eurobarometer: The least euphoric position towards an EU tax characterises representatives of countries with a rather low support for integration.

Of course, more definite answers with respect to our model of belief formation must be left to the multivariate exercise in the next section. Before that, however, a brief descriptive look at

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<sup>6</sup> A weighted average where weights correct for the sample selection bias with respect to country and party group representation is only slightly higher (+1.082).

the appeal of different types of EU taxes and the expected consequences of an EU tax is helpful.

Those MEPs who in general support the idea of an EU tax do not agree on the preferred specific type of tax. Even if one limits the sample to general EU tax supporters, the position vis-à-vis specific EU taxes ranges from complete rejection to full support for each single type of tax (Table 2). Nevertheless a clear ranking appears: Green taxes and VAT rank top on the list whereas taxes on financial transactions or alcohol/tobacco come third. Less popular is the idea to tax corporate or (least popular) personal income. This is an interesting result insofar a personal income tax is a highly salient and in this sense a particularly transparent EU tax. Although transparency is a key argument in favour of an EU tax (see section 2), supporters of an EU tax in the European Parliament do not opt for this particular transparent type of tax.

If one compares the expectations on the likely results of an EU tax for supporters and opponents (Table 3), highly polarised views are the non-surprising outcome. Supporters of a tax resource are particularly confident that this reform would make the system more transparent. Furthermore, they expect that budgetary discipline, a fair burden sharing and a stabilisation of EU revenues could be achieved. Equally, they are optimistic that disputes between member countries on the budget would lose explosiveness. Interestingly, supporters of the EU tax do not expect a declining financial burden on EU citizens in spite the expected increase in budgetary discipline.

**Table 1: General EU tax preference (Q1) – comparisons of means**

|   | Observations | Mean  | Std. Dev. | Min | Max |
|---|--------------|-------|-----------|-----|-----|
| <i>Classified by country</i>                                    |              |       |           |     |     |
| AT  | 6            | 3.00  | 1.26      | 1   | 4   |
| BE  | 6            | 3.17  | 1.33      | 1   | 4   |
| CZ  | 5            | -1.80 | 3.49      | -4  | 4   |
| DE  | 39           | 1.03  | 3.05      | -4  | 4   |
| FR  | 16           | 2.31  | 2.70      | -4  | 4   |
| GB  | 13           | -1.77 | 3.19      | -4  | 3   |
| HU  | 5            | 2.40  | 1.14      | 1   | 4   |
| IT  | 7            | 2.71  | 1.25      | 1   | 4   |
| PL  | 9            | -0.78 | 3.23      | -4  | 4   |
| PT  | 7            | 3.57  | 0.79      | 2   | 4   |
| Other*  | 39           | -0.13 | 3.30      | -4  | 4   |
| Total   | 152          | 0.83  | 3.19      | -4  | 4   |
| ANOVA, P-Value for F-Test: 0.0000                               |              |       |           |     |     |
| <i>Classified by political group</i>                            |              |       |           |     |     |
| ALDE  | 18           | 0.28  | 3.29      | -4  | 4   |
| EPP-ED  | 54           | 0.28  | 3.01      | -4  | 4   |
| GUE/NGL   | 5            | 0.40  | 3.21      | -4  | 4   |
| ID  | 7            | -4.00 | 0.00      | -4  | -4  |
| ITS   | 4            | 1.00  | 3.83      | -4  | 4   |
| NI  | 3            | -4.00 | 0.00      | -4  | -4  |
| PES   | 47           | 2.81  | 2.00      | -4  | 4   |
| The Greens/EFA  | 5            | 3.80  | 0.45      | 3   | 4   |
| UEN   | 9            | -1.22 | 3.19      | -4  | 4   |
| ANOVA, P-Value for F-Test: 0.0000                               |              |       |           |     |     |
| <i>Classified by net position</i>                               |              |       |           |     |     |
| Net contributor   | 95           | 0.76  | 3.24      | -4  | 4   |
| Net recipient   | 57           | 0.95  | 3.13      | -4  | 4   |
| ANOVA, P-Value for F-Test: 0.7241                               |              |       |           |     |     |
| <i>Classified by net position in Common Agricultural Policy</i> |              |       |           |     |     |
| Net contributor   | 84           | 0.92  | 3.19      | -4  | 4   |
| Net recipient   | 68           | 0.72  | 3.21      | -4  | 4   |
| ANOVA, P-Value for F-Test: 0.7076                               |              |       |           |     |     |
| <i>Classified by net position in Structural Policy</i>          |              |       |           |     |     |
| Net contributor   | 106          | 0.86  | 3.23      | -4  | 4   |
| Net recipient   | 46           | 0.76  | 3.13      | -4  | 4   |
| ANOVA, P-Value for F-Test: 0.8630                               |              |       |           |     |     |

\* Only countries with number of observations > 5 are listed individually

**Cont. Table 1: General EU tax preference (Q1) – comparisons of means**

| <i>Classified by 2006 total revenue from taxes and social security/GDP</i> |    |       |      |    |   |
|--|----|-------|------|----|---|
| High (> 45% GDP)   | 49 | 1.51  | 3.03 | -4 | 4 |
| Medium   | 73 | 1.12  | 3.10 | -4 | 4 |
| Low (< 40% GDP)  | 30 | -1.00 | 3.07 | -4 | 4 |
| ANOVA, P-Value for F-Test: 0.0014  |    |       |      |    |   |
| <i>Classified by 2006 direct tax revenue/GDP</i>                           |    |       |      |    |   |
| High (> 13% GDP)   | 49 | 0.20  | 3.45 | -4 | 4 |
| Medium   | 70 | 1.60  | 2.82 | -4 | 4 |
| Low (< 9% GDP)   | 33 | 0.12  | 3.26 | -4 | 4 |
| ANOVA, P-Value for F-Test: 0.0213  |    |       |      |    |   |
| <i>Classified by national support of the EU*</i>                           |    |       |      |    |   |
| High (>60%)  | 79 | 0.66  | 3.15 | -4 | 4 |
| Medium   | 37 | 1.97  | 2.82 | -4 | 4 |
| Low (<50%)   | 36 | 0.03  | 3.38 | -4 | 4 |
| ANOVA, P-Value for F-Test: 0.0254  |    |       |      |    |   |

\* Eurobarometer Spring 2007, EU27 averaged 57%

**Table 2: Type of EU tax preferred by general EU tax supporters (Q2)**

|                                  | Observations* | Mean  | Std. Dev. | Min | Max |
|----------------------------------|---------------|-------|-----------|-----|-----|
| Green taxes                      | 86            | 2.24  | 2.29      | -4  | 4   |
| Value added tax                  | 85            | 2.06  | 2.20      | -4  | 4   |
| Tax on financial transactions    | 82            | 1.43  | 2.88      | -4  | 4   |
| Excise tax on alcohol/cigarettes | 83            | 1.18  | 2.66      | -4  | 4   |
| Corporate income tax             | 82            | 0.79  | 2.65      | -4  | 4   |
| Personal income tax              | 78            | -0.79 | 2.43      | -4  | 4   |
| Total                            |               | 1.18  | 2.70      |     |     |

\* Only MEPs included with answer for Q1 > 0.

**Table 3: Effects of an EU tax – expectations of EU tax supporters and opponents (Q3)**

|   | Observations | Mean  | Std. Dev. | Min | Max |
|---|--------------|-------|-----------|-----|-----|
| <i>Expectations of EU tax supporters*</i>                             |              |       |           |     |     |
| Financial burden on the citizens                                      | 92           | 0.36  | 1.46      | -4  | 4   |
| Transparency of the EU budget towards the citizens                    | 95           | 2.83  | 1.35      | -2  | 4   |
| Budgetary Discipline on the EU level                                  | 93           | 1.97  | 1.74      | -4  | 4   |
| Stability of EU revenues  | 95           | 2.11  | 1.69      | -3  | 4   |
| Fair sharing of the financial burden between the member states        | 95           | 1.99  | 1.67      | -2  | 4   |
| Political struggles between national governments regarding the budget | 96           | -1.51 | 2.37      | -4  | 4   |
| National support of the EU  | 95           | 1.31  | 2.05      | -4  | 4   |
| Total   |              | 1.29  | 2.24      | -4  | 4   |
| <i>Expectations of EU tax opponents**</i>                             |              |       |           |     |     |
| Financial burden on the citizens                                      | 46           | 1.89  | 2.37      | -4  | 4   |
| Transparency of the EU budget towards the citizens                    | 46           | 0.87  | 2.51      | -4  | 4   |
| Budgetary discipline on the EU level                                  | 46           | -0.78 | 2.37      | -4  | 4   |
| Stability of EU revenues  | 45           | 0.31  | 2.22      | -4  | 4   |
| Fair sharing of the financial burden between the member states        | 46           | -0.41 | 2.31      | -4  | 4   |
| Political struggles between national governments regarding the budget | 46           | 0.43  | 2.45      | -4  | 4   |
| National support of the EU  | 46           | -1.72 | 2.78      | -4  | 4   |
| Total   |              | 0.08  | 2.65      | -4  | 4   |

\* MEPs included with answer for Q1 > 0, \*\*MEPs included with answer for Q1 < 0.

Compared to the supporters, opponents of an EU tax in the European Parliament have reversed expectations. Their largest concern is that the financial burden will increase as a result of weakening budgetary discipline under an EU tax. As a consequence, they expect the support of the EU by its citizens to be undermined. Opponents do not negate the expectation of larger transparency. Obviously, however, they do not expect the transparency effect to significantly boost discipline. In difference to the supporters, the opponents rather expect even an intensification of national struggles over the budget and a less fair burden sharing once a tax is introduced. These controversies bear clear similarities to the split normative assessment in the academic literature surveyed above.

## **5. Econometric testing**

The multivariate testing now aims at identifying the relevant drivers of EU tax policy preferences in the context of the two step model developed in section 3. This means that first general tax preferences are analysed according to the framework of equation (1) before in a second step the specific position towards the different possible types of tax bases is inspected according to equation (2).

### **5.1 Method**

Since for all questions answers are available on a scale from -4 to +4 (“very negative” to “very positive”) which allows a clear ordering of answers, an ordered probit approach is appropriate. As it is a problem for many other micro- and macroeconomic datasets, our survey data may suffer from the problem of selection bias and not be fully representative for the underlying population. Tables 1 and 2 in the appendix document that there are differing response rates across countries and party formations. However, this problem’s impact should not be exaggerated. If any of the included explanatory variables drive response rates, this does not distort estimation coefficients: Differing response rates, e.g. for parties, have their impact on the number of available observations, the standard errors and, hence, the reported significance of the respective coefficients (i.e. party dummies). In this sense, regression techniques cope with an uneven availability of observations. Differing response rates only distort results from a conditional model like ours under subtle assumptions: If (a) an unobservable variable drives the response rate and (b) this latent variable is correlated with an included explanatory variable, then this included variable’s estimation coefficient is misleading. Like in most other empirical research designs, we are not able to exclude this problem in principle. But, given that our set of explanatory variables covers a wide spectre of aspects, this risk is limited and not more substantial than in many other econometric applications. Nevertheless, as a precaution we apply a weighted estimator where weights correct for the sample’s selection bias with respect to both country and political group representation. This means that underrepresented observations get a larger weight than overrepresented cases. Furthermore we allow for clustering of error terms among MEPs from one political group to cope with problems from the possible omission of non-observable determinants.

## 5.2 Variable definitions

According to our model of belief formation, we make use of variables along three dimensions: First, political group membership since according to the “ideological approach” this should be a decisive driver of tax preferences; second, individual characteristics of a MEP quantifying, e.g., her experience or her political specialization; and, third, country characteristics which depict specific national interests and should, according to the “principal agent approach”, also have an impact on a MEP’s position.

In our testing, we make use of the following variables which partially have already been used in the descriptive section before:

### Ideology:

*Political group:* Ideology is measured by political group dummies.<sup>7</sup> The Socialist dummy is dropped so that the dummies measure the ideological effect relative to the average position of the members of the Socialist group. For the political orientation of political groups see the appendix.

As argued in section 3 we expect parties on the right to be contra an EU tax, parties in the centre to be pro whereas our sign expectation for the left is ambiguous.

### Individual characteristics, education and information:

*Age:* Age is an easily available personal characteristic which represents experience. We also experimented with gender which, however, did not have significant results and therefore was dropped.

*Business/Economic studies:* The dummy for MEPs who state in their publicly available CVs to have studied business administration or economics can clearly be seen as an informative proxy. These MEPs should have informative advantages with respect to tax systems, tax competition but also with respect to economics in general.

*Member of budget committee:* This dummy points at the specialisation of MEPs and can also be seen as an information proxy. Typically, members of the specialised committees have also the role as opinion leaders and opinion formers for their political groups.

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<sup>7</sup> Ideology and party affiliation are two rather distinct concepts. Although ideology – however it may be conceptualized – should drive party affiliation there may nevertheless a considerable ideological heterogeneity within one party. We abstract from this subtleties and equate party affiliation with ideology but do not exclude that future refinements may be worthwhile.

*Years in Parliament:* The length of membership in Parliament is relevant for the familiarity with EU institutions including the budgetary system. It may also stand for the closeness of participation in Parliament networks and the assimilation of views to the Parliament's and political group's dominating views.

With respect to these personal characteristics we do not have particular expectations about the sign of the effects.

#### Country characteristics:

*Dummy for new member states:* The new member states from Central and Eastern Europe have common properties related to both their status as transition countries and their relative short historical experience of political autonomy. It is not unlikely that these common features have relevance for the attraction of an EU tax. We expect that due to these common factors the new members are particularly keen to keep their tax autonomy so that the expected sign is negative.

*National support of the EU:* This variable is quantified on the basis of the Eurobarometer's question on the general affirmation of the country's EU membership. The expected sign is positive.

*Net payment position:* For the quantification of this variable we do not rely on historical data but on forward looking simulation results for the current financial framework from Heinemann et al. (2008). The forward looking specification of the variable indicates how in future a country would benefit from a budgetary expansion and, hence, is a better proxy for the MEPs' incentives. Precisely, the variable measures the yearly average of the net balance to GDP in per cent for the years 2007-2013 where the net balance includes administrative spending.

*Net payment position on CAP/structural spending:* Besides the overall net position we have also experimented with net positions on the quantitatively most important policy fields which are agricultural and structural spending. Both policies have very different distributive profiles: While for structural spending there is a clear link with a country's relative wealth this is not the case for agriculture where also relatively wealthy countries are among the net recipients. Again, data are calculated on the basis of a forward looking approach and taken from Heinemann et al. (2008).

*Tax burden:* For the general EU tax preference we use the ratio of overall revenues from taxes and social security contributions to GDP as a proxy for a country's tax burden. Alternatively,



we also work with the ratio of direct taxes to GDP. If the motive of alleviating tax competition pressure is relevant, the sign should be positive.

#### Additional country characteristics with respect to particular tax base preference

*Additional burden:* Depending on the choice of the tax base distributional effects for member countries will be different. We would expect that MEPs tend to reject those tax bases which put a relative large burden on their own countries. Heinemann et al. (2008) offer data on the distributional consequences for different EU tax bases which are used here. Precisely, the variable “additional burden” measures how for a certain tax base a country’s contribution to the EU budget would change compared to a contribution key based on GNI shares. We expect a negative sign for this control variable.

*Competitiveness of national tax system:* While our indicator for the international competitiveness of a tax system is of an aggregate character for the general EU tax preference we can make use of more focussed indicators for the specific EU tax preferences for the following three tax bases:

- VAT: The *standard VAT* rate is easily available.
- Personal income tax: The *top income tax rate* is the relevant tax rate for high income individuals who also are particularly mobile.
- Corporate tax: Here we employ *effective average tax rates (EATR)* calculated by the ZEW Mannheim for a profitable investment project and taking account both of statutory tax rates and the detailed provisions of the tax law such as depreciation provisions according to the model of Devereux and Griffith (1999); for the conceptual approach see Overesch (2005).

For the other tax bases included in our study (green taxes, excise taxes, transaction taxes) no sensible indicators of national tax competitiveness are available. For the included tax level indicators we expect a positive sign at least for the corporate tax indicator where international competition is clearly an issue.

### 5.3 Results

Table 4 presents our results for the first step estimations with the answers to the general EU tax preference question as the dependent variable. The rationale of an ordered multinomial model is the identification of a latent variable which drives the probability that an observation (i.e. a survey participant in our context) will be assigned to a certain outcome (i.e. answer class). The sign but not the size of the coefficients can be interpreted where a positive/negative sign indicates that a higher/lower answer category (i.e. a more affirmative/negative answer) becomes more likely. Marginal effects give an indication for the size of this effect and can be calculated for each different outcome where the sum of marginal effects for all outcomes add up to one for each explanatory variable. In the tables we report the marginal effect for the most affirmative answer category +4. Thus the reported marginal effects show the change in the probability that an answer +4 will occur if the explanatory variable increases by one unit.<sup>8</sup>

Specifications (1) to (4) differ only with respect to the included country variables: In the regressions (2) and (3) the overall net payment position of regression (1) is replaced by the net position in structural policy and agricultural policy, respectively. In specification (4) the revenue-GDP ratio of (1) is replaced by the ratio of direct tax revenues to GDP.

A first robust result of all specifications is the highly significant impact of ideology on EU tax preferences. Compared to the Socialists (the dummy which was dropped) all other political groups show a lower support for an EU tax with the exception of the Greens who are even more in favour. The result thus has some resemblance to the U-shape functional link between ideology and support for European integration: Both parties on the right (UEN, ITS) and the very left (GUE/NGL) reject the tax harmonisation step necessarily involved with an EU tax. In contrast to the usual findings concerning integration preferences in general, however, the two largest parties situated in the political centre of the ideological spectre, the Socialists and the Conservatives/Christian Democrats, disagree strongly on the EU tax. The marginal effects show that the probability of a parliamentarian from the EPP-ED to support an EU tax (answer category +4) is 23 per cent lower compared to that of a Socialist MEP.

A second robust finding is that individual characteristics are of equal importance. Older MEPs and MEPs with a relatively long EP membership are more in favour of an EU tax and MEPs

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<sup>8</sup> The marginal effects are calculated for the mean value of the explanatory variable unless this variable is a dummy. In this case the marginal effect refers to a switch from 0 to 1.

with an academic background in economics/business administration or members of the budget committee are more opposed to an EU tax. Hence, a relatively high economic competence and expertise is linked to a less favourable view of an EU tax whereas a longer individual history of political socialisation and assimilation in the Parliament favours a supportive position. This is no implausible finding if one assumes that the length of membership in the Parliament influences individual views towards the Parliament's institutional self-interest.

Turning now to the country characteristics, which are to shed light on the principal-agent view of preference formation, we detect a robustly significant impact of the new member country dummy. The marginal effects are of a substantial magnitude and comparable in size to the ideological dummies. As expected, representatives of the new member countries are rather critical of any measures limiting their countries' tax autonomy. National support of the EU is only weakly significant in specification (2). The overall net payment position enters specification (1) with a positive sign and high significance, but turns insignificant in variant (4). The alternative net position measures related to the particular distributive profiles of structural and agricultural spending do not show up significantly. The revenue-GDP ratios are largely insignificant. Only the direct tax revenue ratio (specification (4)) has an unexpected negative sign. Obviously, representatives of countries who already today are confronted with a high direct tax burden on their citizens fear resistance against increasing this tax burden further.

Table 5 summarises the estimation results with now the specific EU tax preference question being the dependent variable. Again, ideology is robustly significant. Also in regard to the specific tax bases the Socialists tend to be the most EU tax friendly political group, again with the exception of the Greens. The latter party's ideological focus markedly shows up with a large marginal effect in the case of green taxes. The individual characteristics have a differentiated impact. Members of the budget committee are rather opposed to a European VAT, a corporate income tax or an excise tax whereas they do not show different positions to non-members for the other tax bases. MEPs with academic economic expertise tend to reject corporate income tax and excise taxes. Years in parliament cease to be significant when it comes to the opinions on these particular taxes whereas the positive impact of age on the EU tax support only survives for VAT and corporate taxation. The weaker link between the length of EP membership and particular tax preference is no contradiction to the view that membership leads to an assimilation of views: While the EP has a traditional positive position on an EU tax in general, there is no traditional EP position on any particular type of EU tax.

Among country variables the new member dummy is again important: MEPs from new EU countries are critical of all specific taxes with the exception of excise taxes where answers do not differ significantly between new and old members. A high national support for the EU is associated with a larger support for VAT, green taxes and excise taxes, whereas the impact on personal income tax preferences is rather negative. Perhaps representatives of particularly EU friendly countries might fear that an EU income tax could be to the detriment of the integration process. The net position is significantly positive with the exception of the VAT regression. For all other five tax bases in the debate representatives from net recipient countries tend to be more supportive compared to representatives from net payer countries.

Interesting insight emerges with respect to the variables related to the distributional consequences and tax competition aspects: In the case of taxes on financial transactions those MEPs tend to reject the specific tax who come from countries which would have distributional disadvantages from such a tax. This finding for the financial transaction tax is very plausible since its distributional consequences can be assumed to be general knowledge given the well known leading position of London and Luxembourg as financial centres. As expected the indicator of a country's tax competitiveness is highly significant in the case of a corporate income tax where mobility of the tax base and, hence, competition is largest. The strongest supporters of an EU corporate tax come from the least competitive tax locations. This finding supports the view that EU tax preferences are also influenced by the motive of alleviating tax competition pressures and raising rivals' costs.



**Table 4: Ordered probit results for Q1 – support for an EU tax in general**

| Variable                       | (1)                   |                 | (2)                  |                 | (3)                   |                 | (4)                  |                 |
|--------------------------------|-----------------------|-----------------|----------------------|-----------------|-----------------------|-----------------|----------------------|-----------------|
|                                | Coefficient           | Marginal effect | Coefficient          | Marginal effect | Coefficient           | Marginal effect | Coefficient          | Marginal effect |
| <i>Political group*</i>        |                       |                 |                      |                 |                       |                 |                      |                 |
| ALDE                           | -0.461***<br>(0.039)  | -0.084          | -0.462***<br>(0.045) | -0.085          | -0.455***<br>(0.041)  | -0.083          | -0.246***<br>(0.043) | -0.047          |
| EPP-ED                         | -1.149***<br>(0.053)  | -0.232          | -1.172***<br>(0.053) | -0.240          | -1.163***<br>(0.056)  | -0.235          | -1.178***<br>(0.051) | -0.230          |
| GUE/NGL                        | -0.824***<br>(0.138)  | -0.114          | -0.943***<br>(0.186) | -0.124          | -0.868***<br>(0.138)  | -0.117          | -0.847***<br>(0.093) | -0.110          |
| ID                             | -10.321***<br>(0.373) | -0.203          | -9.928***<br>(0.355) | -0.204          | -10.342***<br>(0.513) | -0.203          | -9.577***<br>(0.164) | -0.189          |
| ITS                            | -1.083***<br>(0.138)  | -0.128          | -1.021***<br>(0.107) | -0.128          | -1.095***<br>(0.176)  | -0.129          | -1.347***<br>(0.175) | -0.131          |
| The Greens/EFA                 | 0.626***<br>(0.065)   | 0.181           | 0.528***<br>(0.066)  | 0.149           | 0.579***<br>(0.079)   | 0.165           | 0.437***<br>(0.074)  | 0.115           |
| NI                             | -10.279***<br>(0.295) | -0.154          | -9.846***<br>(0.294) | -0.157          | -10.045***<br>(0.300) | -0.154          | -9.560***<br>(0.233) | -0.146          |
| UEN                            | -1.578***<br>(0.136)  | -0.155          | -1.596***<br>(0.169) | -0.159          | -1.605***<br>(0.159)  | -0.156          | -1.452***<br>(0.117) | -0.144          |
| <i>Education/ information</i>  |                       |                 |                      |                 |                       |                 |                      |                 |
| Age                            | 0.026***<br>(0.007)   | 0.006           | 0.028***<br>(0.007)  | 0.006           | 0.027***<br>(0.007)   | 0.006           | 0.0295***<br>(0.008) | 0.006           |
| Business/Economic studies      | -0.755***<br>(0.235)  | -0.141          | -0.750***<br>(0.258) | -0.143          | -0.769***<br>(0.258)  | -0.144          | -0.759***<br>(0.153) | -0.137          |
| Member of budget Committee     | -0.513**<br>(0.219)   | -0.113          | -0.500**<br>(0.222)  | -0.112          | -0.500**<br>(0.210)   | -0.110          | -0.572**<br>(0.239)  | -0.122          |
| Years in EP                    | 0.028**<br>(0.012)    | 0.006           | 0.023*<br>(0.013)    | 0.005           | 0.026**<br>(0.013)    | 0.006           | 0.0374***<br>(0.010) | 0.008           |
| <i>Country characteristics</i> |                       |                 |                      |                 |                       |                 |                      |                 |
| New member state               | -1.159***<br>(0.390)  | -0.178          | -0.617*<br>(0.348)   | -0.114          | -0.693**<br>(0.297)   | -0.123          | -1.617***<br>(0.349) | -0.212          |
| National support of the EU     | 0.010<br>(0.007)      | 0.002           | 0.012*<br>(0.007)    | 0.003           | 0.011<br>(0.007)      | 0.002           | -0.001<br>(0.003)    | 0.0003          |

|   |                     |        |                   |        |                   |        |                      |        |
|---|---------------------|--------|-------------------|--------|-------------------|--------|----------------------|--------|
| Net payment position                      | 0.232***<br>(0.082) | 0.051  | -                 | -      |                   |        | 0.174<br>(0.154)     | 0.037  |
| Net payment position on CAP               | -                   | -      | -                 | -      | 0.485<br>(0.501)  | 0.108  | -                    | -      |
| Net payment position on structural policy | -                   | -      | 0.021<br>(0.215)  | 0.005  | -                 | -      | -                    | -      |
| Total revenues/GDP                        | -0.019<br>(0.038)   | -0.004 | -0.030<br>(0.040) | -0.007 | -0.027<br>(0.040) | -0.006 | -                    | -      |
| Direct tax revenues/GDP                   | -                   | -      | -                 | -      | -                 | -      | -0.145***<br>(0.040) | -0.031 |
| <b><i>Regression diagnostics</i></b>      |                     |        |                   |        |                   |        |                      |        |
| p-value joint significance of variables   | 0.000               |        | 0.000             |        | 0.000             |        | 0.000                |        |
| Observations                              | 152                 |        | 152               |        | 152               |        | 152                  |        |
| Pseudo R <sup>2</sup>                     | 0.159               |        | 0.155             |        | 0.157             |        | 0.185                |        |

Marginal effects are calculated for answer class +4 (strongest support for an EU tax); \*PES set as reference category.

**Table 5: Ordered probit results for Q2 – support for specific EU taxes**

| Variable                                | Value added tax      |                 | Corporate income tax |                 | Personal income tax  |                 |
|---|----------------------|-----------------|----------------------|-----------------|----------------------|-----------------|
|   | Coefficient          | Marginal effect | Coefficient          | Marginal effect | Coefficient          | Marginal effect |
| <b><i>Political group*</i></b>          |                      |                 |                      |                 |                      |                 |
| ALDE                                    | -0.154 *<br>(0.079)  | -0.036          | -0.477***<br>(0.133) | -0.035          | -0.363***<br>(0.116) | -0.007          |
| EPP-ED                                  | -0.729***<br>(0.122) | -0.171          | -1.440***<br>(0.054) | -0.135          | -0.670***<br>(0.066) | -0.016          |
| GUE/NGL                                 | -2.428***<br>(0.427) | -0.174          | 0.021<br>(0.026)     | 0.002           | -1.170***<br>(0.227) | -0.010          |
| ID                                      | -1.786***<br>(0.099) | -0.174          | -2.385***<br>(0.146) | -0.053          | -1.762***<br>(0.288) | -0.011          |
| ITS                                     | -1.805***<br>(0.529) | -0.168          | -1.496***<br>(0.099) | -0.048          | -1.431***<br>(0.210) | -0.010          |
| NI                                      | -9.287***<br>(0.207) | -0.185          | -9.364***<br>(0.272) | -0.055          | -9.165***<br>(0.417) | -0.012          |
| The Greens/EFA                          | -0.930***<br>(0.066) | -0.145          | 1.011***<br>(0.062)  | 0.199           | -0.369 **<br>(0.173) | -0.006          |
| UEN                                     | -0.587***<br>(0.074) | -0.112          | -0.628***<br>(0.224) | -0.040          | -0.735 **<br>(0.320) | -0.010          |
| <b><i>Education/ information</i></b>    |                      |                 |                      |                 |                      |                 |
| Age                                     | 0.038***<br>(0.009)  | 0.009           | 0.020**<br>(0.100)   | 0.002           | 0.024<br>(0.019)     | 0.001           |
| Business/Economic studies               | 0.034<br>(0.221)     | 0.009           | -0.275*<br>(0.158)   | -0.024          | 0.196<br>(0.216)     | 0.006           |
| Member budget Committee                 | -0.716 **<br>(0.304) | -0.179          | -0.443**<br>(0.206)  | -0.044          | -0.197<br>(0.255)    | -0.005          |
| Years in EP                             | -0.018<br>(0.014)    | -0.004          | -0.005<br>(0.016)    | -0.0005         | 0.004<br>(0.020)     | 0.0001          |
| <b><i>Country characteristics</i></b>   |                      |                 |                      |                 |                      |                 |
| New member state                        | -0.509***<br>(0.103) | -0.107          | -1.585***<br>(0.552) | -0.074          | -3.180***<br>(0.806) | -0.032          |
| National support of the EU              | 0.024 *<br>(0.012)   | 0.006           | -0.018<br>(0.012)    | -0.002          | -0.040***<br>(0.008) | -0.001          |
| Net payment position                    | -0.064<br>(0.204)    | -0.016          | 0.633***<br>(0.156)  | 0.062           | 0.699***<br>(0.151)  | 0.017           |
| Additional burden                       | 0.0003<br>(0.009)    | 0.0006          | 0.002<br>(0.021)     | 0.0002          | -0.101***<br>(0.025) | -0.003          |
| Standard VAT                            | -0.138<br>(0.087)    | -0.034          | -                    | -               | -                    | -               |
| EATR                                    | -                    | -               | 0.098***<br>(0.029)  | 0.010           | -                    | -               |
| Top PIT                                 | -                    | -               | -                    | -               | -0.001<br>(0.019)    | -0.00003        |
| <b><i>Regression diagnostics</i></b>    |                      |                 |                      |                 |                      |                 |
| p-value joint significance of variables | 0.000                |                 | 0.000                |                 | 0.000                |                 |
| Observations                            | 133                  |                 | 127                  |                 | 123                  |                 |
| Pseudo R <sup>2</sup>                   | 0.130                |                 | 0.178                |                 | 0.108                |                 |



**Cont. Table 5: Ordered probit results for Q2 – support for specific EU taxes**

|   | Green tax             |                 | Transaction tax      |                 | Excise tax           |                 |
|---|-----------------------|-----------------|----------------------|-----------------|----------------------|-----------------|
| Variable                                | Coefficient           | Marginal effect | Coefficient          | Marginal effect | Coefficient          | Marginal effect |
| <i>Political group</i>                  |                       |                 |                      |                 |                      |                 |
| ALDE                                    | -0.378 ***<br>(0.054) | -0.079          | -1.506***<br>(0.196) | -0.096          | -0.153***<br>(0.045) | -0.035          |
| EPP-ED                                  | -1.080***<br>(0.061)  | -0.240          | -1.955***<br>(0.152) | -0.241          | -0.554***<br>(0.093) | -0.128          |
| GUE/NGL                                 | -0.142<br>(0.139)     | -0.032          | 0.751***<br>(0.099)  | 0.164           | 0.527<br>(0.326)     | 0.158           |
| ID                                      | -1.609***<br>(0.234)  | -0.163          | -1.783***<br>(0.354) | -0.077          | -0.873***<br>(0.219) | -0.131          |
| ITS                                     | -0.265*<br>(0.161)    | -0.056          | 0.518***<br>(0.030)  | 0.100           | 0.025<br>(0.178)     | 0.006           |
| NI                                      | -9.048***<br>(0.281)  | -0.176          | -9.820***<br>(0.293) | -0.083          | -8.375***<br>(0.230) | -0.174          |
| The Greens/EFA                          | 1.109***<br>(0.054)   | 0.378           | 0.782***<br>(0.068)  | 0.171           | 0.333 **<br>(0.090)  | 0.093           |
| UEN                                     | -0.779***<br>(0.225)  | -0.129          | -1.794***<br>(0.162) | -0.089          | -0.433***<br>(0.163) | -0.085          |
| <i>Education/ information</i>           |                       |                 |                      |                 |                      |                 |
| Age                                     | 0.010<br>(0.010)      | 0.003           | 0.014<br>(0.010)     | 0.002           | 0.100<br>(0.012)     | 0.002           |
| Business/Economic studies               | -0.137<br>(0.254)     | -0.032          | -0.392<br>(0.277)    | -0.046          | -0.552***<br>(0.181) | -0.116          |
| Member budget Committee                 | -0.510**<br>(0.258)   | -0.124          | -0.226<br>(0.304)    | -0.031          | -0.575***<br>(0.185) | -0.139          |
| Years in EP                             | 0.005<br>(0.025)      | 0.001           | 0.017<br>(0.042)     | 0.002           | -0.019<br>(0.026)    | -0.005          |
| <i>Country characteristics</i>          |                       |                 |                      |                 |                      |                 |
| New member state                        | -0.891***<br>(0.168)  | -0.161          | -1.588**<br>(0.754)  | -0.108          | -0.371<br>(0.666)    | -0.080          |
| National support of the EU              | 0.026***<br>(0.008)   | 0.006           | -0.007<br>(0.010)    | -0.001          | 0.019**<br>(0.008)   | 0.004           |
| Net payment position                    | 0.314**<br>(0.135)    | 0.077           | 0.320*<br>(0.170)    | 0.044           | 0.217*<br>(0.118)    | 0.053           |
| Additional burden                       | -0.001<br>(0.002)     | -0.0002         | -0.005***<br>(0.001) | -0.001          | -0.0002<br>(0.001)   | -0.00004        |
| <i>Regression diagnostics</i>           |                       |                 |                      |                 |                      |                 |
| p-value joint significance of variables | 0.000                 |                 | 0.000                |                 | 0.000                |                 |
| Observations                            | 139                   |                 | 130                  |                 | 137                  |                 |
| Pseudo R <sup>2</sup>                   | 0.117                 |                 | 0.233                |                 | 0.068                |                 |

Marginal effects are calculated for answer class +4 (strongest support for an EU tax); \*PES set as reference category.

## 6. Conclusions

Our results indicate which factors drive the support of MEPs for a fundamental reform of the EU's revenue system towards an establishment of a true own resource. Although the findings confirm an important role for ideology they also demonstrate that both individual and country characteristics are of similar importance in shaping the support for the introduction of an EU tax. The importance of national interests in this reform debate also partially corrects the view that national cohesion of views in the EP has become negligible compared to party cohesion. In contrast to the roll-call vote literature which favours the latter view, our study is not based on votes but on individual opinions of MEPs which is a more appropriate way to measure diversity of preferences in the Parliament.

Among the national dimensions which matter significantly, the new versus old member country dimension, the net payer position, a country's tax competitiveness (for corporate taxation) and the distributional consequences (for a financial transaction tax) stand out. These insights allow us to answer the question posed in our paper's title in the following way: Those parliamentarians are most afraid of an EU tax who represent a country which is a new EU member, characterised by a highly competitive corporate tax system or a well known distributive loser of the specific EU tax in question. Apart from that, net payer countries' MEPs are particularly critical on most of the specific types of EU taxes.

The fact that the net recipients tend to favour an EU tax allows us drawing cautious conclusions on the consequences of an EU tax as they are perceived within the EP: Obviously MEPs do not expect that the transparency effect of an EU tax will be so effective that it could limit the inter-country redistribution being achieved through the budget. On the contrary, since net recipients are particularly enthusiastic about an EU tax they obviously hope that an EU tax would stabilize or even increase redistributive flows. This perception is insofar plausible as even the supporters of an EU tax in general tend to reject a highly visible EU tax like the personal income tax.

A country's tax competitiveness plays a highly significant role where the tax base is most mobile, which is the case for corporate taxation. At least with regard to this particularly EU tax, preferences clearly mirror the disagreement on corporate tax harmonisation in general, where low (high) tax countries are opposed (favour) harmonisation steps. This polarisation supports the view that high tax countries' representatives in the EP regard an EU corporate tax as an instrument to raise their rivals' costs.

At least where the distributive consequences of a particular EU tax base are common knowledge they have an impact on MEPs' preferences. This can be demonstrated by the significant results for a tax on financial transactions. The concentration of financial transactions on few financial centres within the EU is well-known. This knowledge leads to a particular attraction of that tax in countries without significant financial centres.

We would like to stress that our test for the relevance of national interests among political decision makers in the EU tax debate is of a conservative nature since MEPs think more European than representatives from national governments and parliaments.

The starting point of our study has been the observation that there is a contrast between the advanced legislative and political role of the European Union on the one side and its financing system on the other. While the former qualifies the Union as a central level of government within a European federal system, the latter is rather typical for an international organisation based on international cooperation. Our positive approach offers an explanation why: National interests with respect to both the revenue system and the European tax system are still too powerful and heterogeneous for a unanimous agreement on far reaching reforms. Hence, regarding its revenue system the European Union is likely to remain an international organisation rather than a fully developed upper government level of a European fiscal federation.

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## Appendix

### Political groups within the European Parliament

The 6th European Parliament (EP) consists of 785 members. The MEPs are elected for a legislative period of five years by the citizens of the European Union or more precisely the citizens of the European Union's member states.

At the time our survey was conducted, eight political groups existed: EPP-ED, PES, ALDE, UEN, GUE/NGL, The Greens/EFA, ID and ITS. Further 13 non-attached parliamentarians formed the group of the so called **NI** (Non-Inscrits). 20 MEP are necessarily to form a political group and a minimum of 1/5 of the member states need to be represented.

With 277 members **EPP-ED** (Group of the European People's Party (Christian Democrats) and European Democrats) was the biggest group in the Parliament. It was the sole group to contain MEPs from all 27 Member States of the Union. The EPP-ED consists of Christian Democrats, Conservatives, centre and centre-right parties. Its policies are integration-friendly and the group was a strong supporter of the European Constitution.

**PES** (Socialist Group in the European Parliament) was the second largest group and contained social democratic, socialist and labour parties. Its general ideology is characterised by a mixed approach between accepting competition and offering protection for the working people. Like the EPP-ED the PES was strongly in favour of a European Constitution.

The third largest group in the European Parliament were the Liberals, the **ALDE** (Alliance of Liberals and Democrats for Europe). In full light of liberal tradition they emphasise decentralisation, pro-corporate standpoints including rejection of overregulation and the decrease of bureaucracy and subventions as well as an enhanced transparency inside EU institutions. The ALDE group is in favour of further European integration in general.

The **UEN** (Union for Europe of the Nations Group) represented the fourth largest group in the parliament and is located clearly on the right scale of political ideology. It is composed of national conservative and generally EU-sceptic members. However the group is not against the EU in principle, but rather insists on a sovereign nation state.

**GUE/NGL** (Confederal Group of the European United Left - Nordic Green Left): This group includes socialist and communist political groups. In its own statement it is in favour of a European integration, but wants to see it moving in a different direction of welfare, solidarity and a stronger role of protection and redistribution.

**The Greens/EFA** (Group of the Greens / European Free Alliance) is composed of two independent groups with common goals for Europe. Ideologically their main concern is to shift the Union’s emphasis on cultural, ecological and social values and away from economy dominated policies.

The members of the **ID Group** (Independence/Democracy Group) are united by their common goal of opposing the EU and further European integration. Most members satisfy with the idea of remaining national sovereignty and opposing any kind of EU Constitution. However, some MEPs, in particular the English representatives from the UK Independence Party, campaign for a complete withdrawal of their country from the EU.

The former **ITS** (Identity, Tradition and Sovereignty Group) was located on the furthest right scale of the European Parliament. It was founded only in 2007, since before the accession of Romania and Bulgaria the attempts to form a far right group failed on the required threshold of minimum 20 members. The cohesion of the heterogeneously composed group was primarily guaranteed through common goals concerning broadly speaking “anti” issues, such as anti-immigration, anti-Turkish EU membership and anti-EU constitution. The group ceased to exist in November of the same year due to internal disputes.

For further information see e.g. Corbett et al. (2005) and the political groups’ websites.

**Table 6: Response rate by political group**

| Group          | Number of seats | Responses  | Response rate |
|----------------|-----------------|------------|---------------|
| ALDE           | 104             | 18         | <b>17.31%</b> |
| EPP-ED         | 278             | 55         | <b>19.78%</b> |
| GUE/NGL        | 41              | 5          | <b>12.20%</b> |
| ID             | 24              | 7          | <b>29.17%</b> |
| ITS            | 23              | 4          | <b>17.39%</b> |
| NI             | 13              | 3          | <b>23.08%</b> |
| PES            | 216             | 50         | <b>23.15%</b> |
| The Greens/EFA | 42              | 6          | <b>14.29%</b> |
| UEN            | 44              | 10         | <b>22.73%</b> |
| <b>Total</b>   | <b>785</b>      | <b>158</b> | <b>20.13%</b> |

**Table 7: Response rate by country**

| Country      | Number of seats | Responses  | Response rate |
|--------------|-----------------|------------|---------------|
| AT           | 18              | 7          | <b>38.89%</b> |
| BE           | 24              | 6          | <b>25.00%</b> |
| BG           | 18              | 1          | <b>5.56%</b>  |
| CY           | 6               | 1          | <b>16.67%</b> |
| CZ           | 24              | 5          | <b>20.83%</b> |
| DE           | 99              | 40         | <b>40.40%</b> |
| DK           | 14              | 4          | <b>28.57%</b> |
| EE           | 6               | 0          | <b>0.00%</b>  |
| ES           | 54              | 4          | <b>7.41%</b>  |
| FI           | 14              | 4          | <b>28.57%</b> |
| FR           | 78              | 16         | <b>20.51%</b> |
| GB           | 78              | 13         | <b>16.67%</b> |
| GR           | 24              | 1          | <b>4.17%</b>  |
| HU           | 24              | 5          | <b>20.83%</b> |
| IE           | 13              | 3          | <b>23.08%</b> |
| IT           | 78              | 8          | <b>10.26%</b> |
| LT           | 13              | 3          | <b>23.08%</b> |
| LU           | 6               | 2          | <b>33.33%</b> |
| LV           | 9               | 2          | <b>22.22%</b> |
| MT           | 5               | 0          | <b>0.00%</b>  |
| NL           | 27              | 3          | <b>11.11%</b> |
| PL           | 54              | 10         | <b>18.52%</b> |
| PT           | 24              | 7          | <b>29.17%</b> |
| RO           | 35              | 4          | <b>11.43%</b> |
| SE           | 19              | 4          | <b>21.05%</b> |
| SI           | 7               | 1          | <b>14.29%</b> |
| SK           | 14              | 4          | <b>28.57%</b> |
| <b>Total</b> | <b>785</b>      | <b>158</b> | <b>20.13%</b> |



**Table 8: Variable definitions**

| <b>Variable</b>   | <b>Unit</b>         | <b>Explanations</b>   |
|---|---------------------|---|
| <i>Political Groups</i>   |                     |   |
| Political group dummies   |                     |   |
| <i>Personal information</i>   |                     |   |
| Age   | Discrete variable   | Calculated as 2007 minus year of birth  |
| <i>Education variables</i>  |                     |   |
| Business/Economic studies   | Dummy               | Tertiary education in business administration or economics  |
| <i>Proxies for degree of information and experience</i>                 |                     |   |
| Years in EP   | Discrete variable   | Calculated as 2007 minus year of first EP entry   |
| Member budget control committee   | Dummy               | Deals with control of the implementation of the budget  |
| Member budget committee   | Dummy               | Deals with EU budget, in particular expenditure side  |
| <b>Country characteristics</b>  |                     |   |
| Total revenue (taxes and social security contributions)                 | Continuous variable | In % of GDP at market prices for 2006, Source: European Commission (2007c)  |
| Direct tax  | Continuous variable | In % of GDP for 2006, Source: European Commission (2007b)   |
| Net payment position  | Continuous variable | Difference between received payments and contributions, in % of GNI, receipts incl. administration expenses, Source: Heinemann et al. (2008)      |
| Net payment position CAP  | Continuous variable | Difference between received agricultural payments and contributions caused by agricultural spending, in % of GNI, Source: Heinemann et al. (2008) |
| Net payment position structural policy                                  | Continuous variable | Difference between received structural spending and contributions caused by structural spending, in % of GNI, Source: Heinemann et al. (2008)     |
| New member state  | Dummy               | Old members of EU (EU15) set at 0, others at 1  |
| National support of the EU  | Continuous variable | In %, general affirmation of country's membership in the EU, Source: European Commission (2007a)  |
| Standard VAT  | Continuous variable | Standard rate of VAT, in %, Source: German Federal Ministry of Finance (2006)   |
| Top PIT   | Continuous variable | Top rate of PIT, in %, Source: German Federal Ministry of Finance (2006)  |
| EATR  | Continuous variable | 2006 Effective average tax rate, in %, Source: ZEW  |
| Additional burden VAT, CIT, green tax, PIT, excise tax, transaction tax | Continuous variable | In %, Source: Heinemann et al. (2008)   |

Source: European Parliament if no other source is named.

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