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Refugee Policy as a European Public Good – Unilateral Action Does More Harm than Good

One of the main questions at the centre of the ongoing debate in Germany and across Europe over the "right" kind of refugee and asylum policy is whether the Member States should make autonomous policy decisions regarding the acceptance of refugees or whether a comprehensive authority should be created at the European level.

From a financial and economic point of view, the question is whether an EU-level or national-level strategy is more likely to result in the optimal level of refugee intake. In order to determine what this optimal level is, we need to weigh up the costs and benefits. The costs of accepting refugees arise from admitting them in the first place, from running the process of granting asylum and from the integration policies necessary to protect those seeking asylum. Also worth considering are the political costs resulting from possible strong misgivings on the part of national voters regarding the arrival of refugees.

Taking in refugees brings economic and moral benefits

The benefits of taking in refugees come from two very different angles. On the one hand, taking these people in is in Europe's foreign-policy interests. For example, it will help to stabilise countries such as Jordan and Lebanon that are undeniably currently overwhelmed by refugees. Stabilising these countries is invaluable to Europe both politically and economically. On the other hand, a further benefit is that the reception of refugees is in accordance with the Union's founding moral principles. All Member States committed themselves to these principles in the Treaty of the European Union. From the perspective of those who share these beliefs, a policy that prevents people being killed in the war in Syria or drowning in the Mediterranean is of great benefit.

The fundamental problem in trying to solve this issue efficiently when refugee policy is left up to the individual nations is that under the current system the costs are largely internalised and shouldered by the countries taking refugees in, while benefits are external since all Member States get to share them. Helping to stabilise the situation in the Middle East does not benefit Hungary with its closed borders any less than it does Sweden with its open door policy. Similarly, saving the life of a fellow human being should elicit no less joy in Poland than it does in Denmark.

The free-rider problem presents a threat to the European public good of taking in refugees

This results in a classic free-rider problem. From the perspective of individual EU countries, it makes sense to shift the costs of accepting refugees onto their neighbours in the short term by closing their borders. This reduces costs, while also not reducing the benefit experienced by the country and its citizens significantly. Over time, the incentives to engage in "free-riding" become self-reinforcing and spread from one country to another. This ultimately leads to a "race to the bottom" in terms of national asylum standards and a "race to the top" in terms of setting up new entry barriers. The European public good of taking in refugees would therefore no longer be provided. This type of chain reaction characterises the development of national refugee policy in the EU since 2015, including its increasingly tough restrictions. National governments pursuing their own individual policies is therefore inefficient and harms the foreign policy, economic and moral interests of all Member States. This ends up putting countries in a strategic situation reminiscent of the well-known "prisoner's dilemma". Without any centralised coordination, the countries of the EU will not be able to reap the net benefits of accepting refugees.

From this perspective, the conclusion is clear. Taking in a certain, significant number of refugees is in its very nature a European public good. Leaving the responsibility for refugee policy at the national level leads to an inefficiently low level of provision of this public good. Ultimately, therefore, it is not altruism but rather countries' self-interest that will point the way towards a solution at the EU level.

A ZEW policy brief on this topic is available to download at: *https://www.zew.de/PU76943-1*

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Information Economy – German Companies Slow to Comply with GDPR

The new General Data Protection Regulation (GDPR), which aims to protect personal data within the European Union and safeguard the free movement of data within the EU Single Market, has been in force in all EU Member States as of the end of May 2018. Companies in Germany's information economy had plenty of work to do before the new law came into effect given that at the end of last year only around half of all companies in this sector of the economy had already begun dealing with the challenges of becoming GDPR compliant. Meanwhile, only a fraction of companies could claim at that time that they had fully implemented the changes required by the new law. Despite this, many companies were still optimistic – perhaps too optimistic – that they would be compliant by the end of May 2018.

Following years of negotiations, the Europe-wide GDPR, which standardises rules on the use of personal data by private companies and public authorities in all EU Member States, was approved in April 2016.

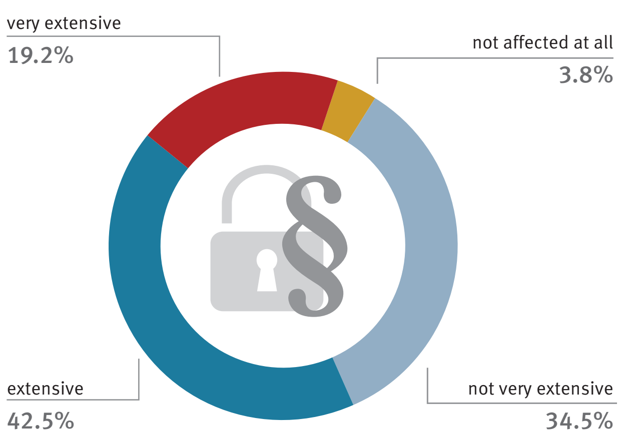
Firms put off dealing with GDPR compliance

The GDPR aims to protect personal data within the European Union and safeguard free data movement within the EU Single Market. As of the end of May 2018, all firms and public authorities must be compliant with the new rules. Breaking the new rules now incurs much higher fines than before, running to as much as 20 million euros or four per cent of the company's global annual turnover.

Despite the fairly long adjustment period, many companies in the German information economy – which includes information and communication technologies (ICT sector) and media and knowledge-intensive service providers – left it rather late to start dealing with the challenges of becoming GDPR compliant. According to the results of a representative survey among approximately 700 companies in the German information economy with five or more employees, conducted by ZEW in December 2017, just under half (47.5 per cent) of companies in the information economy had not even begun to prepare themselves for the new regulation. An additional 12.5 per cent of companies claimed to not even have heard of the GDPR. Among companies that work intensively with personal data at least, a much higher share – just under two thirds – had already made efforts to ensure they were GDPR compliant.

However, in the survey only around five per cent of companies could claim to have fully complied with the requirements of the General Data Protection Regulation by the end of the year 2017. In addition, just over a quarter of companies had by this point at least complied with certain aspects of the new regulation.

HOW EXTENSIVE WERE THE CHANGES RESULTING FROM THE NEW GENERAL DATA PROTECTION REGULATION (GDPR) FOR COMPANIES IN THE INFORMATION ECONOMY?



Reading aid: Among the companies in the information economy that had already begun to comply with the requirements of the GDPR (as of December 2017), 42.5 per cent claimed that complying with the new regulation involved "extensive changes" on their part. An additional 19.2 per cent attested to "very extensive changes".
Source: ZEW Business Survey in the Information Economy 2017.

GDPR presents companies with organisational and staff-related challenges

The GDPR has brought far-reaching changes to German data protection law. Among the companies in the information economy that had already begun to comply with the requirements of the GDPR, 42.5 per cent claimed that complying with the new regulation involved "extensive changes" on their part. An additional 19.2 per cent attested to "very extensive changes". Knowledge-intensive service providers, especially advertising service providers (85.2 per cent), as well as legal consultants, tax advisors and accountants (67.3 per cent), were most strongly impacted by these changes.

The introduction of the EU-wide GDPR is mainly perceived by companies in the information economy as an organisational and personnel challenge. More than half of companies expect the introduction of the new regulation to lead to increased costs to train employees and a higher workload. Only a small minority of the surveyed companies expect the GDPR to have a positive effect on the competitiveness of EU companies on international markets (10.1 per cent), or on their own business development (5.0 per cent).

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European Industry Set to Profit from International Climate and Energy Policy

The climate and energy policy framework defined by the European Commission up to the year 2030 is set to play an important role in keeping European industry competitive. The majority of Europe's industrial sectors will be able to profit from the European Commission's energy policy package in the context of global climate agreements, with multilateral policies proving more profitable than unilateral measures within the European Union. Recent ambitious global climate goals will lead to lower energy prices, causing the EU's industrial sectors to increase their gross output and gain a greater share of the global market. This is the main finding of a ZEW report conducted for the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs at the European Commission.

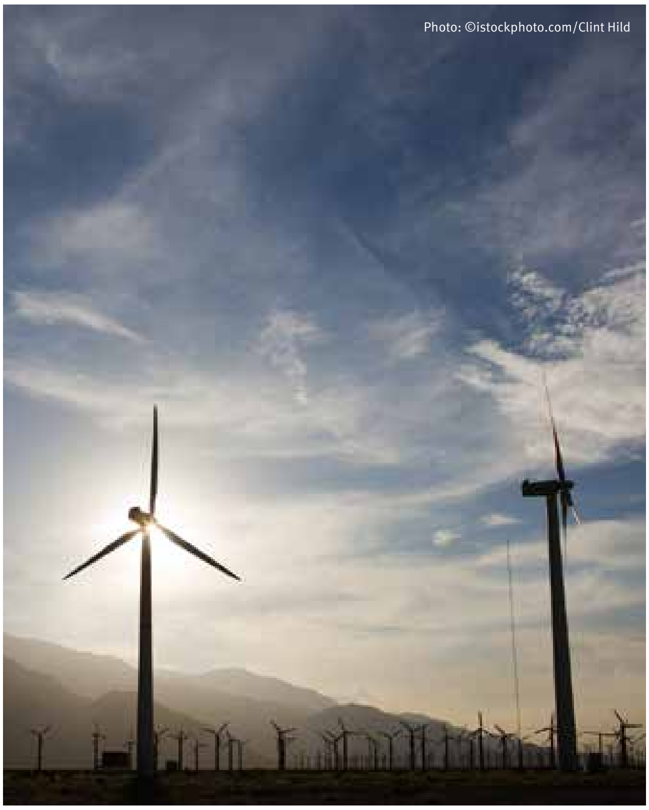
For the purposes of the report, ZEW researchers studied the effects of the Commission's climate and energy policy framework up to the year 2030 on Europe's various industrial sectors. Ratified by leaders of the European Union in October 2014, the framework builds on the Commission's 2020 climate and energy package and has three main targets: reducing greenhouse gas emissions by at least 40 per cent (compared to 1990 levels), increasing the share of energy generated from renewable sources to at least 27 per cent and increasing energy efficiency by at least 27 per cent.

In addition, the ZEW analysis also took into account recent international agreements on climate protection, which are oriented towards the achievement of the climate pledges laid out in the Paris Agreement of 2015. Specifically, researchers looked at the fixed contributions for each country according to the Paris Agreement, which not only apply to the European Economic Area as a whole, but also have varying effects on the individual EU Member States and their industrial sectors.

Multilateral agreements lead to lower prices for fossil fuels and electricity

Based on this current political reality, the report examines several different scenarios. First, unilateral action on climate and energy policy in the individual EU Member States is compared to multilateral policies based on the goals set out in the Paris Agreement from the year 2020 onwards. Secondly, the report examines two potential uses for the proceeds from auctioning credits in the EU Emissions Trading Scheme (EU ETS) – as lump-sum transfers to private households or as subsidies for renewables. In each scenario, the researchers were interested in the network effects with regard to the competitiveness of individual industrial sectors in Europe.

The results of the analysis show that multilateral climate protection efforts initiated on the basis of the Paris Agreement, depending on the size of national contributions, lead to a reduction in the cost of fossil fuels and electricity. This is because, in comparison to unilateral climate efforts within the European Union, these multilateral, reciprocal commitments at the global level lead demand for fossil fuels to decrease. This is to the benefit of all sectors involved in the EU ETS in terms of both gross output and global market share, with the exception of the electricity sectors.



Proceeds from auctions in the EU Emissions Trading Scheme are helping to increase the demand for electricity from alternative energy sources.

Even those energy-intensive sectors that are not involved in the EU ETS, such as the inland transport sector, experience efficiency gains thanks to reduced energy prices. Finally, compared to unilateral national policies, multilateral climate efforts have a positive effect on the gross domestic product of EU Member States. In addition, the report shows that the proceeds from EU ETS auctions help to increase demand for electricity generated from renewable energy sources.

The report is available to download at: *https://publications.europa.eu/en/publication-detail/-/publication/7f887aeb-2739-11e8-ac73-01aa75ed71a1/language-en*

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A European Digital Tax Would Be an Unnecessary Additional Burden on Firms

Early this year, the European Commission presented its proposed guidelines for a "digital service tax" along with a recommendation to extend the concept of a permanent establishment to include a digital presence for firms. The tax is directed at digital companies located in non-EU countries and – to ensure equal treatment – in EU Member States generating total revenue of over 750 million euros, 50 million of which are made in Europe. European law-makers hope to generate long-term tax revenue amounting to around five billion euros through this new digital tax. However, the guidelines set by the Commission are a step in the wrong direction for the European Economic Area, and a dangerous one at that.

The European Commission's proposed digital services tax is aimed at two different types of enterprise. The first are online platform operators who generate advertising revenue via B2B sales. The other group are companies who run online platforms on which providers and customers can find each other and carry out transactions, for which they pay a fee to the platform operator. E-commerce involving the buying and selling of physical goods is exempt from the new tax. The distribution of the resulting tax revenue is to be divided proportionally among the EU Member States according to the number of users of these services in each country, which can be tracked using IP addresses. This may sound like a fairly simple distribution mechanism, but it is in fact highly complex. Even the proposal put forward by the Commission does not include any examples of how this would be calculated.

One of the reasons behind this proposal from the Commission is the assumption that digital companies pay less tax than traditional businesses. This is, however, simply not true. There are a number of reasons why a special tax is not appropriate here. First of all, it is generally not possible to distinguish digital from non-digital companies. For instance, this tax would not just affect internet companies, but also media enterprises whose revenue exceeds the set limit. Secondly, such a tax on revenue would lead to severe cases of double taxation, since profits would still be subject to full taxation as well as the new digital tax.


Foto: ©istockphoto.com/VanderWolf-Images

The Commission is currently considering a digital services tax of three per cent on gross revenue generated from the provision of digital services within the EU. The actual burden of the digital tax in terms of company profits, however, depends on the profit margin of the company in question. For companies with a ten per cent profit margin, a three per cent digital services tax is equivalent to a 30 per cent tax on profits. On top of this, companies are faced with the standard profit tax in the country where the head office of the group or company is located, at which level profit is calculated for tax purposes. This leads to a considerable overall tax burden. Companies are not even able to offset the digital tax against corporation tax in their home country.

Special rules for digital companies achieve little

If we continue with the example of the media enterprise, as well as the digital tax, the company is also subject to German profit taxes – corporation and trade tax – of around 30 per cent, leading to a total tax of 60 per cent. Digital companies located in high-tax EU countries would be at a huge disadvantage if this tax is introduced, and may consider relocating their main offices.

One of the Commission's long-held ideas for taxing the digital economy, the creation of digital presences for companies, must also be fundamentally overhauled. What needs to be done instead is to adapt the current concept of a permanent establishment to existing digital business models, similarly to what has already happened with e-commerce. We should also bear in mind that even internet companies have a physical presence in their market states, where they can be taxed. In terms of profit allocation, a profit split method combining capital and human resources as well as turnover, would be a more sensible approach.

What is clear is that special tax schemes for digital companies make little sense. The basis for taxation is and has always been company profit, regardless of whether the company in question is a digital enterprise or not. Moreover, it is impossible to make a clear-cut distinction between digital and non-digital companies. In fact, in the future a number of sectors such as the automotive industry as well as the pharmaceutical and chemical industries are set to become increasingly digitalised, which will make separating the digital from the non-digital even more difficult.

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