

# Foreword

In the 1930s, countries fought destructive trade conflicts – now we have a similar situation, but the conflicts are taking place in the tax system. These conflicts arise out of the twin impacts of globalization and digitalization. Once upon a time, there was an implicit understanding of fairness in taxation, meaning how countries tax within their borders and how the tax burden is distributed. More specifically, companies and individuals were taxed based on their residence and consumption in the destination country. Such an approach worked while these events were mostly perceived as national. However, the world has changed, and in an increasingly globalized, digitalized, and mobile world, these understandings no longer appear to work smoothly, efficiently, and uncontentiously.

Recently, policymakers have focused their attention on the taxation of the so-called ‘digital economy’ and ‘gig economy’. Firms with digital business models find it easier than other firms to operate in countries without a local physical presence. They also rely more on immaterial assets, which are highly mobile internationally. **Chapter 2** illustrates the rapid digital and technical transformation of business models and the emergence of major digital platforms in numerous industries. Special emphasis is devoted to the question of how to regulate them in the light of data and privacy protection. The chapter also illustrates how Europe could promote the development of a European competitor in the platform market, which is largely dominated by firms from the United States and China.

Another reason for a renewed interest in the fairness of the tax system is tax planning and avoidance by multinational firms. Spectacular cases of tax planning by individual multinational companies have attracted strong media attention and raised public concern. This has led to a debate about reforming the international tax system to fight tax avoidance. **Chapter 3** reviews the evolution of the corporate tax system in the recent past and points out the need for reform. It discusses recent proposals by the European Union and the OECD as well as country-specific initiatives, such as the digital services tax in France.

International mobility of capital and people has increased significantly, while tax and social policy remain the responsibility of national governments. This creates incentives for governments to cut taxes on companies and wealthy and highly skilled individuals, and reduce public transfers. These implications of mobility raise concerns that the tax system will become less progressive and that the tax burden will increasingly be shifted away from mobile taxpayers to immobile factors like low-skilled labor. **Chapter 4** outlines the policy options in designing efficient labor income-tax systems without jeopardizing the financing of the social safety net when the mobility both of jobs and of workers is increasing.

Land and property goods are examples of relatively immobile factors. It is surprising to note, however, that in most EU countries, these goods are taxed only lightly. **Chapter 5** argues that there are good reasons – both economic and fairness-related – for why politicians should consider higher taxes on these goods, as compared to inheritance and wealth taxes, which instead require a reduction of rates and a simplification of the tax system in the light of incentives for capital flight and international mobility.

As usual, **Chapter 1** of the report contains an in-depth analysis of the economic situation of the European Union and other countries around the world and a forecast for the coming year. The global slowdown that began in 2018 continued last year, partly driven by ongoing trade disputes and the uncertainty about Brexit. Growth prospects for 2020 are mildly positive, both for Europe as a whole and for its largest economies.

The European Economic Advisory Group at CESifo, which is collectively responsible for all parts of the report, consists of seven economists from seven countries. This year the Group is chaired by Harold James (Princeton University). The other members are Torben M. Andersen (Aarhus University), Giuseppe Bertola (University of Turin), Cecilia García-Peñalosa (Aix-Marseille University), Jan-Egbert Sturm (KOF Swiss Economic Institute, ETH Zurich), Branko Urošević (University of Belgrade), and myself (ifo Institute and Ludwig-Maximilians-University Munich).

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