Gábor Braun – Zoltán László Kovács

The relationship between the Lisbon Strategy and tax policy in the context of the economic crisis

Ten years after the collapse of the East Central European planned economic systems, the European Council set out a ten-year economic modernization agenda at its March 2000 session in Lisbon. The aim of the ambitious concept called Lisbon Strategy, is to make the European Union "the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010" (European Council, 2000). The Lisbon Strategy rests on the following three pillars:

1. *Economic pillar:* it aims at establishing a competitive, dynamic knowledge-based economy, putting emphasis mainly on research and development (R&D).
2. *Social pillar:* it aims at forming an information society that can be characterized by investing into human resources and avoiding social exclusion.
3. *Environmental pillar:* its essence is to make economic growth sustainable and based on natural resources.

This strategy provides for the adaptation and strengthening of the earlier Luxembourg process for employment, the Cardiff process for the improved functioning of the internal market and the Cologne process supporting the macroeconomic dialogue. The implementation of the Lisbon Strategy, at the same time, covers economic policy areas which fall overwhelmingly within the exclusive competence of the Member States. Therefore, the Lisbon Program has strengthened the existing coordination mechanisms and introduced a political innovation called Open Method of Coordination (OMC), which is based on the mutual information and monitoring of the Member States.

Open Method of Coordination

As part of the Lisbon Strategy, the open method of coordination provides a new framework for cooperation between the Member States to reconcile their national policies towards certain common objectives. This intergovernmental method is applied in areas which fall within the competence of the Member States, such as employment, social policy, education and training. The method is principally based on jointly defined objectives adopted by the Council, jointly established measuring instruments (statistics, indicators, guidelines), on the comparison of the Member States' performance monitored by the Commission and the exchange of best practices.

Depending on the areas concerned, the OMC also includes "soft law" measures that are compulsory for the Member States in varying degrees but which do not take the form of directives, regulations or decisions. Thus, Member States have to prepare national reform plans, for example, which are submitted to the Commission. (SCADPlus)

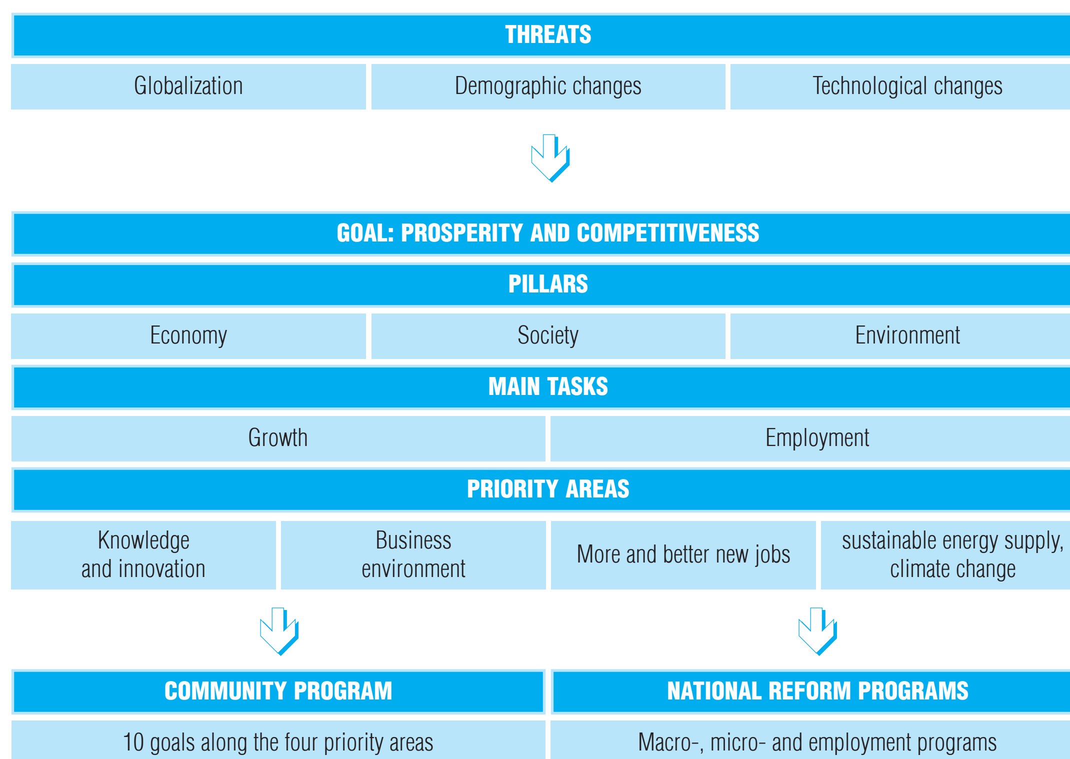
THE DEVELOPMENT OF THE LISBON STRATEGY IN A NUTSHELL

Five years after the start, the repeatedly reviewed and expanded strategy reached its half-time but was still only at its first steps concerning the achievement of its goal (Sapir et al., 2003; European Community, 2004). For this reason the program was relaunched in 2005 after a necessary simplification and renewal, with a focus on employment and economic growth (European Commission, 2005a). In the spring of 2005 the program still contained more than 100 goals and numerous detailed guidelines, which led to a mix-up in the National Programs and an implementation deficit in the realization of the goals, especially with respect to national structural modernization. In order to give new impulse to the implementation of the strategic goals, the targets were rationalized and the actions of the Union were made more focused.

The restarted strategy is based on European and national partnership; its success depends on the determination of the Member States to undertake reforms. National actions for reform are now complemented by actions implemented or coordinated at the Community level, which provide for important added value through the Community Lisbon Program. Planning occurs in three-year cycles; the Commission presents a Community Lisbon program and the Member States develop national reform programs and annual reports on their progress. In 2006 the European Council defined four priority areas to focus the Lisbon Strategy: investing in knowledge and innovation, providing a more favourable business environment, creating more and better jobs and adapting to the challenges of energy and climate changes. *(See Chart 1)*

The former economic and employment policy guidelines have been henceforth presented

Chart 1



jointly in integrated guidelines, which contain 24 intermediate targets altogether for macroeconomic, microeconomic and employment policies (European Commission, 2005c; European Commission, 2007). The greatest task for Member States is to designate the instruments for implementing the renewed strategy according to national characteristics (Kovács, 2007).

There have been numerous debates, both at the national and Community level, on the future of the Lisbon Strategy, which is currently in its second and thus, according to the agenda, last three-year cycle (Cohen-Tanugi, 2008; Austrian Federal Ministry of Economy and Employment, 2008). The evolving economic and financial crisis has, on many occasions, led to taking contradictory measures and intensified the discourse.

CONCEPTUAL FUNDAMENTALS

The Lisbon Program is in fact the European Union's supranational economic policy answer to the accelerating globalization, the consequently intensifying economic competition as well as the worsening demographic situation of the Union caused by the ageing of the population and the shrinking of working-age population. While trying to make the EU more than the sum of its parts, meaning the Member States, the strategy builds on synergy effects to enable it to keep pace with the growth and the productivity of the USA and Far Eastern countries.

The concept is led by the macroeconomic recognition that increasing prosperity can be accomplished through raising productivity and employment, which can be achieved by improving competitiveness. In the globalizing world, economic systems with different structures and policies compete with one another. Individual regions and their decision makers experience the competition in different ways, still, almost everywhere, action is taken in the direction of improving competitiveness. There are different policy areas and strategies that can lead to a more favourable relative competitive position, which can have either a positive or a damaging impact on all competitors as well as on the competition itself ("systems' competition").

The national economic policy of states can be aimed, for example, at the public takeover of activities where the market failed. The subsequent introduction of a market in the form of a competition among states can lead to failure once again, however ("selection principle": Sinn, 2003), which can be regulated only jointly or at a higher level. Tax policies or tax competition in an effort to underbid one another in order to encourage settling in companies can result in a so-called "race to the bottom" phenomenon, in the underfinancing of public goods and the overtaxation of less mobile factors, especially labour. Tax harmonization aiming at avoiding tax competition can on the other hand lead to an oversupply of public goods, in particular of infrastructure. The competition of regulators – the relatively slacking financial regulations in the United Kingdom or Ireland, for example – can, however, lead to insufficient regulation and the socialization of business risks.

Though the European Union has no single social model, solidarity as a value is shared by all Member States, but is realized through extremely different tax burdens and national tax systems in the 27 countries (European Policy Centre, 2004; Sapir, 2006). *André Sapir,* for example, divides the social models of the EU Member States into four categories according to efficiency and equity: Continental, Mediterranean, Anglo-Saxon and Nordic. *Social models become unsustainable mainly because of the lack of efficiency, which can make the Lisbon Process unfeasible and deteriorates the competitiveness of the EU.* The current social

inequalities between and within the Member States can hinder the efficient functioning of the internal market (Sapir, 2005).

Tax policy holds a lateral, cross sectional function within the national and also the supranational economic systems. Let us just think of the three pillars (economic, social, and environmental), which are all affected by tax policy, or of the reform of the social and economic models. The Lisbon Program does not attempt to harmonize tax rates but strives to accomplish an appropriate tax coordination, which can contribute to making the benefits of tax competition available to the widest possible circle of market participants. With the progress of the Lisbon Concept, there has been growing emphasis on taxation. The current crisis did not break this trend; it has just made it more complex.

THE CONTRIBUTION OF THE TAX POLICY TO THE LISBON PROGRAM

The Lisbon Strategy renewed in 2005 attempts to make Europe an attractive place to invest and work, in order to encourage growth and employment. Therefore, the EU forms and coordinates the various policies in a way to stimulate economic growth and ease job creation for enterprises. (European Commission, 2005a)

It is obvious that tax policy can play a significant role in the attainment of these objectives, since it can notably contribute to raising the efficiency of the economy, increasing competitiveness as well as to giving incentives to trade and innovation. Broadening the circle of taxable persons, for example, is an effective way to raise legal employment and tax revenues without increasing tax rates. Restructuring the tax system (decreasing labour taxes and increasing the tax burden on consumption and pollution) could also help to raise employment. The relative high tax burden on labour, however, hinders the creation of new jobs, especially in case of low skilled workforce. These correlations have certainly been recognized by Member States well, which has resulted in an intensified tax competition among Member States as well as a growing number of tax reforms. (European Commission, 2005b) The costs of the tax system are the deadweight loss related to the substitution effect on the one hand as well as the administrative burdens and the compliance costs of the taxpayers and the tax administration on the other hand. It is no wonder therefore that the main elements of the *tax reforms are low marginal tax rates, flat taxes and tax simplification.*

Code of Conduct

Already in the nineties, the EU and the OECD were faced with the dilemma that, while fair and limited tax competition could have favourable economic effects, unlimited and harmful tax competition was to be fought, however. The conclusions of the Council of Economic and Finance Ministers (ECOFIN) of 1 December 1997 included the so-called Code of Conduct for *company taxation.* By the adoption of this legally not obligatory but politically significant instrument, the Member States have undertaken to roll back existing tax measures that induce harmful tax competition and refrain from introducing any such regulation in the future ("standstill").

For the purpose of filtering out harmful measures, the Code sets out various criteria. Taking the advantages of fair competition into consideration, the Code of Conduct focuses especially on detecting tax measures (legislative, regulatory, administrative) that are targeted at non-resident companies exclusively, providing them with a more favourable tax treatment than is general in the Member State concerned. These Member States unduly influence the location of business activity within the Community.

The criteria for harmful measures are the following:

- the actual level of taxation is significantly lower than the general level of taxation in the Member State concerned,

- tax benefits granted to non-resident companies,
- tax incentives for activities that are isolated from the domestic market and have therefore no impact on the national tax base,
- granting tax benefits even in the absence of real economic activity,
- the profit calculation of a member of a multinational company group diverts from internationally accepted rules, in particular from those approved by the OECD,
- lack of transparency.

On 9 March 1998 the EU's Finance Ministers established the Code of Conduct Group, which assesses the corporate taxation measures of the Member States falling within the scope of the Code. In November 1999 the Group identified 66 tax measures as troublesome; the Member States concerned have begun their revision or replacement accordingly.

On the basis of a grandfathering clause devised for the beneficiaries of such measures of before 2000, tax benefits are to be granted by 31 December 2005 at the latest, whether or not they were to be granted for a fixed period originally. However, there has been an agreement to extend some of the benefits for defined periods beyond 2005 as well. Since then, the Group has regularly reported on the measures of the Member States to the Council.

Within the framework of the Code of Conduct, the Commission has also committed itself to publishing guidelines on the application of state aid rules relating to direct corporate taxation. Moreover, the Commission urges more transparency and information exchange in the field of corporate taxation and wishes to implement coherent EU policies concerning offshore financial centres.

In 1998, the OECD also established a special forum in order to abolish harmful tax practices. The forum aimed at involving tax havens and non-OECD economies as well and it worked out a tax agreement model on the exchange of tax information. (Website of DG Taxud)

The main objective of the tax system is, however, to provide the necessary financial resource for public redistribution in the most efficient way possible (Stiglitz, 2000). Therefore tax policy falls basically within the competence of the Member States, while, at the EU level, a unanimous decision by the Member States is required in tax issues. Nevertheless, the common single market based on the four rights of freedom, namely the free movement of goods, services, capital and persons, and the tax policies of the Member States also affect one another. Consequently, there is a need for coordination at the EU level regarding tax policy issues in order to ensure that the measures of Member States should, by fostering one another, serve the implementation of the Lisbon strategy.

The diversity of the national tax systems in fact involves considerable administrative burden in terms of compliance cost. Double taxation, tax-based cost planning and the differences in the tax rules of Member States hinder the effective functioning of the competitive single market. The removal of the Community's tax barriers could create new opportunities for market entrants, investment and innovation. As a result of that, the competitiveness of the EU would improve, which would in turn foster both economic growth and the creation of new jobs (European Commission, 2005b).

As a consequence of globalization, cross-border activities have intensified and their importance has substantially increased. Internal market integration has accelerated, its role has grown, while, at the same time, the demolition of tax barriers could often not keep pace with this progress. Accordingly, taxation obstacles increasingly obviously prevent the advantages of the single market from being fully exploited.

THE TAX POLICY INSTRUMENTS OF THE RENEWED LISBON STRATEGY

In its Communication of 25 October 2005 (European Commission, 2005b), the Commission proposed the implementation of tax measures

that could help to attain the objectives of the renewed Lisbon strategy. The two main goals of the Lisbon Program are to provide more attractive investment and work conditions in the Community and to boost economic growth through the promotion of knowledge and innovation. The tax measures concern the fields of company income tax (CIT) and VAT primarily. While the legislation of VAT, as it is one of the main resources of the EU's budget, is already harmonized at the Community level within the framework of the 2006/112/EC directive, in the case of CIT, the creation of new Community legislation would be necessary, however.

THE AIMS OF THE TAX MEASURES PROMOTING INVESTMENT AND MARKET INTEGRATION are to extend and deepen the internal market, create open and competitive markets inside and outside the EU as well as improve the European and national regulatory environment.

❶ Since there is no obligation to harmonize CIT rules at the EU level, there are most diverse CIT systems functioning simultaneously in the various Member States. The coexistence of various national tax systems hinders the deepening of the internal market, however. This involves compliance costs for transnational companies on one hand and provides an excellent opportunity for tax avoidance on the other hand. Corporate tax rules treat cross-border activities within the Community differently from domestic activities, which may encourage firms to rather act and invest domestically. In 2001, the Commission proposed to introduce a *Common Consolidated Corporate Tax Base (CCCTB)* in order to deepen the integration of the internal market. This means that companies operating in the internal market would calculate their tax bases according to same rules in different Member States. Besides increasing transparency, CCCTB would solve the cross-border offsetting of losses and numerous tax problems linked to cross-border activities. Nonetheless, the Commission has always emphasized that it had no intention to make a proposal for a harmonised CIT rate, i.e. each Member State could apply its own tax rate to the CCCTB.

❷ The Commission, depending on the realization of the CCCTB, has proposed other targeted measures in the field of company income tax in order to *eliminate cross-border tax obstacles.*

- Most Member States allow the *relief for cross-border losses* only within one firm, but there are a few countries that allow the setting-off of such losses within a corporate group. This practice distorts internal market competition since it gives tax incentives to companies to invest domestically.

- One instrument available for companies to optimise their CIT payable is the application of *transfer prices.* Therefore, transfer price management is part of the compliance costs involved in the diverse company tax systems of the Member States. In 2002, the Commission established the EU Joint Transfer Pricing Forum and made a proposal for working out a Code of Conduct concerning the documentation of transfer pricing.

- Some Member States apply *capital duty* in line with the Council Directive 66/335/EEC. This is disadvantageous for EU companies that start a business, restructure operations or increase their capital. In order to encourage investments and support the development of EU companies, the Commission urges cutting back the capital duty.

❸ It is mainly transnational companies that are present at the single market and the Common Consolidated Corporate Tax Base would benefit these companies principally. At the same time, *simplifying the tax environment and creating a level playing field* are also among the objectives of the Commission which has, accordingly, tabled a package of measures that would foster the trade of primarily small and medium enterprises (SMEs) at the internal

market. SMEs in fact face, especially in the field of VAT, relatively higher compliance costs than large companies. To facilitate the entry of SMEs to the single market, the Commission has come forward with the following five proposals:

▸ Concerning company income tax, the Commission urges the introduction of *Home State Taxation for SMEs as a pilot-scheme for five years.* The point of this concept is that qualifying companies would apply the corporate tax rules of their residence state to subsidiaries and permanent establishments in other Member States. This would require the mutual recognition of the corporate tax treatment of SMEs, while tax rates would continue to be set by each Member State individually.

▸ The Commission would simplify the cross-border VAT compliance obligations. One of the main elements of the proposal is the introduction of the *one-stop shop system,* which would allow enterprises to use a single VAT number for all transactions within the EU and to prepare a single global VAT declaration which could be submitted through an electronic portal. The one-stop shop system would then submit the tax return automatically to Member States where the trader has had taxable activities.

▸ The spreading of cross-border *international services* (e.g. broadcasting, telecommunication, e-commerce) is a serious challenge for the EU. VAT legislation, with respect to the places of services, has to be coordinated in order to ensure equal treatment for operators both from EU and third countries also in the case of long distance services. Furthermore, VAT revenues have to be guaranteed for all Member States where the services concerned are used. The Commission would amend legislation on the place of supply for both services between taxable persons (B2B) and those supplied to end consumers (B2C) in order to eliminate the additional VAT registration requirements and costly refund procedures for service providers.

▸ The general exemption of *financial services* is based on a VAT legislation of more than 30 years. This means that VAT paid by financial institutions on their inputs is not deductible and it thus becomes a cost factor for them. They can pass on these costs incorporated in the price of the financial services to their business clients, who are similarly unable to apply the right of deduction because the service is VAT exempted. This cost factor deteriorates the efficiency of the financial market because of which the Commission is to revise the legislation of financial services, involving those concerned.

▸ Similar to the financial services, the VAT rules on *services of public interest* also need to be revised since public administration organs are currently out of the scope of VAT. Taking into account that, in certain areas, there are private organisations, too, participating in supplying public services beyond public administration organs, the Commission intends to amend the current legislation with the aim of guaranteeing equal treatment.

❹ *A simpler and more transparent legislative background* also helps lift the anomalies of the internal market and intensify competition. Considering that there is substantial EU legislation on indirect taxes, the Commission focuses on the *more uniform application of the VAT system* primarily. Since 2007, the 6th VAT directive has been replaced by the 2006/112/EC directive, which has made the Community VAT legislation more transparent. Moreover, a more uniform application and implementation of the VAT rules is necessary, as taxpayers and tax authorities often interpret the EU VAT law differently. A typical consequence of the divergent interpretations of the law is double taxation or even non-taxation. The adoption of binding secondary VAT legislation (regulations) could remedy that, since it is increasingly difficult to find orientation among the numerous judgements of the European Court of Justice.

❺ *Forcing back tax fraud* is a common interest of the EU, Member States and lawful enterprises. On the one hand, both the EU budget and the Member States suffer losses of revenue through fraudulent action, because of which the latter may even be compelled to increase taxes. On the other hand, enterprises committing tax fraud gain unfair competitive advantage over lawfully operating firms since the former realize higher profits while keeping "tax costs" lower and are not affected by tax increase, either. Although the operation of tax systems falls within the competence of Member States, a coordinated Community approach may improve the efficiency of the fight against tax fraud. Accordingly, in its 2006 communication, the Commission outlined the main elements of the anti-fraud tax policy at the EU level, which concern the field of VAT as well as of cooperation and information exchange among Member States primarily.

❻ One of the reasons for the fragmentation of the European car market and for the limited cross-border car trade is the considerable difference in registration tax among Member States. In order to exploit the advantages (competition, economies of scale) of the single market in a more efficient way, the Commission calls for the *gradual abolition of car registration taxes* in Member States or their replacement by annual circulation taxes or by other innovative taxes. With the help of the gradual abolition of registration taxes, the car market would become more transparent, bureaucracy and the existing great differences in car prices would decrease in the Member States.

TAX MEASURES SUPPORTING KNOWLEDGE AND INNOVATION are aimed at fostering investment in research and development (R&D) in order to boost economic growth, and at facilitating the sustainable use of resources. The reason for giving incentives to company R&D investments is that it has positive external spillover effects, however, due to the high-level investment demand of R&D and the long payback period, without state intervention, the level of business research and development would generally remain below the socially optimal level. The sustainable use of resources can be relatively easily influenced by indirect taxes (e.g. excise duties, energy and car taxes). With the help of taxes, negative externalities can be internalised (the so-called Pigou-tax), while price increase may encourage innovation and the change of consumption patterns. In the case of both instruments, coordination at the EU level is desirable in order to tackle internal market distortions.

❶ The purpose of *R&D tax incentives* is to boost R&D investments by reducing their costs. At the EU level, this can be accomplished by improving legal security, applying coordinated approaches (e.g. spreading best practices) as well as by combining private and public sources. The Commission does not intend to introduce mandatory regulation beyond the coordination. Nonetheless, Member States have to bear in mind that the EU strictly regulates the framework of state aid in order to avoid competition distortions.

❷ So as to encourage the *sustainable use of resources*, the Commission is to review the Energy Tax Directive and draft more ambitious environmental targets. Furthermore, it wishes to introduce an environmental (CO_2-emission sensitive) element into car taxation. In the case of excise duties, the Commission aims at raising minimum tax levels and, so as to eliminate competition distortions at the haulage market, it urges convergence in the levels of excise duties on diesel.

Considering the above measures, it can be easily established that, except for the Common Consolidated Corporate Tax Base, these EU level tax policy instruments serve the improvement of the efficiency of the current system. It is also obvious, however, that taking the competence of the Member States and the unani-

mous decision making procedure in the Council in field of taxation into consideration, the Commission did not table as ambitious tax policy proposals as would follow from the Lisbon strategy. In the following, we shall briefly demonstrate the low-key character of the tax measures so far implemented within the framework of the Lisbon strategy, through the example of Hungary.

As a result of the renewed Lisbon strategy, Hungary has taken steps in four different fields of tax policy (Republic of Hungary, 2008). The recodified Act 127 of 2007 on VAT, which closely follows the structure and logic of the 2006/112/EC directive, is meant to foster the uniform interpretation of the legislation.

The main task of the program called "Fine-tuned to Businesses" was to reduce administrative burden. The aims of the program, launched at the end of 2006, are to simplify company and tax administration, strengthen legal certainty for enterprises, improve financial operating conditions and make competition fairer and more transparent. In 2007, as a result of this program, enterprise start-up became simpler and faster in Hungary, the number of the various tax declarations was reduced by about fifty percent and it was made possible to use the same forms for tax declaration and self-revision. Furthermore, the use of fill-in guides and check programmes has become more widespread. In order to widen the scope of e-administration, since 2008, taxpayers performing their tax declaration obligations electronically have been able to obtain their „zero„ tax certificates and make queries concerning their current tax account balance through electronic means. Moreover, the electronic company registration procedure has become mandatory and payment by credit card has been ensured at branches of the Revenue Office.

With the aim of limiting tax fraud, the rules on invoicing and on suspending tax registration numbers have been tightened. Tax and contribution bases have been broadened (since 2006, contributions have had to be paid on the basis of at least twice the minimum wage) so as to narrow the possibilities of tax avoidance and reduce the black economy. The review of fictitious employment contracts, stricter labour surveillance as well the reinforcement of the organisations of the Hungarian Customs and Finance Guard, the Revenue Office and the Consumer Protection Authority, the broadening of their competence and the coordination of their activities have also facilitated the fight against fiscal fraud. Strengthening the social insurance character of health insurance contribution payment has, by confirming the connection between the insurance and its utilization, contributed to increasing the efficiency of the supply system (Republic of Hungary, 2007).

In 2007–2008, excise duty rates were differentiated according to the composition of biofuels. Through the lower tax burden, both the production of biofuels and the sustainable use of resources are encouraged. Moreover, in 2009, the scope of Act 88 of 2003 on energy tax was widened to cover coal as well. In case of registration tax, tax rates are dependent both on the environmental classification and the cylinder capacity of the engine. At the same time, registration tax revenues have been decreasing as a result of the tax competition with Slovakia and the worsening crisis in the car industry.

PERSPECTIVES AGAINST THE BACKGROUND OF THE CRISIS

There is a worldwide consensus that the current financial and economic crisis calls for immediate government intervention. In many cases, the action urges the use of the instruments of traditional business cycle policy like enhancing demand or the government's assuming financial risks. Demand-oriented economic

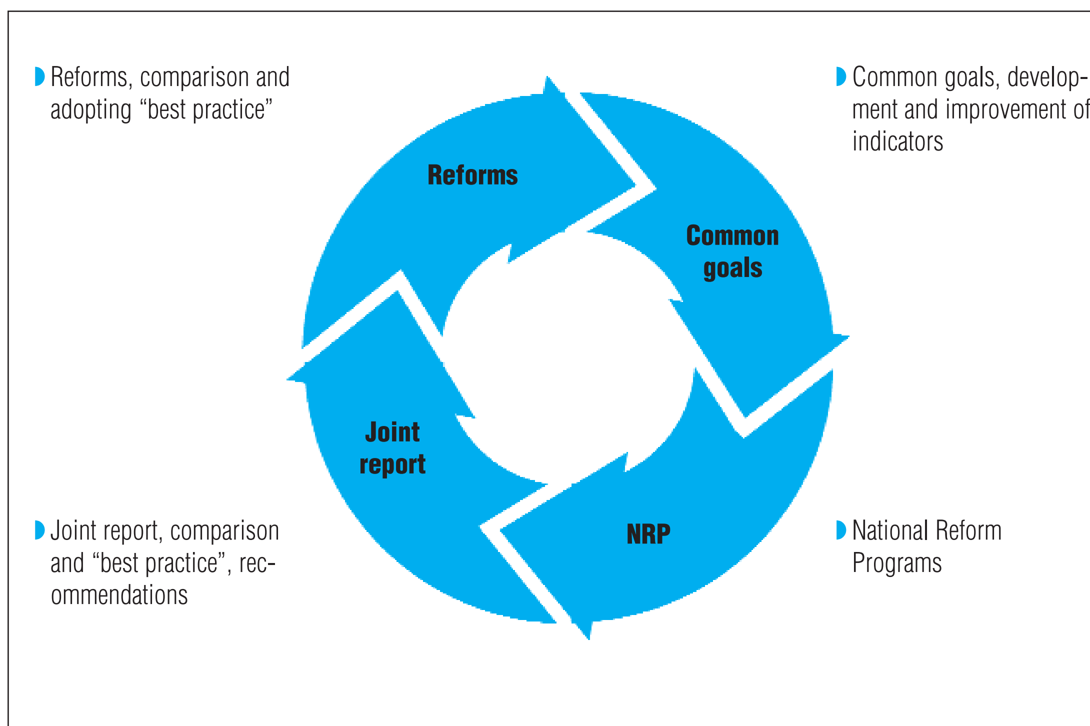
policy follows a different philosophy from that of the Lisbon Strategy, which is based on structural reforms and is often categorized simply as a supply-side economic policy. Owing to these differing views, the strategy has been repeatedly under attack; as a consequence of the crisis, it has been called outdated or invalid.

The Lisbon Strategy is a comprehensive dynamic learning process, which addresses the challenges of the diversity of the European Union and of changes simultaneously. Its development so far should be interpreted also in this context rather than solely in an actual-target comparison. The open coordination method serves as the integration and change management instrument of the strategy. There are supranational forums and actors complementing the formerly exclusively national economic policy. The exchange of experiences and learning take place through the formulation of short, medium, and long-term European guidelines and deadlines, quantitative and qualitative indicators, benchmarks showing best practices, the transfer of guidelines into national policies, regular monitoring and mutual peer-review *(see Chart 2)*.

This multilevel and multilateral change management aims at creating a new economic structure that is flexible and which stimulates and stabilizes at the same time. Accordingly, the Lisbon Program, although it is based on a future vision, is retrospective; it adapts to the environment, the resources and the goals and combines competitive advantages with opportunities. In this dynamic process that is based on regular feedback, the Union assumes the leading and coordinating role, while execution and the creation of a favourable economic environment are the tasks of the Member States, who can also learn from the parallel political innovation experiments of one another. The EU's diversity and parallelism are

Chart 2

LEARNING CYCLE IN OPEN METHOD OF COORDINATION



advantages in this concept: the process is thus faster, more efficient, and it can lead to higher quality results than in an exclusively hierarchical system.

Government intervention aiming only at correcting the effects of the economic cycle does not meet global structural challenges. Such unique and provisional measures may be taken at the expense of trust, predictability and plannability. This is especially true for tax policy, since the tax systems in the European Union require modernization from a structural aspect as well.

Trends

- The Lisbon process and economic policy will be influenced by economic cycles, crises and favourable effects in future as well:
  - Both the earlier and the forthcoming reviews of the strategy have been and are to be characterized by an economic crisis environment; the good results in between were enhanced partly by economic prosperity.
- The Lisbon Strategy will continue and develop and is to support crisis management:
  - Structural reforms cannot be substituted with business cycle policy.
  - The three big challenges (globalization, demography, technology) call for structural changes.
  - There will be internal and external dimensions, too.
- Through new iterations, open coordination as a recursive steering instrument will become
  - more efficient,
  - more transparent, simple, democratic and
  - more effective.
- The role of tax policy is to grow, strengthen and accelerate within the strategy:
  - Policies to improve efficiency.
  - Other changes in the tax structure, like the spreading of tax policies that promote decreasing taxes on labour, the internalisation of external costs and the sustainable use of resources
  - Tax policies promoting growth, like encouraging R&D

With the exception of the CCCTB, Community level tax measures, initiated within the framework of the Lisbon strategy, support improving the efficiency of the tax system since they facilitate the deepening of the internal market integration. Experience shows, however, that decision-making in the Council is a result of a rather lengthy dealing procedure. Taxation issues fall principally within the scope of national competence and, due to the unanimous decision-making, the measures adopted at the EU level are not so spectacular. Nevertheless, Member States have to adapt themselves to the changing economical circumstances and have to meet global challenges, which also enforces the alteration of the tax structure. Decreasing tax burden on labour and income, accompanied by increasing consumption and energy taxes, is a general tendency nowadays. Through the price effect, the latter influences consumers' behaviour, it internalises external costs and as a second round effect it can encourage innovation as well. Furthermore, Member States may apply various tax policy instruments also in order to boost economic growth (investment R&D). It can be established overall that tax policy is expected to play an increasingly important role as far as the implementation of the Lisbon strategy is concerned.

Tax competition in the Union has led to a tendency of decreasing corporate tax rates, while, in spite of this, state revenues as a whole have increased. In this environment, with little room for action, it is especially difficult for new Member States to increase welfare or achieve real convergence; to ensure the sustainability of their social systems or the level of infrastructure. Under the pressure for change, old Member States, too, increasingly become transformational economies.

Tax policy plays a significant role in the implementation of the Lisbon Strategy, both in the fields of social models and of other necessary structural reforms like improving the

functioning of the internal market or modernizing economic models (Vágvölgyi, 2009). Already in the beginning, the modernization of social models was mentioned by the Commission as a potential basis for economic impulse (European Commission, 2000). The efficient internal market, through its size and the unfolding competition, can create a uniquely differentiated division of labour, innovation, and productivity. The less tax policy distorts or slows down the development of these areas and the more it is able to stimulate the realization of the goals specified in the Lisbon Strategy, the more chance the European Union will have to enhance its competitiveness.

The results of the Lisbon Strategy have been influenced by economic cycles since the beginning. In the current period of crisis, the Commission considers the strategy and the structural reforms all the more necessary; short term stimulus measures either are or can be made compatible with the former. The guidelines adopted in 2008 may be an instrument helping to immediately face the challenges of the crisis, like growing unemployment or social exclusion. At its March 2009 summit, the European Council urged maintaining the Lisbon Strategy even amidst the current economic circumstances and called for accelerating structural reforms (European Commission, 2009). Discussions about the future of the program were postponed to the end of this year. The preparation of a new program is required for the period following the last planning cycle in 2010, while the current objectives and results are also to be reviewed, which will partly be the responsibility of the Hungarian Presidency to assume office in the first half of 2011.

Literature

Cohen-Tanugi, L. (2008): Beyond Lisbon: A European Strategy for Globalisation, *Peter Lang AG, Switzerland*

Kovács, Z. L. (2007): The challenges of the Hungarian employment policy and the Lisbon strategy, pp. 115–118. "Encyclopaedia of Social Market Economy". Publishers: Hasse/Schneider/Weigelt, Magyar Almanach Publishers, *Budapest*

Sapir et al. (2003). An Agenda for a Growing Europe – Making the European System Deliver. *Report for an Independent High-Level Study Group established on the initiative of the President of the European Commission*

Sapir, A. (2005): Rugalmasabbá kell tenniük munkaerőpiacukat (They must make their labour market more flexible), HVG journal, Issue 43, pp. 50–51

Sapir, A. (2006): Globalization and the Reform of European Social Models, *Journal of Common Market Studies, Vol. 44, No. 2, 369–390 o., June 2006. Downloadable:* http://ssrn.com/abstract=902989 or DOI: 10.1111/j.1468-5965.2006.00627.x

Sinn, H-W. (2003): The New Systems Competition, *Basil Blackwell, Oxford*

Stiglitz, J. E. (2000): A kormányzati szektor gazdaságtana (Economics of the Public Sector), *KJK-KERSZÖV Publishers, Budapest*

Vágvölgyi, H. (2009): Az Európai Unió adópolitikai stratégiája (The EU tax policy strategy), *Adóvilág journal, Year 13, Issue 6, pp. 39–41*

European Commission (2005a): Growth and Work – A new start for the Lisbon strategy. *Office for Official Publications of the European Communities, Luxembourg*

European Commission (2005b): Implementation of the Community Lisbon Programme. Communication from the Commission to the Council and the European Parliament – The Contribution of Taxation and Customs Policies to the Lisbon Strategy. *COM (2005) 532 final, Brussels*

European Commission (2005c): Integrated guidelines for growth and jobs (2005–2008), *COM (2005) 141 final, Brussels*

European Commission (2005d): Common Actions for Growth and Employment: The Community Lisbon Programme, *COM (2005) 330 final, Brussels*

European Commission (2007): Integrated guidelines for growth and jobs (2008–2010), *COM (2007) 803 final, Brussels*

European Commission: Website of DG Taxud: http://ec.europa.eu/taxation_customs/taxation, Downloaded: 20 May 2009.

European Communities (2004): Facing the Challenge. The Lisbon Strategy for Growth and Employment. *Report from the High Level Group chaired by Wim Kok, Brussels*

European Council (2000): Presidency Conclusions, *Lisbon European Council, 23 and 24 March 2000.*

European Council (2009): Presidency Conclusions, *Brussels European Council, 19 and 20 March 2009.*

European Policy Centre (2004): Lisbon Revisited – Finding a new path to European growth, Working Paper No.8. http://www.epc.eu/TEWN/pdf/274652552_EPC%20Working%20Paper%208%20Lisbon%20Revisited%20-%20Finding%20a%20new%20path%20to%20European%20growth.pdf, Downloaded: 30 May 2009

Republic of Hungary (2007): Report on the Implementation of Hungary's Revised National Lisbon Action Programme (October 2007), *Budapest*

Republic of Hungary (2008): Hungarian National Action Programme for Growth and Employment (2008–2010), *Budapest*

Austrian Federal Ministry of Economy and Labour (2008): Die Zukunft der Wirtschaftspolitik der EU (The Future of the Economic Policy of the EU), Federal Ministry of Economy and Labour, Wien. http://www.lissabon-strategie.at/NR/rdonlyres/17D79523-0311-4DE4-B476-BF6A8505800B/33914/LissabonPost2010.pdf, Downloaded: 20 May, 2009

SCADPlus: Summaries of legislation. http://europa.eu/scadplus/scad_en.htm, Downloaded: 20 May 2009