For a Europe-wide coordinated levy on wealth

- European ATTAC Network -

The nature of the crisis

A constantly increasing disparity of wealth is an intrinsic aspect of capitalism. Wealth grows faster than workers' income. Large amounts of wealth grow faster than small amount. In some countries, wealth taxes exist. But the tax rates are much lower than the growth rates of large fortunes. Therefore, strong political correctives to create a fairer distribution are necessary. This applies even more in the currently dominant form of capitalism driven by financial markets, since here the disparity in the distribution of prosperity has been growing especially rapidly.

As this polarization of the distribution of wealth grows, so does the amount of capital circulating around the world in search of profitable investment opportunities. In particular since the 1970s, this mass has increased dramatically. It became less and less possible to exploit this capital profitably in the productive economy. In the search for new sources of profit, the international financial markets became more and more important. This transition was accompanied and fostered by constantly increasing deregulation and globalization of the financial markets, and led to a quite novel dynamism involving the polarization of the distribution of income and assets.

The increasing dominance of the financial markets has allowed gigantic profits – and also losses – to be made within seconds. Thus the system is becoming more and more unstable. More and more speculative bubbles develop, which must burst sooner or later.

Removal of regulations of the financial sector in the 1990s made it possible for banks to make profits from selling risky loans without taking on risks themselves. This was made possible by converting loans into marketable securities ("securitization") and by use of new financial instruments (derivatives). A huge real-estate bubble was created by coupling risky loans with investment in real estate. This bubble burst when the first borrowers were no longer able to meet their obligations to repay their mortgages. The banks involved had to write off claims amounting to trillions of dollars. A global banking crisis was the result. Since the productive economy and the financial sector are closely interwoven, the global economic crisis was a logical next step. The economic crisis, and the gigantic, spectacular actions to save the banks, in turn imposed such a burden on public and private budgets that government debt soared.

So the European "debt crisis" is basically not the result of government spendthrifts, inefficient bureaucracy, corruption, or whatever else is produced as an explanation, at all. The crisis is the result of an extreme disparity of existing wealth, and of a system that continuously intensifies these disparities.

Sovereign [government] debts have increased as direct consequence of the bail-outs and of the economic slow-down induced by this chaotic situation. For example, 15% of the public debt of Spain results from bail-outs of Spanish banks and the EFSF loan for the Spanish banking sector. A further 4% derives from the Spanish share of EFSF loans to Greece, Ireland and Portugal. The shortfall in government income which is caused by the crisis had for the year 2011 alone, a value equivalent to 7% of the public debt. In other countries, the situation is similar. In Ireland, the public debt was 24.8% of GDP in 2007. As a result of a bursting real estate bubble and massive bail-outs, it shot up to 108.2% in 2011. In Greece, more than two-thirds of the bail-out loans are earmarked for the banking sector at home and in the EU.

The discourse has been reversed, and it is now governments that are blamed for excessive public spending! The mainstream discourse is that the current government deficits must be addressed by cuts in government spending to re-balance the budgets.

Reduce wealth instead of cutting back welfare

While public indebtedness is increasing, private wealth continues to grow in value, even in the context of the crisis. In 2011, it amounted to 69.5 trillion euros in Europe. This total wealth can be broken down into financial assets (44%), and tangible assets (real estate and other assets, 56%). This private wealth is highly concentrated. The richest one percent of European society holds more than 30% of it, while the poorer half of the society has more or less nothing.

This concentration can be observed in every country. In some countries like the Netherlands, Germany and France, the share of the richest one percent is especially high. In other countries, like Italy and Spain, the disparities are not that extreme. But in every single country, the share of the richest 10% is higher than 50%.

Thus it can be said that the accelerated accumulation of private assets and the associated rise in wealth inequality is a major determinant of the global crisis, and it is also continuing in the midst of the crisis. This is one of the three important reasons why the burden of the crisis must be shouldered by reducing extreme concentrations of wealth, and not by brutal orgies of spending cuts, as the dominant policy for dealing with the crisis demands. The adequate tool for doing that is the implementation of a strong one-off wealth levy which is followed by permanent wealth taxation.

The second reason is that the policy of cuts prescribed makes matters even worse. Countries such as Greece and Portugal are being "economized" to death. Nobody ever succeeded in getting out of a debt crisis by cutting spending. It will not work this time, either, since the spending cuts are causing a deep recession and intensifying the crisis. The economies of Portugal and Spain have both shrunk by 6.5% since 2007. The Greek economy has shrunk by more than 20%. And the outlook is even worse. This policy for dealing with the crisis is insane and has no chance of succeeding in terms of overcoming the crisis. Even the IMF is warning that excessively drastic cuts could prove counterproductive. Nevertheless, governments continue with their austerity programs. One can wonder whether austerity is being used as a convenient vehicle, not to combat sovereign debt, but to continue the neoliberal dismantling of state-funded systems of social security and welfare.

And the third reason is that it is completely unacceptable for the costs of the crisis to be imposed mainly on those who had nothing to do with creating it. After speculation with huge assets has plunged the world into a crisis, in Europe, especially in the Southern and Eastern European countries, social-welfare systems are being destroyed, public property sold off for a pittance, and the people bled dry – ignoring their democratic rights in order to do so. The consequences are unemployment, homelessness, poverty, crime, economic regression, and even hunger. While banks are being saved with trillions of euros, and private wealth remains untouched, large sections of the population are confronted with massive decreases of living standards. Poverty rates are increasing all over Europe. In Greece, Ireland and Spain, they are around 30%. Household income decreased, for example, by almost 20% in Greece within two years of austerity. Unemployment rates explode –

young people in Southern Europe in particular have no perspective on the labour markets. In Greece and Spain, almost 60% of young workers are unemployed, in Italy and Portugal youth unemployment is at around 40%. But in other countries, such as France, Ireland, and Poland, it is also becoming more and more difficult for young people to enter the labour market.

European experience with wealth levies

In our eyes, these are reasons to demand a non-recurring levy on wealth as a first step. In the period after the Second World War, Europe had some experience with this concept.

For example, the German Constitution allows imposition of a wealth levy if it is justified by a special burden. Such a special burden is given today by the global financial-market and economic crisis and its effects on government budgets. (West) Germany already made use of such a levy after the Second World War. The Equalization of Burdens program (*Lastenausgleich*) of 1952 included it to handle the unequal distribution of the burdens of the war. The amount of the levy was 50% on assets (and 90% on profits on loans and mortgages, due to the currency reform), with a duration of thirty years, and produced 52.5 billion deutschmarks. The total proceeds of the Equalization of Burdens program, including other fiscal measures, came to about DM 140 billion by the end of 1995.

Another example is Belgium. There too, a levy was implemented after the war to distribute the burdens more equally. And a study of the Ministry of Finance in 1995 concluded that there are no legal or practical problems with doing it again. The high degree of public debt (99 % of GDP) in Belgium alone would be reason enough.

Due to the global crisis, we once again have an historical occasion to demand a special levy on wealth. Today too, there are reasons of *social justice* to mitigate the horrendous disparity of wealth resulting from neoliberal globalization and the global crisis.

Outline of a non-recurring wealth levy

In imposing a wealth levy, we want to base it on all private assets, both financial and physical assets. The individual taxable net assets (minus debt burdens) of all persons falling under the jurisdiction of the law should be assessed.

Levy for millionaires and billionaires

In the last 20 years, there has not merely been an upward redistribution from poorer households to richer households, but also from the public sector to the private sector. In Germany, the share of public wealth as a proportion of GDP decreased from 52% in 1992 to 6% in 2007. At the same time the share of private wealth increased to 300% of GDP. Today it is at 10.1 trillion euros. The public debt grew in line with the private wealth. But nevertheless, the amount of private wealth is much higher than the public debt, which amounts in the case of Germany to 2.1 trillion euros.

This relation is similar in most European countries. It is also true for the Southern European countries, which are currently effected most by the crisis. In Italy, private wealth is equivalent to 463% of GDP. In Spain it is 710%, in Portugal it is 450% and in Greece it is 294%. In almost every country, even the share of the richest one percent is higher than the whole public debt.

We focus on this group of millionaires and billionaires, in particular on the richest one percent of the population. They are the ones who have profited from the redistribution machinery of neoliberal globalization.

Progressive graduation

But even within this segment of the population, we find that the wealth of super-rich multibillionaires is growing even more rapidly than that of the *simple millionaires*. This is why the levy on assets must be progressively graduated. Without such a progression, with a constant rate of levy, the super-rich would only be burdened by what is for them a relatively small proportion of their total assets. Therefore, the excessive rates of growth of wealth concentration upwards could be met by a graduation starting at a 20% levy on assets, and ranging up to 80% for the super-rich, with an overall revenue target of 50% of the wealth of the richest one percent of society.

Levy-free allowance, durations and determining date

So that only the very rich are burdened by the levy, and that small and medium-sized firms do not have financing difficulties, an allowance of one million euros for private assets and two million euros for operating assets should be made.

In order to prevent liquidity problems of small and medium-sized companies and new turbulence on financial markets, payment periods of ten years should be granted for the levy where it is necessary.

The determining date of the wealth levy should be set at a date in the past. In this way, "distortions" by possible transfers of capital in order to evade assessment will be prevented.

Europe-wide coordinated levy

The crisis is a European problem, not one of single countries. Therefore, it cannot be solved with plans that relate only to single states. So the wealth levy as presented here should be imposed in a coordinated manner in as many European countries as possible.

If it were imposed in the whole of Europe, the revenue would be around 7.5 trillion euros. If the levy gets coupled with efficient measures against tax havens, the revenue could be even higher. Just to give an idea: the public debt of the same area is around 10.5 trillion euros. So the levy is a concept which is able to provide a comprehensive solution to the current burdens.

If it is not possible to implement it in all European countries, we propose having coordinated implementation in as many countries as possible.

Use the levy to overcome the crisis and to enable public expenditure

What is done with the revenue is a matter of democratic decision-making. In general, it is necessary to generate the means to overcome the crisis, to finance public expenditure (e.g. investment in education, social security, public investment, ecological transformation) and to reduce the power of financial markets by reducing the circulating capital by a re-distribution to the public sphere.

Tax package to create permanent mechanisms of redistribution

We are aware that the systemic problems of financial-market-driven capitalism will not be solved by a non-recurring levy on assets. Such a levy merely forms a partial correction of the accelerating unequal distribution of wealth. But it does produce a redistribution effect, and revenues that can make a significant contribution to a more just solution to the crisis.

However, in addition to this non-recurring levy, we need mechanisms of redistribution downwards that counteract the systemic redistribution upwards permanently. That is why we propose to let the levy be followed by a tax reform package.

This tax package should include a wealth tax, for example. Some countries, like France and Norway, even now tax wealth every year. The Norwegian model is a good example of how this could work. Norway has had an annual tax on personal wealth since the 1890s. The rate in 2012 is 1.1%. Taxable wealth is presently calculated in such a way that only the richest 20% of the population are subject to the tax. 90% of the total revenue comes from the richest 10%. Public statistics show that this tax is actually the only basis for government tax for the richest one hundred persons in Norway. Without this tax, their taxes would be practically zero. The wealth tax currently provides annual revenues of 15 billion kroner (2 billion euros), which is approximately 1.5% of the total government budget.

Other measures of the tax package should include higher rates of taxation on top income, a harmonization of corporation taxes in the EU, a tax on all kinds of financial transactions and a strong fight against tax havens.