

## **For a Europe-wide coordinated levy on wealth**

**- ATTAC Germany 'Redistribution' project group -**

### **The nature of the crisis**

A constantly increasing disparity of income and wealth is an intrinsic aspect of capitalism. Therefore, 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 of 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. Since profits on the financial markets are made with little connection to any actual added value, speculative bubbles form, which must burst sooner or later. These goings-on are responsible for the recurring global crises, as well as the dynamics since 2007, which began with the bursting of the real-estate bubble in the U.S.A., of which the European “debt crisis” is one expression.

From the beginning of this century, high-risk mortgages, known as “sub-primes”, were granted, and the resulting debts receivable were converted into marketable securities (“securitization”) and sold on, by means of institutions such as investment banks. A huge real-estate bubble was created, which burst when the first lenders 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. This debt crisis is currently dominating the dynamics of the crisis.

So the European “debt crisis” is basically by no means the result of government spendthrifts, inefficient bureaucracy, corruption, or whatever else is produced as an explanation. The crisis is the result of an extreme disparity of existing wealth, and of a system that continuously intensifies these disparities. In addition, the debt problem is further intensified by a Europe-wide “competition” for the lowest rates taxation, on the one hand, and by the German low-wage policy, with a drastic lowering of unit labour costs, which exercises an extreme pressure on the economies of other European countries, on the other.

### **Reduce wealth instead of cutting back welfare**

While public indebtedness is increasing, private wealth continues to skyrocket, even in the context of the crisis. In 2010, it amounted to 10.1 trillion euros in Germany alone. This total wealth can be broken down into financial assets of about 4.9 trillion euros, and tangible assets (real estate and other assets) of about 5.2 trillion euros. Half of the population possess a mere 1.7% of this total

wealth, while the richest one percent of society owns 30% to 40%, depending on whose statistics one takes.

Thus the gigantic private assets are the fundamental cause of the crisis, on the one hand, and continue to grow still further 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 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. This policy for dealing with the crisis is insane and has no chance of succeeding.

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 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 billions of euros, and private wealth remains untouched, large sections of the population can no longer afford even the most essential health care. Children are being taken to orphanages and the like, because their families can no longer afford to feed them; the prospects of an entire generation of young Southern Europeans are being devastated.

### **The example of the ‘Equalization of Burdens’ levy**

In our eyes, these are reasons to demand a non-recurring levy on assets. The objective is a substantial contribution to overcoming the crisis and to a fairer distribution of its burdens. Such a levy would be constitutional under German law according to the 1995 judgment of the Federal Constitutional Court on the wealth tax, if justified by a special situation. Such a special situation is given by the global financial-market and economic crisis and its effects on government budgets.

There are two exemplary cases of this in German history:

1. The *Reichsnotopfergesetz* (“National Emergency Relief Act”) of 1920 imposed a special progressive levy of ten to one hundred percent on all increases in assets acquired during the war, in order to eliminate indebtedness due to the war.

2. By means of the West German **currency reform** of 1949 and Equalization of Burdens programme (*Lastenausgleich*) of 1952, the financial consequences of the Second World War were overcome, and the unequal distribution of the burdens of the war was at least partially corrected (compensation on the basis of *social justice*). 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 programme, including other fiscal measures, came to about DM 140 billion by the end of 1995.

Due to the global crisis, we now again have a historical occasion to demand a special levy on wealth. Today also, 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 levy on assets**

In imposing a property levy, we want to base it on all private assets, that is 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*

Since German re-unification, private wealth in Germany has more than doubled, while government debt has quadrupled. The economic research institutes all agree in finding a rapidly increasing concentration of wealth, with especially high rates of increase in the wealthiest segment. Because this accumulation of private wealth in the hands of a few is accompanied by ever greater shortages in public services, the process involves a strong concentration of not only economic and financial, but also political and cultural power in the top segment of the population.

We focus on this group of millionaires and billionaires, who comprise about one percent of the population. They are the ones who profit from the redistribution machinery of neoliberal globalization. In view of this increase and concentration of wealth, our proposed levy on assets aims at a progressively graduated levy *with an average total of up to fifty percent of the net assets of millionaires and billionaires.*

#### *Progressive graduation*

But even within this segment of the population, we find that the wealth of the super-rich 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, a disproportionate burden would be imposed on the simple millionaires, while 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 a graduation starting at a 20% levy on assets, and ranging up to 80% for the super-rich.

#### *Levy-free allowance, durations, determining date, and revenue*

So that only about the richest one percent of society is burdened by the levy, and so 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.

While existing financial assets on the determining date are liable, a period of ten years should be granted for the levy on other kinds of assets, in particular operating assets of firms. This arrangement is also intended to be a concession to small and medium-sized firms in particular, which cannot meet their levy liability from sufficient liquid assets.

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.

With an appropriate adjustment of the levy rates, we believe revenues of more than a trillion euros are possible, even though the total volume of the levy cannot be calculated precisely, due to the insufficient base of data.

#### *Using the levy for a social-environmental transformation of society*

The revenue from a levy on assets should not be used one-sidedly to reduce government debts. In order to reduce the power of the financial markets, capital must be withdrawn from them. Therefore it would be wrong to pass on the revenue in full to the creditors – investment banks and unit trusts, etc. – thus financing further speculation. On the contrary, the money needs to be redirected to the public sector, for example using it for investment in education, social-security systems, and the infrastructure.

## **Co-ordinate the wealth levy throughout Europe**

The crisis is not a German, but a European problem. Therefore, it cannot be solved with plans that relate only to Germany. So the wealth levy as presented here should be imposed in a co-ordinated manner in as many European countries as possible.

The disparity in prosperity is also not a German, but a European problem. About nine percent of the inhabitants of the EU possess more than sixty percent of private financial assets. According to the figures in the *World Wealth Report* by the investment bank Merrill Lynch, the concentration is even greater. It says that 2.8 million Europeans – less than one percent of the population of the European Union – alone have financial assets of 9.4 trillion euros. Much of this private wealth was never earned, but passed on from generation to generation, and increased by the accumulated revenue from the assets.

A Europe-wide wealth levy on the model presented here could produce revenue of at least four trillion euros.

## **Develop 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 concepts for redistribution downwards that counteract the systemic redistribution upwards permanently. Examples of these are substantial increases in the top rates of income tax, corporate income tax, and inheritance tax, the re-introduction of the capital tax, and an extension of social-security programmes by types of income and groups of people covered towards general solidarity-based coverage for the entire population. What is also needed is determined action against tax evasion and fraud. All this should be done on a coordinated Europe-wide basis, in order to prevent tax dumping.

The call for a levy on assets and other ideas about tax policies are in our eyes ATTAC's specific contribution to a comprehensive process of redistribution of the wealth of society. It is an important prerequisite for eliminating poverty and social injustice, and for urgently-needed innovations in the health and education sectors.

Furthermore, all forms of redistribution must be kept in view. This includes changes to the unequal primary distribution of income between capital and labour, a redistribution in the field of finance and interest rates, and a change in the distribution among countries, especially with respect to the countries of the South. We will try to implement this overall social process of redistribution from the top downwards in a broad alliance.

Major sources:

- *D.A.CH Vermögensreport 2011*, Valluga-Amadeus Consulting
- *Global Wealth Report, 2011*, Capgemini/Merrill Lynch
- *BCG Report*, Boston Consulting Group, 2011
- *Global Wealth Report, 2011*, Credit Suisse Research Institute
- *A Wealth Tax on the Rich to Bring Down Public Debt?*, DIW 2011

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