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Taxing the wealth for tackling social inequalities and climate change

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Inequalities are worsening, especially since the COVID crisis and the costs of living, wage shares and real wages are decreasing, profits and profit margins are increasing and do not translate into proportional private investment figures, while dividends are skyrocketing[1]. Inheritance is in this respect one of the first source of inequality[2]. We need strong regulations and taxation policies for a better income and wealth distributions. This money is not anymore in the production sphere and cannot thus be redistributed through traditional collective bargaining schemes at national and sectoral level.

The European Union is moreover committed to become climate neutral by 2050 and has recently adopted a series of policies that will dramatically accelerate the pace of decarbonisation between now and 2030. This quick and deep transformation will only be successful if it is backed by a strong just transition framework and more broadly by a social justice agenda. The current context made of cost of living crisis for workers but extra dividends for shareholders and bonuses for CEOs fuels social resistance to the green transition. A wealth tax will help to make the transition accepted by workers and it could generate significant resources to finance climate action. But it has to be rooted in a broader social agenda ensuring quality of employment and fair taxation across the board, as specified in the ETUC congress documents calling for better income and wealth distribution and more progressive taxation schemes, as the tools to fight inequality and bring about social justice.

The European Union already started to address the need for a socio-ecological transformation of our economies, but its financing, by public resources, could prove challenging with the expected economic governance framework[3] and the end of the NextGenerationEU scheme, and detrimental for the most vulnerable if using policy instruments having a regressive distributional impact[4]. If the proposals for fiscal rules remain unchanged, new financing tools will be needed. Excessively relying on private actors to finance the transition might lead to further privatisation and excessive wealth transfers towards the private sector.

Fighting against income and wealth inequalities is however a way to tackle huge carbon emissions inequalities between income groups. In Europe, per capita consumption emissions of the top 1% income earners alone continues to rise, the one of the 99% is on the other hand constantly decreasing since 1990[5]. In addition, emissions coming from basic needs cannot be dealt with as those emissions coming from luxury behaviour.

Moreover, on average, the 10% wealthiest households hold half of the total wealth in the OECD countries; the next richest 50% hold almost the entire other half, while the 40 % least wealthy own little over 3 %[6]. Such a figure, with no doubt, has worsened since, as 63% of the new wealth created between 2020 and 2021 globally went to the richest 1%[6]. Because wealth is accumulated over time, it is unsurprisingly spread out much more unequally than income. On average in the OECD area, the top decile of household disposable income distribution accounts for about 25 % of total household income. In addition, wealth accumulated by the richest households is concentrated in financial wealth, and this implies an even greater level of income inequality. A greater level of income inequality, it is now an established fact, means larger emissions (see annex).

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[1] Between July 2022 and July 2023, the 3,000 companies with the largest market capitalisation in the world accumulated 4% of global GDP in exceptional or excessive profits (The Economist, 12 July 2023).

[2] See S. Leitner (2018), Factors driving wealth inequality in European countries the effect of inheritance and gifts on household net wealth distribution analysed by applying the Shapley value approach to decomposition, The Vienna Institute for International Economic Studies.

[3] See S. Mang & D. Caddick (2023), "Beyond the bottom line", NEF.

[4] See N. Berghmans (2022), "Paquet Fit for 55 : analyse de l'impact distributif sur les ménages européens de la tarification de l'énergie dans le bâtiment et le transport", IDDRIs.

[5] T. Gore &M. Alestig (2020), "Confronting carbon inequality in the European Union", Oxfam media briefing.

[6] See "Understanding the socio-economic divide in Europe", OECD, January 2017.

Analyses such as the Carbon Inequality report of the World Inequality Lab[7] show that with well-designed redistribution, tax and climate policies, wealth can be redistributed for the prosperity of all and carbon emission can be reduced at the same time.

The ETUC therefore supports the introduction of a European regulation or directive for progressive taxes on the richest individuals. To avoid tax competition through national differences in the taxation of the wealthiest, and promote upward convergence within the European Union, common policy approaches and coordinated action are needed to ensure a minimum tax rate. National differences in the taxation of the ultra-rich are likely to fuel increased tax competition within the Union and create distortions in the internal market. Hence the need for common policy approaches and coordinated action within the internal market, to maximise the positive impact of excess wealth taxation.

Kapeller and al (2023)[8] suggest at least four progressive net wealth taxation schemes (See Annex). Such taxation schemes could generate between €180 billion euros to €1280 billion euros to finance public services and ensure high quality welfare states' provisions to fight against poverty and low income, as well as to finance the support workers and people in the socio-ecological transformation of our economies and ensure just transitions for all. This should not prevent Members States from implementing progressive taxation schemes on wealth income as well.

The revenue of this tax could enable Member States to better support increase and sustain social policies and just transition policies, in compliance with the partnership principle by involving the social partners to ensure that workers benefit from it effectively. This stream of revenue could then be allocated to both the fight against social inequality, quality jobs and the fight against climate change. It would also allow European citizens to contribute to these objectives on a more equal basis. It will be important to ensure that tax administrations have the requisite resources for effective implementation and collection of a wealth tax bearing in mind that tax administrations are still trying to cope following major staffing cuts imposed during austerity[9].

The introduction of such a wealth taxation schemes will promote consent to taxation above all citizens as well as transparency in the use of tax revenue. As most of ecological taxes are considered as non-progressive (because the burden is supported by the poorest), introducing a wealth tax will promote more progressive taxation systems. Increasing progressivity, especially with tax on capital, is necessary to increase consent to taxation and the acceptance of the whole tax system.

Despite a strong room of improvement remaining, the forthcoming Directive on ensuring a global minimum level of taxation for multinational groups in the Union has already shown that the EU and its Member states are capable of agreeing on more tax fairness. The Conference on the Future of Europe stressed the need to harmonise tax policy for a more effective action against fiscal dumping and tax evasion of multinationals and billionaires. ETUC also supports other sources of revenues such as an FTT and unitary taxation for multinational companies with an appropriate apportionment formula. In this context, the ETUC reiterates its demand for additional new own resources for a stable long-term financing of the EU budget to cope with the challenges that the Green deal objectives entail for workers and regions as well as to re-imburse the Next Generation EU.

The ETUC calls therefore on the European institutions to take a leading role on taxing the wealthiest individuals in order to fight social inequalities but also fund social and climate policies and just transitions for all. In any case, the ETUC underlines that any possible future legislative proposal on a EU wealth tax shall ensure that national provisions on taxing wealth are not restricted.

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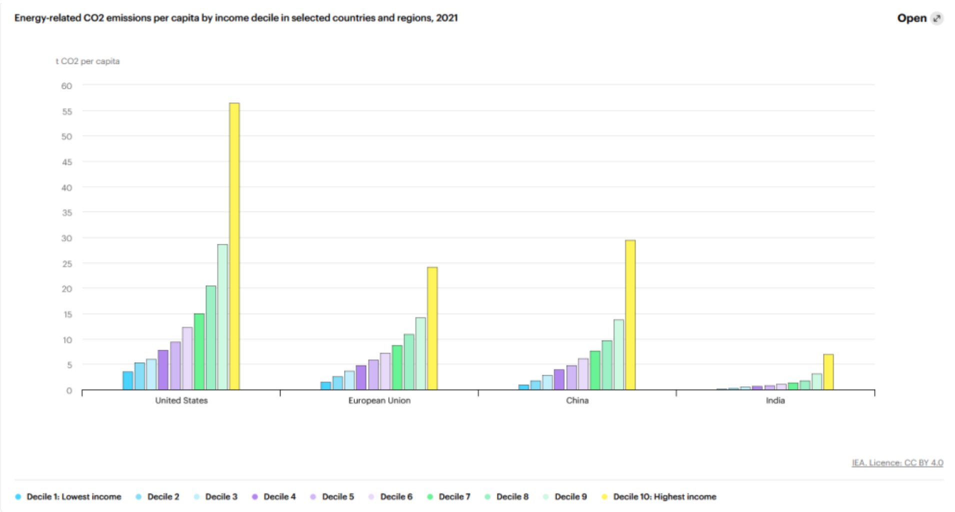
[7] L. Cancel, P. Bothe, T. Voituriez (2023), "Climate Inequality Report 2023", World Inequality Lab.

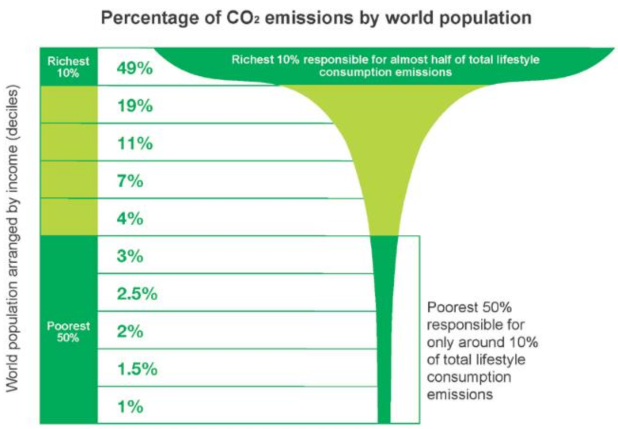
[8] J. Kapeller, S. Leitch, R. Wildaue (2023), " Can a European wealth tax close the green investment gap?", Ecological Economics 209.

[9] See "The impact of austerity on tax collection", Report 3 June 2023, EPSU.

ANNEX I - Figures



(Source: L. Cozzi, O. Chen, H. Kim (2023), The world's top 1% of emitters produce over 1000 times more CO2 than the bottom 1%, IEA



Source: Oxfam

Four forecast scenarios, as example, for net wealth tax (Kapeller and al (2023):

- A constant flat tax rate of 2% for net wealth holing above €1 million euros (leaving 97% of European households exempted);
- A progressive structure which means the tax rate increases with net wealth: A billionaire household faces a higher tax rate than a millionaire household. The tax rate starts at 1% on net wealth beyond €1 million (leaving 97% of the population exempt), increases to 2% beyond €2 million (corresponding to richest 1% of all EU22 households, which is roughly 1.9 million households) and finally increases to 3% on net assets beyond €5 million (corresponding to the richest 0.3% of all EU22 households, which is roughly 550,000 households).
- An even more progressive net wealth tax structure, but starting at a higher threshold: a rate of 2% applies to net assets beyond €2 million which means 99% of all households are exempt. The rate increases to 3% beyond €5 million (richest 0.3% or 550,000 households), 5% beyond €10 million (richest 0.1% or 220,000 households), 7% beyond €50 million (richest 0.01% or 23,000 households), 8% beyond €100 million (richest 0.005% or 9000 households) and the final bracket levies a rate of 10% on net assets beyond €500 million (richest 0.001% or 1200 households)
- A wealth cap model, introducing an effective maximum level of wealth by defining tax brackets based on multiples of average wealth: a tax of 0.1% for wealth holdings beyond half the average (which is roughly €260,000), a rate of 1% for holdings beyond twice the average, 2% for net wealth beyond 5 times the average, going up to 60% beyond 1000 times the average and 90% beyond 10,000 times the average, which is equivalent to €2.6 billion.

Such taxation schemes could generate between €180 billion euros to €1280 billion euros to finance part of the investment needs for a socio-ecological transformation of our economies and ensure just transitions for all, finance public services and ensure high quality welfare states' provisions.