Calls grow in Europe for wealth tax to finance the green transition

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Slowly but surely, calls for a wealth tax to finance the green transition are picking up in Europe, with a number of initiatives from different political movements put the issue (back) on the political agenda.

In a September French parliamentary report, Jean-Paul Mattei of the MoDem group, part of President Emmanuel Macron's ruling majority, spoke favorably of a such a tax to finance the ecological transition. At the beginning of the summer, Social Democrat MEPs Aurore Lalucq and Paul Magnette submitted a request to the European Commission for a "European citizens' initiative" on the subject. If it gathers a million signatures in at least seven countries within a year, it could lead to the drafting of a European directive introducing an "ecological and social wealth tax" targeting the 1% richest households. In July, the commission gave the green light to the collection of signatures.

A study commissioned by the Green Group in the European Parliament and carried out by the NGO Tax Justice Network looked at the potential impacts of such an initiative. It found that a European tax on the 0.5% richest households would bring in 213 billion euros a year, anything but insignificant.

This is all the more remarkable given the virtual disappearance of wealth taxes within the member states of the EU. In 2023, only Spain still has one, with a threshold of 700,000 euros and rates that vary from one autonomous community to another. While it seems unlikely that such a tax will be reinstated at national level in France and Germany—the two countries that were the subject of our work—the debate seems very different at European level when climate issues are involved.

Ended in France, suspended in Germany

One of French president Emmanuel Macron's early measures was the abolition of the _impôt de solidarité sur la fortune (ISF), a "solidarity tax" on wealth enacted in 1981 by François Mitterand's government. To plug the budgetary hole, Macron replaced it with a tax on property wealth, the IFI. Despite the new tax, the change considerably reduced revenues: the ISF brought in 4 billion euros to public coffers in 2017, the IFI only 2.35 billion euros in 2022. The impact of the change on reducing the tax exile rate or improving the country's competitiveness remains unproven.

In Germany, a wealth tax is still part of the country's Basic Law (which acts as the country's constitution) although it has not been levied since 22 June 1995, when the Federal Constitutional Court ruled that it didn't respect the principle of equality before the tax—property was assessed on the basis of 1964 property values, while financial assets were assessed at market value. As property was taxed less heavily than financial assets, the court asked Helmut Kohl's government to revise the property values on which wealth tax was based. As the Kohl government chose not to do so, the tax was automatically suspended—though not abolished—on 1 January 1997.

An unlikely return to the national level

In the two countries often described as the "engines of Europe," the question of a return of capital taxation has frequently arisen. In Germany, all the left-wing parties put it on their manifesto at every legislative election, but with the exception of die Linke, none is taking action.

Interviews we conducted with SPD and Green Party members of parliament between 2010 and 2016 show that the defense of wealth tax is just a façade. Its main purpose seems to be to rally electoral, association, and trade-union support rather than be included in the various coalition contracts negotiated over the years. For example, in 2021 the SPD and the Green Party joined forces with the Liberal Party (FDP, right-wing) to form a new government. While they were in a strong position to reintroduce a tax on society's richest, even through a temporary measure, the possibility was quickly dismissed, and without any real surprise.

Various strategies to reintroduce the wealth tax in France have been uniformly rejected by Emmanuel Macron, with Economy Minister Bruno Le Maire saying that creating such a tax "is not the solution."

This situation is largely due to how opponents of a wealth tax have reframed the debates. While originally conceived as a solidarity measure in France and as a budgetary resource for the Länder in Germany, opponents have successfully emphasized their supposed effects on businesses. Although business assets have been excluded from the tax base, the tax was decried as a disguised corporate tax. The claim was that the ISF would lead to an exile of the wealthiest in a context of tax competition between states, a flight of capital and thus job losses.

A European solution?

Caught in this impasse, the advocates of a wealth tax have shifted the battle to the EU level and linked it to a new issue—the environment.

An analysis of parliamentary archives for the period 2010-2016 shows that no party in France or Germany, including ecologists, used this political framing. The issue of reducing social and economic inequalities through taxation has therefore given way to a potentially more consensual issue that is likely to attract wider support. A similar strategy has already been observed in the case of other public policies such as the reform of the labor code in Portugal.

By moving to the European level, the supporters of a wealth tax can bypass the criticism that individual nations' firms are being weakened in European economic competition. It is certainly this dimension that has led France's Ministry of Economics to keep open the possibility of a European wealth tax.

If the European Citizens' Initiative reaches the required number of signatures, it would enable supporters of the wealth tax to mobilize

European public opinion. In many countries, including Germany, public opinion seems to be in favor of such a measure.

While a wealth tax still has a long way to go to make a major comeback in Europe, there is movement in Brussels. Such a tax would also lay the foundations for a common tax system that would strengthen the EU as a whole, at a time when the continent's far-right Eurosceptic parties, in advance of the 2024 elections, are seeking to weaken it.

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