

## *Justice and Peace Europe Concerted Action 2016*

Background Note

### **Growing Economic Inequality and Taxation - A Challenge for Europe and the World**

- 1) The globalisation and digitalisation of the economy have led to growing inequality in income and wealth worldwide. In highly industrialised economies, as are those of the European Union, this process shows certain distinctive features: the middle class is expected to gradually diminish over the coming decades, the lower income groups stagnate and the rich, particularly the very rich, enjoy large economic gains. The excessive, unsustainable life styles of a tiny minority contrast with the needs of the deprived. This increase in poverty taken together with the excessive concentration of wealth are ethically unjust and constitute a threat to social cohesion as well as to the democratic order. The need to integrate large numbers of migrants constitutes a further challenge.

In order to bring about a change of direction there is a need to devise better rules and regulations in the spirit of generous and universal solidarity. Enforcing them at the national, European and international levels is of equal importance. A key instrument is fairer taxation of multinational companies, the financial sector and excessively rich individuals. In the course of their annual Concerted Action 2016 the Conference of European Justice and Peace Commissions (*Justice and Peace Europe*) will pay special attention to fairer taxation as an ethical requirement for our times.

- 2) Recent studies have shown that capitalism leads to an ever-greater concentration of wealth in the hands of a few and brings into question the legitimacy of the liberal economic order.<sup>1</sup> Economists, moreover, argue that the growing inequality in Western societies has significant negative side-effects leading to the erosion of trust, increasing sickness and anxiety and other social ills, and encourages explicit and excessive consumption<sup>2</sup>. A growing number of studies by leading international institutions show the dismal consequences of inequality and they are asking for increased efforts by states to counteract this trend and to better distribute income and wealth in a globalised economy.<sup>3</sup>

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<sup>1</sup> Cf. especially Thomas Piketty, *Capital in the 21st century*. Harvard University Press, 2014.

<sup>2</sup> For example, Richard G. Wilkinson /Kate Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better*. Allen Lane, 2009.

<sup>3</sup> Cf. the report of the Organisation for Economic Cooperation and Development (OECD) on the impact of inequality on the economic situation of families - OECD, *In It Together: Why Less Inequality Benefits All*. 21 May 2015. [http://www.oecd-ilibrary.org/employment/in-it-together-why-less-inequality-benefits-all\\_9789264235120-en](http://www.oecd-ilibrary.org/employment/in-it-together-why-less-inequality-benefits-all_9789264235120-en); as well as the report of the International Monetary Fund (IMF) warning of the damaging effects of income inequality on economic growth, cf. Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, *Redistribution, Inequality, and Growth* (IMF Staff Discussion Note). February 2014. <http://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf> .

- 3) Catholic Social Teaching has confronted the problem of inequality since its very beginnings. It is 125 years ago that Pope Leo XIII in his encyclical *Rerum Novarum* (1891) severely criticised “*the enormous fortunes of some few individuals, and the utter poverty of the masses*” (RN 1) as a result of industrialisation, as well as the ensuing social and political problems. The encyclical *Quadragesimo anno* (1931) decried the situation of impoverishment and destitution through an unbridled capitalist system during the Great Depression. After World War II the situation improved in many industrialised countries. Enhanced social protection as a pillar of the social market economy guaranteed political stability for several decades. Catholics have contributed substantially and in a variety of ways to this development. Today, however, progress towards basic material security and a dignified life for all in Europe seems to have come to an end, notably as the result of a diminishing role in the global value chain. In this context the options for the nation-state to intervene effectively are reduced. International economic actors can evade national regulation and taxation and the nation-state can no longer fulfill its role in the redistribution of wealth and the promotion of the common good.<sup>4</sup>
- 4) In his apostolic exhortation *Evangelii Gaudium* (2013), Pope Francis calls social inequality “*the root of all social ills*” (EG 202). The problem of inequality is not one just for European societies but is also a serious global problem, as the Pope clearly argues in his encyclical *Laudato Si’*. A recent study stated that one percent of the global population holds fifty percent of wealth and eighty people currently hold the same amount of wealth as the poorest fifty percent of world population (3.6 billion people).<sup>5</sup> As regards Europe, the richest seven million people in Europe have the same amount of wealth as the other 662 million people (including non-EU countries).<sup>6</sup>
- 5) An economy that fails to care for the vulnerable and excludes them is a result of indifference and the absence of mercy. It is also unjust and unsustainable in the long

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<sup>4</sup> With regard to the financial system cf. Pontifical Council for Justice and Peace, *Towards reforming the international financial and monetary systems in the context of global public authority*. Revised Edition. Libreria Editrice Vaticana, 2011.

[http://www.vatican.va/roman\\_curia/pontifical\\_councils/justpeace/documents/rc\\_pc\\_justpeace\\_doc\\_20111024\\_nota\\_en.html](http://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_20111024_nota_en.html). See also Commission Justice et Paix Belgique francophone, *Quelle maîtrise politique des activités commerciales et financières mondiales?*, Bruxelles 2013.

<http://www.justicepaix.be/spip.php?article660>

<sup>5</sup> Cf. Credit Suisse, *Global Wealth report 2015*, “For a number of reasons, wealth varies greatly across individuals. Our estimates suggest that the lower half of the global population collectively own less than 1% of global wealth, while the richest 10% of adults own 88% of all wealth and the top 1% account for half of all assets in the world”, p.13). <https://publications.credit-suisse.com/tasks/render/file/?fileID=F2425415-DCA7-80B8-EAD989AF9341D47E>

<sup>6</sup> Oxfam, *A Europe For the Many, Not the Few: Time to reverse the course of inequality and poverty in Europe*. September 2015. [https://www.oxfam.org/sites/www.oxfam.org/files/file\\_attachments/bp206-europe-for-many-not-few-090915-en.pdf](https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp206-europe-for-many-not-few-090915-en.pdf)

run. Political action is therefore required. *“Growth in justice requires more than economic growth, while presupposing such growth: it requires decisions, programs, mechanisms and processes specifically geared to a better distribution of income, the creation of sources of employment and an integral promotion of the poor which goes beyond a simple welfare mentality”* (EG 204). In his encyclical ‘*Laudato Si*’ that carries the subtitle *“On care for our common home”* Pope Francis convincingly argues that the ecological and the social dimensions are intrinsically interwoven. *“We have to realise that a true ecological approach always becomes a social approach; it must integrate questions of justice in debates on the environment, so as to hear both the cry of the earth and the cry of the poor”* (LS 49). Pope Francis therefore urges both Catholics and all people of good will to look for practical answers to the pressing ecological and social ills of the age, thereby also supporting the Sustainable Development Goals proclaimed at the last General Assembly of the United Nations in September 2015. He stressed that *“the dignity of each human person and the pursuit of the common good are concerns which ought to shape all economic policies”* (EG 203).

- 6) Respect for the dignity of the human person and the pursuit of the common good have at least four implications for entrepreneurs, trade unionists and policy-makers. They have to engage in: 1. the creation of fairly paid and decent jobs that allow for the exercise of fundamental social rights; 2. social insurance coverage for all citizens so that their basic needs are covered; including in the cases of unemployment, maternity, old age, illness and dependency on care; 3. substantive care for the environment that forms the natural basis of our lives as well as of the economy; the deterioration of the environment, moreover has the strongest impacts on the weaker members of society; 4. the enrichment of democracy by active citizenship, i.e. the participation of more and more educated citizens in the preparation of new legislation.
  
- 7) For Christians, solidarity should first of all be with the weakest and poorest, which includes - from a European perspective - not only those citizens who are threatened by the loss of their jobs and their basic social protection, but also migrants in irregular situations. At its meetings in Seville, Malta and Athens, *Justice and Peace Europe* has stressed the importance of solidarity with migrants. Inequality – along with war and the problem of failing states – is a main reason for the growing number of migrants globally and in Europe looking for work and for a place to live a decent life.
  
- 8) In his apostolic exhortation *Evangelii Gaudium*, Pope Francis urges us, moreover, to strive towards *“the return of economics and finance to an ethical approach which favors human beings”* (EG 58). This calls for a renewed sense of responsibility by the financial and economical elites as well as for effective rules and regulations. In this

latter respect the European Union can and should, however, play the role of a frontrunner because growing income inequality and the decrease of social justice in Europe are not inevitable. The course of events can be changed by political and economic decisions. Political strategies can reduce social inequality and increase the degree of social security and with it social cohesion in and among European societies. Important pillars of such a political strategy against social inequality should be: effective regulation and competition policy; more opportunities through better education and training, and a fairer tax system. Effective regulation of the financial sector and strict enforcement of antitrust laws are necessary at the national and EU levels. In effect, EU competition policy has a central role in reducing inequality. An effective policy of capping the bonuses and incomes of high wage earners needs to be pursued.<sup>7</sup> Better education and training, especially for children whose parents are in the lower income groups, are a major challenge for national and regional authorities, public and private schools and universities. Investment in education is an important mechanism to prevent growing inequality. Another correcting mechanism is setting minimum wages. It also seems appropriate to restart a public debate on basic income schemes or tax credits at the European level.<sup>8</sup> Finally, taxation and redistribution through taxation are tested instruments for reducing inequality. It is for this reason and in the light of a current political window of opportunity that *Justice and Peace Europe* has decided to concentrate its annual Concerted Action 2016 on Growing Economic Inequality and Taxation.

- 9) For its annual Concerted Action 2016 *Justice and Peace Europe* has decided to address the topic of growing income inequality and social injustice and to place a special focus on fairer taxation in Europe. International organisations like the OECD play an important role in coordinating efforts for more transparency in tax matters. The OECD sponsored Global Forum of 130 countries on transparency and exchange of information is a positive step in the fight against tax evasion and tax havens. Ninety-six members of the Forum have committed to automatically exchange information on non-resident financial accounts by 2018 at the latest. Furthermore, a *Base Erosion and Profit Shifting (BEPS)* package composed of fifteen distinct actions was produced by the OECD and adopted by the OECD and the G20 in autumn 2015. It tackles the problem of an inadequate international taxation framework allowing multinational companies to artificially shift corporate profits and, thus, aggressively diminish their tax bills.<sup>9</sup> This does not in itself contravene the powers of national

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<sup>7</sup> At the European level a directive on investment funds UCITS V, which includes provisions relating to the remuneration of fund managers has entered into force in September 2014 and member states can until March 2016 transpose it into national law. Ahead of this date the European Securities and Markets Authority (ESMA) promised to publish remuneration guidelines.

<sup>8</sup> Although the European Union has no competence regarding salaries (cf. 153(5) Treaty on the Functioning of the EU) member states could work towards establishing a European minimum wage norm in order to prevent income poverty in Europe.

<sup>9</sup> Corporate tax revenues in OECD countries diminished from 3.6% of GDP in 2007 to 2.8% in 2014. Revenues from individual income taxes and VAT increased over the same period.

governments to define tax bases and set tax rates. However, following revelations at the end of 2014 on so-called tax rulings, by which states grant multinational firms privileged tax conditions, cooperation at the European level has intensified. European institutions, whose competence in taxation remains limited, increased their efforts to ensure fair and effective taxation of corporate profits where they are generated. The May 2015 agreement between the EU and Switzerland allowing for an automatic exchange of information on the financial accounts of each other's residents is also to be welcomed. In order to support the current political momentum for a fairer taxation system several European *Justice and Peace* Commissions will

- monitor their national governments in respect of their involvement in the BEPS project
- advocate the due transposition of an EU directive on the automatic exchange of tax rulings into national law by 1 January 2017
- actively support a new effort by the European Commission to harmonise corporate tax bases as presented at the beginning of the year 2016
- attract attention at national level to the next meeting of the Global Forum on transparency and exchange of information in October-November 2016 in order to bring about the closing of tax havens worldwide
- make contact with members of the European Parliament's TAXE 2 special committee in order to express support for their work in the areas of state aid and taxation and the compliance of member states with tax legislation.