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

Justice and Peace Europe Concerted Action 2016

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 are in stark 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) 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'.* 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). 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). 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 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). 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. Among other measures 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”

3) 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. Corporate tax revenues in OECD countries diminished from 3.6% of GDP in 2007 to 2.8% in 2014. Revenues from individual income tax and VAT increased over the same period. This does not in itself contravene the powers of national 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.**

Brussels, January 2016