06/09/2024

CAN Europe position on Redistributive taxation

Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With 200 member organisations active in 40 European countries, representing over 1,700 NGOs and more than 40 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

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1. Context

Redistributive taxes can take various forms, including progressive income taxation, taxes on extreme wealth, or direct and indirect taxes on capital income (e.g. taxes on capital gains, and corporate taxes which include among others financial transaction taxes, and taxes on excess profits of fossil fuel and other large companies). This document outlines why as a climate and environmental movement CAN-E should support redistributive taxation, and develops a few policy options related to a tax on extreme wealth, a **financial transaction tax** and a **tax on excess profits of the fossil fuel industry.**

While both the financial transaction tax and additional corporate taxation are among the options listed by the European Commission for EU own-resources[1], neither a tax on extreme wealth, nor the taxation of fossil fuel companies' excess profits (e.g. continuing the solidarity contribution imposed on fossil fuel companies during the energy price crisis) are listed among these options. There seems nevertheless to be a political momentum on wealth taxation. The **European Commission** introduced the topic in its 2023 annual gathering on tax.[2] At the G20 level, **Brazil** and other countries are asking to take a global initiative to tax wealth.[3] The **EU tax observatory** included a wealth tax as its main recommendation in its global report.[4] Almost **200 European Parliament lawmakers** supported the introduction of a progressive tax on extreme wealth to fund the EU's budget in May 2022.[5] In 2023, nearly 300 millionaires, economists and politicians signed a letter calling the G20 to tax extreme wealth[6]. And, even if the introduction of a

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[1] European Commission Staff Working Document Accompanying the Amended Proposal for a Council Decision on the system of own resources of the European Union, 2023.

[2] https://taxation-customs.ec.europa.eu/road-2050-tax-mix-future/eu-tax-symposium-2023_en#:~:text=This%20year's%20EU%20Tax%20Symposium,the%20next%20EU%20Tax%20Symposium

[3] https://www.theguardian.com/inequality/2024/apr/25/billionaires-should-pay-minimum-two-per-cent-wealth-tax-say-g20-ministers

[4] EU Tax Observatory, Global Tax Evasion Report, 2024.

[5] https://twitter.com/ChiaraPutaturo/status/1656547199562440704

[6] https://taxextremewealth.com/

pan-European wealth tax proves challenging, supporting the introduction of national wealth taxes in individual Member States is still necessary for the reasons outlined below.
Taxation today remains an exclusive competence of Member States, which means that every single Member State has to give its green light to the proposed legislation for it to be adopted. The European Commission proposed in 2019 to extend qualified majority voting to all EU tax policies, but this hasn't happened yet.[7] The European Commission can nevertheless take a legislative initiative in case there is a need to harmonise national laws - including direct taxation - that directly affect the establishment or functioning of the EU's internal market (Article 115 of the Treaty of the European Union).

2. Why is CAN Europe supporting redistributive taxation?

2.1. Curbing carbon emissions and the environmental footprint of the wealthiest

From the 1980s till 2016, **rising income inequality** has been documented in Europe[8], driven by fast-growing incomes of the top. Such growing inequality manifests itself both in overall socioeconomic indicators and in access to education and health.[9] In addition, **high levels of wealth inequality persist within Europe**.[10] Between 1980 and 2017, the top 1% captured 17% of European-wide income growth, compared to 15% for the bottom 50%.[11] In almost all OECD countries, over the last 40 years, the share of national income distributed through wages and salaries (labour) has decreased, while the share earned by the owners of capital has risen[12]. Indeed, inequalities of wealth are substantially higher than inequalities of income.

What's the difference between wealth and income?
Personal wealth means a stock of valuable possessions: anything from cash under the mattress, through shares and bonds, to the value of one's house or car. Income, on the other hand, is a flow of money, such as wages for employment or returns on capital assets[13].

Although the capital income from wealth is partially taxed in some shape or form in most EU countries, these taxes concern only returns from part of the wealth stock, and there is strong evidence that "unrealized capital gains"[14] from the stock of existing wealth are extremely large. The rationale for comprehensive wealth taxes is both to target the vast pool of unrealized capital income gains and to address the fact that the effective tax rate of the wealthiest is generally much lower than e.g. taxes on labour.

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[7] https://taxation-customs.ec.europa.eu/taxation/decision-making-eu-tax-policy_en
[8] Georg Fischer and Stefano Filauro, Income inequality in the EU: General trends and policy implications, Centre for Economic Policy Research (CEPR), 2021.
[9] Staffan Lindberg, Are Increasing Inequalities Threatening Democracy in Europe?, Carnegie Europe, 2019.
[10] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Material_deprivation_statistics_-_early_results#Severe_material_deprivation_rate:_variations_between_countries; Eurostat, inequality of income distribution, https://ec.europa.eu/eurostat/databrowser/view/tespm151/default/table?lang=en
[11] Thomas Blanchet, Lucas Chancel and Amory Gethin, How Unequal Is Europe? Evidence from Distributional National Accounts (1980-2017), World Inequality Lab, 2019.
[12] New Approaches to Economic Challenges Beyond Growth Towards a New Economic Approach, OECD Publishing, 2020.
[13] https://positivemoney.org/2017/10/wealth-inequality/
[14] Increase in the value of an asset or investment that an investor has not sold.

Today's dominant economic model is the root cause of wealth inequality and of the climate and environmental crisis. The **focus on GDP growth** combined with lax regulation of the financial sector and large corporations is encouraging disproportionate income and wealth concentration. Excessive market concentration enables very large corporations to exert a monopoly, maximise shareholders' returns, access public subsidies[15] and avoid taxes. **Corporate power** also shapes public policies to the benefit of the richest, and has been blocking progress on a fast and just transformation towards a fossil fuel-free, resource-efficient and fully circular economy.[16]

The **belief in meritocracy** tends to make people believe not only that the status quo is fair and legitimate, but that individual agency, rather than the force of political and economic structures, is the primary cause of individuals' economic outcomes at both ends of the spectrum. Thereby the importance of collecting data and strengthening the understanding that the system that led to such distribution is unfair.[17] There is increasing recognition of the systemic problems that an asset-based economy produces in rewarding unproductive rent seeking[18] and predatory behaviour.[19]

Responsibility for emissions is highly unequal among EU citizens, as wealth inequality translates into huge carbon emission inequality.[20] In 2019, the personal carbon footprint of the top 10% of Europeans represented 29,2 tons per person per year while the bottom 50% were responsible for around 5 tons per person per year.[21] This is due to their consumption and investment patterns. At the global level, a relatively small and wealthy group is responsible for most resource claims and ecological damage.[22]

Reducing carbon consumption at the top is in theory relatively easier as wealthy people have the financial resources to effect deep renovation of their real estate properties or shift to heat pumps, but also because these emissions are not linked to essential needs. It is also potentially quite effective as the effort required to achieve the same level of emission reduction might be significantly lower for high-emitting groups. However, the top emitters are likely to be relatively

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[15] Lawrence Carter and Crispin Dowler, Rich List billionaires scoop up millions in farm subsidy payments, Unearthed - Greenpeace UK, 2017.

[16] Oxfam, INEQUALITY INC.: How corporate power divides our world and the need for a new era of public action, 2024; William K. Carroll, Regime of Obstruction: How Corporate Power Blocks Energy Democracy, 2021.

[17] Dr Sarah Kerr and Dr Michael Vaughan, Changing the narrative on wealth inequality, 2024;

[18] Rent seeking (or privilege seeking) means economic wealth obtained through shrewd or potentially manipulative use of resources, and not through a reciprocal contribution of productivity, see https://www.investopedia.com/terms/r/rentseeking.asp

[19] Liam Byrne, The inequality of wealth, Why it matters and how to fix it, Apollo, 2024; Mariana Mazzucato, The value of Everything: making and taking in the global economy, Penguin, 2019.

[20] Lucas Chancel, Climate change & the global inequality of carbon emissions (1990-2020), World Inequality Lab, 2021; Oxfam, Confronting carbon inequality in the European Union, 2020.

[21] World Inequality Report, 2022. Personal carbon footprints include emissions from domestic consumption, public and private investments, as well as imports and exports of carbon embedded in goods and services traded with the rest of the world.

[22] European Environment Agency, Exiting the Anthropocene? Exploring fundamental changes in our relationship with nature, 2023.

well protected from the adverse consequences of climate change.[23] Hence, their incentives to reduce emissions are not necessarily aligned with the damage those emissions cause.[24]

Although **price signals** can be used to reduce individual components of “luxury emissions” (e.g. more progressive retail tariffication of energy to reduce consumption by high consumers, taxes on yachts, private jets, or frequent flying), this would require a myriad of interventions in several markets targeting especially high (wealthier) consumers. Due to their wealth, the concerned people may also just ignore the price signals and continue their high-emission activities because they can afford it. While such price signals to target luxury emissions may be needed, reducing income and wealth inequality through progressive taxes is a much simpler way to curb excessive consumption by the wealthiest (luxury emissions) whilst generating public revenues for investments and spending in a green and fair transition. It is therefore crucial to reduce wealth inequality, as part of broader efforts to reduce inequality within Europe.

This needs to go hand in hand with reducing global inequality. Such an agenda will notably require significant debt relief and a transformation of the global financial architecture, together with genuine global cooperation on taxation - including the ongoing process for developing and adopting a United Nations Framework Convention on International Tax Cooperation to address wealth, environment, corporate taxation, the fair distribution of taxation rights and measures to tackle tax evasion and avoidance.[25]

2.2. the current levels of socio-economic inequality are unfair and constitute an obstacle to the just transition and democracy

The ecological transformation is more urgent than ever.[26] A quick and deep transformation of our economy will only be possible if it is backed by a strong just transition framework, ensuring that the costs and benefits of climate action are shared fairly.

While the majority of the people in the EU are facing a **cost of living crisis** and have been disproportionately affected by inflation, the biggest firms experienced an 89% leap in profits in 2021 and 2022. 82% of these profits are used to benefit shareholders, who are overwhelmingly among the richest people in every society.[27] A small number of firms have quasi-monopolistic positions on the market, which goes with price-setting power they use to protect or increase their profit margin, a phenomenon called "profit-wage price spiral"[28], or even “greedflation”. In

[23] On unequal environmental impacts, see https://www.eea.europa.eu/en/topics/in-depth/environmental-inequalities; see in particular European Environmental Agency, Unequal exposure and unequal impacts: social vulnerability to air pollution, noise and extreme temperatures in Europe, 2018.

[24] Lucas Chancel, Philipp Bothe and Tancrède Voituriez, Climate inequality report, World Inequality Lab, 2023.

[25] https://financing.desa.un.org/un-tax-convention/bureau; Eurodad, More than 170 CSOs and trade unions issue joint submission regarding a UN Framework Convention on International Tax Cooperation, 2024.

[26] add link to The Economy of Tomorrow paper by CAN Europe when published.

[27] Oxfam, Inequality INC., How corporate power divides our world and the need for a new era of public action, 2024.

[28] Interview with Isabel Schnabel, Member of the Executive Board of the ECB, 2023.

particular, the sectors of energy, food (grains and seeds sectors are highly monopolistic) and pharma have seen huge price hikes.[29]

More wealth results in a different composition of assets: wealthier individuals tend to accumulate more diverse forms of wealth, including more financial assets, while taxpayers with lower wealth levels have more of their assets in real-estate, if indeed they have any. The world's richest 1% own 43% of all global financial assets; in Europe the richest 1 per cent holds 47 percent of the total financial wealth.[30] With these financial assets, wealthier people can invest a larger share of their wealth into riskier financial instruments which yield higher returns. The wealthiest generally pay much lower effective personal income taxes than headline tax rates as they can structure their income and wealth in order to avoid them. Wealth accumulation therefore becomes a self-reinforcing process leading to growing inequality.[31] As a result of what can be considered as tax avoidance at best and outright tax evasion at worst, the effective tax rate faced by the wealthiest individuals is lower than the one faced by the middle class.[32]

This situation undermines trust in governments; intensifies social tensions, perceptions of injustice and the risk of populism; and erodes support for the process of transformation needed to achieve climate neutrality and respect planetary boundaries. The fact that the effort and financial contribution to the transformation of our economy is not shared fairly contributed to triggering the yellow vest protest in France in 2019 and the farmers' protests across Europe in 2024.

In addition, an analysis of the ownership structure of the world's 50 biggest public corporations showed that 34% of them have a billionaire as either a principal shareholder or a CEO. It has been shown that many corporates have billionaires with ownership stakes of above 50%, giving the owners a controlling stake. The fact that they own corporations gives them the power to shape the way that they behave, including how they influence states and laws.[33] The **concentration of wealth and power** (influence in politics and in policy-making) in the hands of a wealthy minority leads to political capture, allowing them to disproportionately affect law-making to protect their profits instead of tackling the climate and environmental crisis. Taxing wealth has the potential to reduce economic but also political inequality.

2.3. Close the green spending gap and meet Europe's international climate finance commitments

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[29] Oxfam, Inequality INC., How corporate power divides our world and the need for a new era of public action, 2024 and related press release titled "Wealth of EU's five richest men soars almost 6 million euros every hour since 2020".

[30] Oxfam, Inequality INC., How corporate power divides our world and the need for a new era of public action, 2024.

[31] OECD Tax Policy Studies, The Role and Design of Net Wealth Taxes in the OECD, 2018.

[32] EU Tax Observatory, Global Tax Evasion Report (executive summary), 2024.

[33] Oxfam, https://policy-practice.oxfam.org/resources/inequality-inc-how-corporate-power-divides-our-world-and-the-need-for-a-new-era-621583/, 2024.

Despite the adoption of Next Generation EU (NGEU) when the Covid-19 pandemic started, large investment gaps remain for delivering both climate and other EU Green Deal targets.[34] These investment gaps notably entail crucial public infrastructure that cannot be financed through private capital and is needed for the private sector's transition to a decarbonised, less material-intensive economic model.

The **public funding gap** will be even more acute after 2026, when Next Generation EU will come to an end, reducing by almost half the EU finance available[35]. This will affect especially the Member States who have a relatively high debt-to-GDP ratio as the EU fiscal rules constrain their capacity to borrow.

Ensuring that the EU has sufficient funds for filling the climate and nature investment gap until and mostly after 2026 will require a huge improvement in the quality of public spending[36], but also the raising of new own resources (i.e. EU-wide revenues) in order, first to reimburse the EU debt that underpins the establishment of NGEU, and second to finance a new EU green and social investment fund post-2026.

Beyond the finance dedicated to meeting EU climate targets and financing the socio-ecological transformation, there are significant gaps in meeting **international climate finance** commitments. The revenues raised through a wealth tax could and should contribute to closing this gap. So-called developed countries have not met the 100bn/year goal to be delivered annually since 2020 on time. And that target was not based on developing countries' real financing needs.[37] There is also a growing unmet need for adaptation finance, where grants-based public finance is particularly important. The same is true for Loss and Damage finance.

The current goal to mobilise 100 billion USD/year will expire in 2025, and by COP29 a new collective quantified goal (NCQG) will be set that should take into account the needs and priorities of developing countries.[38] Several estimates exist on the actual climate finance needs of these countries, and while there is considerable variation, there is consensus that needs are in the trillions of dollars annually to cover mitigation, adaptation and loss and damage. While governments committed at COP28 to transition away from fossil fuels, they -particularly developed countries- failed to pledge new and additional funding to support the energy transition in developing countries, which is urgently needed and a matter of equity. New financing obligations arise also to properly resource the Loss and Damage Fund. Developed countries must make contributions to the Loss & Damage Fund in line with their historical responsibility for climate damage.

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[34] CAN Europe, The contribution of EU spending plans to ambitious NECPs, 2022; and Agora Energiewende, EU Climate Funding Tracker, 2023.

[35] Joint statement, CAN Europe, EEB, T&E, WWF and BirdLife, A Social and Green Investment Plan for a prosperous and just transition, 2024.

[36] Ending fossil fuel and other environmentally harmful subsidies, including in the Common Agriculture Policy (see for example https://www.nature.com/articles/s43016-024-00949-4).

[37] According to OECD data (released in May 2024) the 100 bn/year target was met in 2022, two years after the 2020 goal. However, there are risks of double counting due to contributor countries' unclear and non-standardized reporting methods, and therefore it is questionable whether the 100 bn goal has actually been met - see https://caneurope.org/content/uploads/2024/06/CAN-EU-climate-finance-report-2024.pdf

[38] We are using the words "developing" and "developed" countries because this is the term used in UNFCCC agreements on international climate finance.

Depending on its design, a tax on extreme wealth in the EU, for example, could raise between €180 bn and €1280 bn euros a year. [39] In comparison, the EU's Covid recovery fund mobilised €750 billion over 6 years, and the EU Emission Trading Scheme generated 30bn in 2022[40]. CAN Europe estimates that a financial transaction tax in the EU could raise annually between € 34 – 300 billion depending on the design and scope of the tax.[41] The revenue-raising potential of some of the redistributive taxes is huge and would provide Member States with the necessary resources to close the green spending gap, fulfil their obligations to provide international climate finance and to give households and companies the long-term perspective that they need to plan their own investments.

2.4 Wealth inequality further entrenches gender and racial inequality

It has been shown that wealth amplifies socio-economic inequalities associated with gender, race and class. The **gender pay gap** is the most common measure of economic inequality faced by women. Yet, this only captures the inequality in the hourly pay of employees, and does not reflect differences in hours worked, or take into account those not currently engaged in paid work nor the self-employed. Furthermore, the gender pay gap does not reveal the long-term and cumulative effect of women's earnings disadvantage. In contrast, the **gender wealth gap** has the potential to unveil the accumulated economic disadvantages women face. According to research in the UK, the gender wealth gap is primarily driven by differences in pension wealth - which results from the cumulative impact of the gender pay gap, shorter hours and lower participation in the labour market. Gender wealth differences can also be due to motherhood and gendered experience in divorce and inheritance practices.[42]

There is also growing recognition that wealth inequality is deeply entrenched along racialised lines and that these differentials are far greater than income differences - even if there are also stark differences in wealth within racial groups, i.e. no homogeneity. In the UK, this is explained by diverse migration histories, propensities to remit resources, levels of indebtedness, and lower probability for immigrant households to pass owner-occupied housing to their children (through wealth transfers during the lifetime of the grantor or via inheritance).[43]

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[39] Jakob Kapeller, Stuart Leitch and Rafael Wildauer, A European wealth tax for a fair and green recovery, FEPS and Renner Institut, 2021.
[40] European Environment Agency, Use of auctioning revenues generated under the EU Emissions Trading System, 2023.
[41] CAN Europe, New resources for public climate finance and for the Loss and Damage Fund: Exploring taxes and levies at EU and multilateral level, 2023.
[42] International Inequalities Institute, Why wealth inequality matters, 2024.
[43] Mike Savage, Mina Mahmoudzadeh, Elizabeth Mann, Michael Vaughan and Sacha Hilhorst, Why wealth inequality matters, International Inequalities Institute, 2024. See also Runnymede Trust, The Colour of Money, 2020.