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Article

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Dr. Stefan Bach, Deputy Head of the Public Economics Department at DIW Berlin

SIX QUESTIONS TO STEFAN BACH

»Private wealth could be used to stabilize public finances«

or approximately 230 billion euros. Thus, it would be possible to bring the public deficit in Germany significantly closer to the 60 percent limit stipulated in the Maastricht Treaty.

1. Mr. Bach, you've analyzed whether forced loans and capital levies could help reduce public debt. What kind of steps might be taken, do you think? Public debt has significantly increased in many countries, but at the same time, we also see very high levels of private wealth, which, taken as a whole, considerably exceeds national debt in every country. This means that in order to stabilize public finances and, if necessary, reduce public borrowing, it is worth considering making greater use of private wealth. One possibility is for the government to tax wealth through a one-off capital levy, which could then be repaid in installments. This could also be combined with a forced loan, however, by committing the taxpayers to assume some of the debt. Depending on the progress of the government's consolidation measures, these loans and interest on them could then be paid back at a later date. If this is not the case, then the forced loans can be transferred to a capital levy.
2. What type of assets could be accessed? All the relevant types of assets could be accessed, that is, real estate, financial, and business assets. Certainly, the liabilities on those assets would be tax deductible. This means the tax base would then be similar to that of the former German wealth tax. For administrative and technical reasons, and also to avoid hardship cases, this system is intended for the wealthy strata of the population, that is, roughly the richest ten percent.
3. How much money would that bring in? According to our calculations, a capital levy imposed on individual net wealth exceeding 250,000 euros would still give a tax base of 92 percent of gross domestic product (GDP). If taxpayers were taxed ten percent on this base, that could generate revenue of just over nine percent of GDP,
4. What advantages do capital levies and forced loans have over tax increases? The key economic advantage of a capital levy is that taxpayers cannot evade these levies so easily. This means that tax avoidance strategies here are somewhat limited, in contrast to ongoing taxation. Moreover, combining capital levies with forced loans could reduce resistance to taxation because then there is still the possibility that some of the money will be paid back.
5. Does this only apply to Germany or also to European countries in crisis? These instruments would be particularly suitable for the countries in crisis, so as to make use of the available and, in some cases, highly concentrated private wealth for refinancing government debt. Statistics show that in countries such as Greece, Spain, and Italy, there is considerable aggregate household wealth which is substantially higher than national debt.
6. Isn't it more likely that these countries will push for a European collectivization of their national debt, rather than reaching into their own pockets? This is, of course, the problem with rescue packages and bail-outs. There is a tendency to relax consolidation efforts if countries in crisis receive funding from the international community. In this context, such instruments would be especially interesting—to send out the message that they are prepared to first use any means possible at home in order to put their public finances in order.

Interview by Erich Wittenberg.

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