Austerity for workers, tax cuts for business—Europe's class policy

Stefan Steinberg
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A new report by the statistical office of the European Union, Eurostat, reveals that in the wake of the most serious economic crisis since the 1930s, European governments are continuing to cut corporate taxes while increasing the tax burden on the working population.

Eurostat reports that European governments cut the average rate of corporate taxation across the continent from its 2009 level of 23.5 percent to a new record low of 23.2 percent. The reduction continues a trend which spans many years and has resulted in a major shift in tax policy.

This is but one expression of the ruthless class policy being pursued by governments across Europe and internationally—whether nominally "left" or conservative—to make the working class pay for the crisis of the capitalist system. The result is ever greater levels of social inequality, as wealth is funnelled from the bottom to the top.

Big business, the banks and the super rich are being increasingly relieved of paying taxes. The resulting deficits in state budgets, exacerbated by the hundreds of billions awarded to the banks in government rescue packages, are now being addressed through a combination of increased consumption taxes, which fall most heavily on the working class, and savage cuts in social programs and public sector jobs and wages.

Initially, the European Commission set a target corporate tax rate of 45 percent. By 1992, the target had been revised downward to 30 percent.

Over the past dozen years, corporate tax rates in Europe have fallen by nearly 12 percent. The current level of 23.2 percent means that the average rate in Europe is 10 percent lower than the nominal rate in the United States.

Since the middle of the 1990s, Europe's biggest economy, Germany, has reduced its corporate tax rate by a staggering 27 percentage points, while its top rate for personal income tax has been cut by 9.5 points. During the same period, Spain and France slashed their highest income tax rates by approximately 13 percentage points. Italy reduced its corporate tax rate by 20.8 points and its top personal income tax rate by 6.1 points.

Commenting on the trend in German taxation, Peter Bofinger, a member of the German Council of Economic Experts, wrote in the *Süddeutsche Zeitung*, "If we had the tax rates that were in place in 1998, we would have 75 billion euros more revenue per year."

On Wednesday, the German cabinet met to discuss its plans to slash 81.6 billion euros from the country's budget over the next four years. The plans involve major spending cuts in a range of social spheres, with disastrous repercussions for millions of workers and their families. The sum the government intends to save over four years is nearly equivalent to the annual loss in government revenues due to the lowering of corporate taxes over the past two decades.

Thomas Piketty, professor at the Paris School of Economics, wrote: "We have tax competition in Europe, and the result is very simple: the mobile factor of production, i.e., capital, is taxed less and less; consequently, a less mobile factor like low-skilled labor is overtaxed."

This over-taxation of labor takes the form of regular increases in income and consumption taxes. According to the Eurostat report, average income tax rates increased across Europe to 37.5 percent from 37.1 in 2009. Value-added taxes also rose on average in 2009 by nearly 0.5 percent.

Since 2000, 12 of the 27 EU countries have increased their taxes on commodities, with the highest rates of

VAT (25 percent) currently being charged in Hungary, Denmark and Sweden.

The contribution made by labour to state budgets is rising continuously. Currently, income tax payments constitute 40 percent of all state revenue. Consumption taxes account for an additional 25 percent. Business taxes amount to just 15 percent of state revenue. The invariable consequence of this development is the growth of inequality.

Camille Landais, a French economist working at the University of California, wrote of an "explosion of top income shares" in France beginning in the late 1990s, in which tax cuts for business played a major role.

In summing up this process, Landais noted that Europe is still far less unequal than the United States. "But the trend is in line with the trends in the United States since the 1980s. If the tax systems—which are much flatter than most people think—continue to be as flat as they are, it's clear that in twenty years there's no reason France and Germany wouldn't be as unequal as the United States."

Author Göran Therborn argues that such extreme levels of social inequality are incompatible with democracy. Therborn points out: "The gap in income between those at the top and the average worker is now much wider than it was in pre-modern times. In 1688, English baronets had an annual income about one hundred times higher than that of labourers and out-servants, and 230 times that of cottagers and paupers. In 2007-8, chief executives of the FTSE top 100 companies received remuneration 141 times higher than the median income of all full-time employees in the UK, and 236 times higher than those of people in "sales and customer service occupations."

This orgy of tax-cutting for big business and the super rich was carried out by European governments of all political persuasions, but in the continent's two biggest economies—Germany and France—it was nominally "left" governments which initiated the process.

In Germany, unprecedented concessions to business and the banks were implemented by the Social Democratic Party-Green Party coalition led by Chancellor Gerhard Schröder (1998–2005).

In France, it was the Socialist government (1997–2002), led by Prime Minister Lionel Jospin, which began the process of drastic cuts in corporate and high-income tax rates, which was continued by subsequent conservative administrations, up to and including the government led by President Nicolas Sarkozy.

These supposedly "left" bourgeois parties are no less hostile to the interests of the working class and beholden to the financial elite than their conservative counterparts.

The only solution to the growth of obscene levels of social inequality and the attendant threat of dictatorial forms of rule is the independent political mobilization of the working class across Europe and internationally to take power and carry out the reorganization of society to meet social needs, rather than the profit interests of the banks and big business.

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