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# The Debate About Taxing the Wealthy

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**Abstract:** In light of major societal challenges, the political debate on various forms of wealth taxation, or the ‘Tax the Rich’ strategy, has recently gained momentum in Germany. This article examines the arguments for and against taxing the wealthy, drawing on statistical data and some of the most significant scientific studies on current economic inequality and its history. In particular, it looks at the kinds of reasons used in the current debate. It is argued that the arguments in favor of specific forms of wealth tax outweigh the reservations.

**Keywords:** economic inequality; neoliberal transformation; threat to democracy; right-wing extremism; tax increases; criteria of morality

## 1 Introduction

In recent decades, taxes on high incomes and wealth have gradually decreased in the US, the UK, and almost all other OECD countries (IMF 2014; Schratzenstaller 2013, 2013a; OECD Tax Database 2014; Bach 2018; Komlos and Schubert 2020; Krugman 2008; Saez and Zucman 2021; Piketty 2020, Figure 10.11). In Germany, for example, the top tax rate was reduced from 53 % to 51 % in 2000, then to 48.5 % in 2001, to 47 % in 2003 and finally to 42 % in 2005 (Beznoska and Hentze 2018, 588, Figure 2; Boss 1989, Table 1). However, a wealth tax surcharge was also introduced: a marginal additional levy of 3 % on very high incomes exceeding € 250,000 per year. Three years later, the corporation tax rate was reduced to 15 % (Uhl 2013).

In the wake of this development, increasing the tax burden on Germany’s wealthiest was, until recently, largely taboo. However, a recent meta-study by the German Institute for Economic Research (DIW) notes that there has been a growing body of academic proposals for higher taxes on high incomes and wealth in recent

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years, and that the impact of wealth on economic development and social welfare is increasingly being discussed (Bach 2014; Linartas 2025, 21–2). Indeed, many recent studies propose adopting a ‘Tax the Rich’ strategy. These studies include substantial books<sup>1</sup> and numerous informative articles.<sup>2</sup> Most of these studies draw on reliable databases (Chancel et al. 2022; Data from the World Inequality Database (WID) 2017). The academic studies typically look at the bottom 50 % of a population (the poorer half) from the top 10 % (the ‘rich’) and the top 1 % (the ‘ultra-rich’).

As will be demonstrated below, there is currently considerable economic inequality in most democracies, and even more so in dictatorships. Political forces and some economists unwilling to accept this situation have advocated measures to reduce economic inequality, mostly costly ones such as significant increases in child benefit or pensions (Atkinson 2018). Current debates on the wealth tax have emerged against the background of a widespread perception that the situation is much more challenging now than it was in previous decades. On a global scale, dictatorships have launched an aggressive campaign against democratic constitutional states. Democracy in the US is being destroyed before the world’s eyes by a neo-fascist seizure of power. Far-right parties are also gaining ever greater prominence in many other democracies, including Germany. Furthermore, precarious working conditions are becoming increasingly common. The rate of economic growth is steadily declining. There are also major societal challenges to be tackled. These include strengthening national defense, improving infrastructure, protecting the climate, supporting the economy and energy supply, helping out Ukraine, and integrating migrants. Such measures place excessive strain on the German budget.

So far, only two measures have been discussed and implemented to raise additional funds: taking on new debt or cutting social benefits. However, taxing the wealthy could provide an alternative source of funding. There are actually two different views on how these additional funds could be used. One option would be direct redistribution, such as distributing 30 billion to the poorest 50 % of the population, ideally in the form of a reduction in social security contributions of around 2–3 % points. Alternatively, the funds could be used to make a substantial contribution towards financing the major social projects mentioned above. The path to take – or whether a combination of both alternatives is preferable – would have to be decided through political channels. This issue is not addressed below. The aim is

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1 Deaton 2013; Atkinson 2018; Honneth 2023; Linartas 2025; Klein 2025; Piketty 2014; Piketty 2020; Rawls 1971; Saez and Zucman 2021; Sandel 2023; Stiglitz 2015, 2015a, 2015b; Tirole 2018; Vilks 2025.

2 Giesecke et al. 2023; Albers et al. 2020; Bach 2014, 2018, 2020, 2021, 2022; Bach et al. 2021; Bach and Haan 2011; Bartels and Hesse 2022; DIW Econ 2025; Krugman 2000; Schratzenstaller 2013; Schröder et al 2020.

instead to discuss the arguments for and against certain types of wealth tax, which can help reduce economic inequality.

Economic inequality refers to disparities in income and wealth. *Income* is money that ‘flows’ continuously; for example, in the case of wages and salaries, it is usually paid on a monthly basis. *Earned income* consists of payments made to employees, while *capital income* consists of profits that owners earn from their assets. *Wealth* is a stock that has typically been accumulated over time and is measured by the market value of assets minus all debts.

The article begins by examining objections to the wealth tax (Section 2). The next two sections present the most important statistical findings on current economic inequality (Section 3) and its historical development (Section 4). In light of these findings, reasons in favor of establishing specific types of wealth taxes are discussed. Finally, several models of wealth taxes that have been elaborated in the scientific literature and could contribute to additional tax revenue are presented (Section 5).

## 2 Objections to Wealth Taxes

Representatives of political parties often voice concerns about a wealth tax in public discourse. It is common knowledge that the ‘right-wing’ parties in Germany (the CDU, the CSU, the FDP and the AfD) oppose the so-called ‘wealth tax’, while the ‘left-wing’ parties (the SPD, the Greens and the Left Party) support it (Beznoska and Hentze 2025). In light of new proposals for a wealth tax, representatives of the right-wing parties – such as Chancellor Friedrich Merz, his Chief of Staff Thorsten Frei, Federal Minister for Economic Affairs Katharina Reiche and CSU leader Markus Söder – are keen to emphasise that they are against any tax increases.<sup>3</sup> This also applies to any form of wealth tax. Therefore, it is not surprising that any kind of tax increase was categorically ruled out from the outset during the coalition negotiations after the last two elections. The AfD advocates a particularly extreme version of this position. It calls for a flat tax of 22 % for all citizens, as well as the abolition of inheritance and gift taxes, and the solidarity surcharge.<sup>4</sup> This programme clearly favours the wealthy, because inheritances and gifts are the main drivers of wealth concentration and because the rich would have to hand over a smaller proportion of their income and wealth than poorer sections of society (Piketty 2014,

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<sup>3</sup> Süddeutsche Zeitung, 18 February 2026, 14:45. Junge Welt, 19 February 2026 edition, page 1, headline (Merz). <https://www.deutschlandfunk.de/merz-lehnt-steuererhoehungen-erneut-ab-100.html> (Merz and Söder). (Business Insider Germany, 6 September 2025 (Frei). ZDF Heute, 21 September 2025, 10:24 am (Reiche).

<sup>4</sup> See motion by the AfD in the Bundestag, 16 October 2024, Finance – Motion – hib 708/2024.

506–8; Kaufmann 2024; Linartas 2025, 66–9). Historically, the introduction of progressive income and inheritance taxes was the most important fiscal measure for establishing welfare states after the Second World War (Piketty 2014, 661).

It is striking that this opposition to tax increases is so widespread, applying to every conceivable tax increase. At the same time, this opposition is usually presented as an obvious axiom that requires no further justification. In rare cases, it is indicated that tax increases burden the economy (Frei) or damage Germany's reputation as a business location (Reiche), but even this is accepted as a given. These and similar statements provide a simple justification for rejecting any tax on the wealthy in the form of a logically valid argument: All tax increases must be rejected (axiom). Every wealth tax is a tax increase. Therefore, all wealth taxes must be rejected. Nevertheless, this argument is obviously weak, because its first premise is anything but evident and is insufficiently substantiated in the versions presented to the public.

However, a significant number of studies also strictly reject a wealth tax (Theine and Grisold 2020). Some of these studies are comparable to statements made by leading German politicians. They do not refer to a specific model of wealth tax, nor do they provide evidence to support their criticism of wealth taxes (e.g. Lenz 2019; Mittelstands- und Wirtschaftsunion 2025). More thorough scientific research suggests that a wealth tax involves significant costs (especially the valuation of business assets) and requires complex and expensive procedures. Moreover, a wealth tax acts like a surcharge on income taxes, because it must be paid out of profits. In years of loss or with low profits, it can erode the company's capital base. Even a tax rate of 1 % can result in a company having over 10 % less capital available for investment. This significantly restricts competitiveness. It follows that wealth taxes damage Germany as a business location and provoke avoidance reactions. Wealthy individuals as well as companies will leave the country. These reactions reduce tax revenue, diminish value creation and jeopardize jobs (Hey 2021; Hentze 2021; Beznoska and Hentze 2021, 2025; Warneke 2012; Fuest 2021). And tax cuts stimulate investment, meaning that tax increases are counterproductive, particularly during periods of stagnant growth (Dorn et al. 2021). As might be expected, the wealth tax is viewed critically from a neoliberal perspective because neoliberals regard taxes as expropriation without compensation (Kirchhof 2011).

While these and similar studies seem to discuss, and reject the wealth tax in general terms, closer inspection reveals that many of them focus solely or mainly on a reintroduction of the former German wealth tax, which was suspended in 1997 due to legal issues. The proposed tax rate was 1 % of Germany's total tax revenue, which was 916 billion in 2023, with allowances of 1 million for

individuals and 5 million for business assets (Rehm 2021; Beck and Prinz 2026, Table 2).<sup>5</sup>

Indeed, for this older model of a wealth tax, the objections outlined above are, on the whole, correct. Therefore, its reintroduction does not seem to be a good idea. However, more recent proposals to introduce a wealth tax tend to focus on models that apply only to the ultra-wealthy. These models are unaffected by the aforementioned objections (Bach and Thiemann 2016; Rehm 2021; Schröder et al. 2020). It is revealing to see how one of the most thorough studies – which opposes a wealth tax while focusing on the old model – deals with these newer proposals (Fuest 2021). While the author largely focuses on and rejects the old German wealth tax model, he then addresses one of the careful studies that advocate a wealth tax model for the ultra-wealthy (Bach and Thiemann 2016). Fuest provides a detailed explanation of the Bach and Thiemann model. He does not dispute the calculated additional revenue. Nevertheless, he criticizes the model solely on the basis of the expected avoidance reactions (Section FII, 22–4). The one-time wealth levy is rejected using the same argument (Section H). Some studies supplement the reference to avoidance responses with the argument that the ultra-rich have tied up their wealth almost exclusively in business assets, meaning higher taxation would harm their businesses and lead to job losses. This would be particularly the case if the tax had to be paid regardless of economic success (Warneke 2012; Gutekunst et al. 2002; Bormann 2016).

The last two problems mentioned – the tying up of wealth in businesses and companies, as well as avoidance reactions involving emigration – are most often cited when the topic of a wealth tax comes up. However, there is growing empirical evidence that these problems are not as severe as previously assumed. Regarding the former, recent statistics show that the ultra-rich invest around 60 % of their wealth in businesses, 30 % in real estate and 10 % in shares (Bach 2020; Beznoska and Hentze 2021; Demary et al. 2021). Increased taxes could be paid mostly from the proceeds of property and shares without harming businesses. Regarding the second issue, an international comparison reveals no empirical correlation between changes in the top income tax rate and economic growth, labour supply, or widespread tax avoidance (Godar and Krämer 2014). What is more, recent studies on the behaviour of the ultra-rich are illuminating. The 50 US states, for example, levy taxes at different rates. The same applies to the Swiss cantons. While England is a high-tax country, Ireland, by contrast, levies very low taxes. In these three cases, do the ultra-rich, who live in high-tax countries, move to low-tax countries with their capital? While this does happen, it is relatively rare overall. Compared with

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5 <https://www.zew.de/fileadmin/FTP/gutachten/Vermoegenssteuer.pdf>.

other population groups, the ultra-rich are actually the least mobile. Poor families are primarily the ones who move to accessible, low-tax countries (Piketty 2020, 990–1, Bach and Haan 2011; Bach 2014; Ostry et al. 2016; Young 2017; Sanandaji 2014; Dahl and Sorenson 2012).

Moreover, additional measures could be taken to raise the barriers to avoidance. Firstly, tax liability could be linked to citizenship rather than place of residence, as is customary in the USA. Secondly, a large proportion of billion-dollar fortunes are tied up in companies. If these companies are headquartered in Germany, their profits are taxed here. Similarly, under the model in effect until 1996, the wealth tax would apply to company shares remaining in Germany. Thirdly, Germany's exit tax on capital, currently set at 30 % of the notional capital gain, could be significantly increased. The same applies to the exit tax, which is payable when entire companies are relocated abroad. According to the Foreign Tax Act, this tax is levied on all business assets and legal entities, including sole traders (Willmer 2023; Alka and Trautvetter 2024). In addition to proposals for a wealth tax, there are other models for tax increases that primarily affect the wealthy and are at least worth serious consideration (Detel 2025, chapter 6), as outlined below.

Overall, the usual objections to wealth taxes do not seem particularly convincing (Randers and Kellerhoff 2024). However, this alone does not justify the collection of wealth taxes. Additional fact-based justifications are required. We address this topic in the remainder of this article.

### **3 Current Economic Inequality in Germany and its Moral Critique**

Justifications for wealth taxes must be based on statistical data regarding current levels of economic inequality. In Germany, for example, the bottom 50 % of the population currently owns just 3.4 % of the country's total wealth, while the top 10 % owns an astonishing 67 %, and the top 1 % owns a further 28 %. The bottom 50 % earn 18 % of total German income; the top 10 % earn 37.6 %; and the top 1 % earn 17.3 %. People earning 5,500 a month pay 3 % less income tax than German billionaires. In Germany, around 400 billion are inherited or gifted each year. In return, only around 13 billion in inheritance and gift tax is currently levied. This represents a tax rate of 3.2 %. The ecological footprint of different population groups is also politically significant, not least because economic and ecological inequality are closely correlated. The ecological footprint is measured in millions of tonnes of harmful gases per capita per year. In Germany, the bottom 50 % are responsible for

six million tonnes, the top 10 % for 34 million tonnes and the top 1 % for 118 million tonnes.<sup>6</sup>

Proponents of wealth taxes, such as Oxfam, generally assume that the stark figures speak for themselves. The feeling is that the current economic inequality is simply too big. Thomas Piketty has noted that wealth 10 or 20 times the average is just about morally tolerable in a population, but not a hundred times or more. He adds that this observation is so evident that further complicated considerations are superfluous (Piketty and Sandel 2025, 104). According to the above statistics, the top 1 % possess 900 times as much wealth as the bottom 50 %, and the top 10 % possess 335 times as much. This substantially violates even Piketty's criterion. In one of the best recent studies on inheritance and gift taxes, Martyna Linartas speaks of "grotesque wealth inequality," "startling figures" regarding this phenomenon, and the "simply unimaginable scale" of wealth (Linartas 2025, 24, 28–9). Angus Deaton notes that the history of progress over the last two centuries is also the history of inequality. A privileged few are doing incredibly well. But many are struggling (Deaton 2013, 13). In the introduction to the new edition of his book on the discontent with democracy, Michael Sandel points out that since the 1980s, our ruling elites have carried out a project of neoliberal globalization that has brought enormous profits to those at the top, but job losses and stagnant wages to most working people (Sandel 2023, 15–6). Piketty denounces an "extreme concentration of wealth" in virtually every country in the world (Piketty 2023, 23). These and many similar observations are consistently presented alongside tables, graphs, and statistical findings, yet they remain somewhat vague and are not further substantiated beyond the presentation of numbers and graphical data. And yet we should take them seriously. They represent a widespread and often emotionally charged assessment, the basis of which is described in more detail below.

Sometimes the call for wealth taxes seems to be justified on the grounds that such levels of economic and ecological inequality are morally unacceptable. Some economists view the Pareto principle or John Rawls' theory of justice as the basis for a moral critique of current economic inequality. The Pareto principle states that the world becomes a better place if some people benefit more than others without anyone else's situation worsening. Envy should not be a factor (Deaton 2013, 269). However, data on the history of economic inequality seem to show that it violates the Pareto principle (Deaton 2013, 270–7). Some renowned economists refer to John Rawls' theory of justice this theory establishes two principles of justice. The second of these states that any move towards economic inequality is only just if the poorest benefit from it too. It is argued that the history of economic inequality since the

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6 The following data can be found at [wid.world/data/](http://wid.world/data/). Chancel, Piketty, Saez and Zucman (eds.) 2022. Albers et al. 2020.

neoliberal transformation has violated this principle (Piketty 2020, 1187–9). Collier 2018, 28–30; Atkinson 2018, 22, 285, 311; Stiglitz 2025, 38, 155, 157, 229, 285, 352, 381, 427, 434, 466).

However, a considerable number of private individuals and economists disagree entirely with these assessments. For example, the founders of neoliberal economic theory (such as Friedrich von Hayek and Milton Friedman) insisted that moral judgements of market activity do not make sense, because they constitute a category mistake. Market activity and its structure, such as economic inequality, are unintended consequences of the actions of countless anonymous individuals. Therefore, these actors should not be held morally responsible for these consequences. Some political parties in present-day Germany, namely the CDU, the CSU, the FDP and the AfD, also evade a moral assessment of economic inequality. As previously mentioned, these parties strictly oppose any tax increase, and therefore any reduction in current economic inequality. This suggests that they consider the current economic inequality to be morally acceptable.

Can we elaborate on the moral justification of wealth taxes in more detail? This question cannot be seriously addressed within the scope of this article, as we would need to examine, among other things, whether well-established moral theories could be applied. However, it should at least be made clear that the aforementioned neoliberal thinkers have fallen victim to a misunderstanding. It is by no means a question of condemning the wealthy for accumulating great wealth. In most cases, after all, these individuals have acted legally and done what most people do: get the best for themselves within the law. The question is rather how to alter an economic structure that has led to significant economic inequality.

In his new book on the future of capitalism, the renowned British economist Paul Collier has presented a concept of ethical capitalism based on moral foundations (Collier 2018). By ‘moral foundations,’ however, Collier does not mean conventional moral theories, but rather ethical attitudes that are typically innate in human beings, such as the desire for belonging and recognition, as well as a sense of fairness and the capacity for reciprocal obligations. Collier points to social-psychological studies in which this anthropological ethics is empirically confirmed and the neoliberal view of humanity as *homo economicus* is refuted. Among other things, this involves a ‘justification’ for demands for greater economic fairness, demonstrating that and why we can build upon the existing ethical attitudes of most people within the framework of political measures and may therefore hope for success. These findings are of particular strategic relevance for advocating a reduction in significant economic inequality.

In this context, it is interesting that further theories have recently been developed that empirically investigate whether humans possess innate moral motivations that are not taught, occur in all known cultures, and can therefore be regarded

as results of humanity's cultural evolution. These theories include moral psychology, evolutionary anthropology, and behavioral economics (Rabin 1993; Fehr and Schmidt 1999). It should be noted that these empirical theories do not seek to naturalize the vocabulary of the relevant moral theories. On the contrary, they derive the normative concepts (such as *fairness*, *virtue*, and *altruism*) that they use from established moral theories.

Moral psychologist Jonathan Haidt has demonstrated that there are six distinct moral categories that are pervasive across all cultures: Care, compassion, and sensitivity to suffering; The desire for justice and reciprocity; Loyalty to, and cohesion within, one's own group; Respect for authority, competence, hierarchy, tradition, and cultural knowledge; Sanctity, the pursuit of purity, and the avoidance of disgust; and The desire for freedom, and resistance to coercion (Haidt 2006; Haidt and Craig 2004; Graham et al. 2013). Recent evolutionary anthropological research, conducted for example by Michael Tomasello, a world-renowned psychologist, has also provided empirical evidence indicating that children between the ages of three and five develop a sense of fairness and distributive justice in their interactions with other children – concepts related to the distribution of goods and therefore relevant to our purposes. Fairness is understood here as fundamentally based on the equality of resource distribution, while also taking into account need and effort. Five-year-old children also observe property rights, that is, they respect ownership as a cooperative agreement between people that is normatively regulated (Tomasello 2019, 316, 336–42, 352–4, 375–420).

Behavioral economics is primarily concerned with how adults actually make decisions, which significantly deviates from the ideals of rational decision theory. In some cases, it also focuses on fairness (Rabin 1993; Fehr and Schmidt 1999). One of the most illuminating examples for our purposes is the Ultimatum Game which proceeds as follows: A set of desirable goods is to be divided between two people – let us call them MAX and MARIA. MAX is the proposer and MARIA is the recipient.

MAX makes MARIA an offer regarding the distribution. If MARIA accepts the offer, the deal is finalized and both parties walk away with their respective shares. However, if MARIA does not accept the offer, both MAX and MARIA end up with nothing and walk away disappointed. In the role of MARIA, chimpanzees accept any offer greater than zero, as even the smallest amount is better than nothing. According to rational decision theory, this reaction is entirely rational in terms of well-calculated self-interest, and is therefore also recommended for human decision. Yet adults react differently. If MAX offers 40–50 % of the goods, MARIA will accept the offer in almost all cases. If MAX offers less than 25 %, however, MARIA rejects the offer in more than half of cases. If the offer is below 20 %, MARIA rejects it almost every time, even though she completely misses out on this substantial share. It appears that MARIA perceives this offer as too unfair and therefore wants

to punish MAX by causing him to lose more than 75 % of the goods (Krawczyk 2018; Debove et al. 2016; Nowak et al. 2000; Güth et al. 1982).

Assuming that a smaller population group (=MAX) makes the offer to a larger population group (=MARIA), we can calculate the distribution ratios between the three population groups listed, taking the wealth distribution in Germany documented above as a basis. The result is as follows:

- (1) Distribution of wealth between the bottom 50 % and the top 10 %: 1 to 100.
- (2) Distribution of wealth between the bottom 50 % and the top 1 %: 1 to 392.
- (3) Distribution of wealth between the top 10 % and the top 1 %: 1 to 4.

If we use the Ultimatum Game as a basis, the top 10 % would just about tolerate the offer from the top 1 % on moral grounds. In the other two cases, however, the bottom 50 % would reject offers from both the top 10 % and the top 1 % with extreme moral outrage because the distribution ratios in these two cases – at 1:392 and 1:100 respectively – are dramatically below 1:4 for the poorer group in each instance. This finding is only marginally affected by an additional assessment of the potentially differing contributions (e.g. working hours, effort and education) made by MAX and MARIA. These empirical findings form the basis for the vague, largely data-driven, and at times emotionally charged criticism of economic inequality mentioned above.

One might object that the findings of the Ultimatum Game cannot be applied to real-world situations because, in the Ultimatum Game, the proposers always have the wealth at their disposal from the outset, whereas in real-world distribution conflicts, the wealth has at least been partially earned. However, as already indicated, the current debates on the wealth tax are not so much about the process of accumulating wealth from scratch, but rather about the fact that the ultra-rich have been gifted a neoliberal economic structure that made it possible in the first place for such excessive wealth to develop. On this basis, the Ultimatum Game seems very much applicable to real-world struggles over distribution.

## 4 The Historical Justification for Wealth Taxes

The history of economic inequality since the beginning of the 20th century is also highly relevant to the justification for a wealth tax. The key figures are as follows (Table 1):

These statistics reveal U-shaped curves. The income and wealth of the top 10 % and top 1 % were extremely high around 1900. After this, they fell until the 1970s. They then rose sharply again. By contrast, the income and wealth of the bottom 50 % follow inverse U-curves, rising until around 1980 and falling since then. This

**Table 1:** History of income and wealth 1900–2022 in Germany.

Germany	1900	1950	1980	2000	2022
Income					
Top 1 %	22.2	10.7	9.4	11	17.3
Income					
Top 10 %	50	40	28	32.4	37.6
Income					
Bottom 50 %	16	22.1	23	21.5	18
Wealth					
Top 1 %	51.3	21.8	27	26.7	28
Wealth					
Top 10 %	86.7	59	57.4	57.4	67
Wealth					
Bottom 50 %	0.5	5.2	5.9	3.9	3.4

means that over the last five decades, the poorer half of the German population has lost a significant proportion of its income and wealth (around 22 % of income and almost 50 % of wealth). The so-called middle class (the middle 40 % of the population, between the bottom 50 % and the top 10 %) has maintained its income share at around 42 % between 1970 and 2014. The same applies to the middle 40 %'s share of wealth, which remained at around 35 % between 1993 and 2018 (Bartels and Neef 2024, Figures 2 and 6; Vilks 2025, 106–14).

Three historical events are relevant in explaining the development of economic inequality outlined above (in Germany, and similarly in other democracies). The Second World War and the welfare state including the social market economy (1945–1970/1980), led to a significant reduction in economic inequality. From the 1970s onwards, however, the social market economy underwent a process of deregulation. This was not a one-off step, but rather a long-term process comprising many components, paved by a new form of liberalism known as ‘neoliberalism’. This was developed by leading US economists, including Friedrich von Hayek, Milton Friedman and James Buchanan, between 1944 and 1960. It is therefore more appropriate to speak of the neoliberal transformation here which turned out to be the decisive cause of the rise in economic inequality after 1970 (Sandel 2023, 368; Honneth 2023, 214–5; Piketty 2014, 313–4; 2020, 39; Stiglitz 2015, 12, 23).

The neoliberal transformation involved numerous deregulations that removed state controls and regulations on economic processes. This included separating commercial and investment banks and removing controls on cross-border capital movements. However, it also involved the privatisation of key state-owned industries and municipal housing, as well as repeated tax cuts that mainly benefited the wealthy. Furthermore, financial markets expanded dramatically, with increased

trading in financial products such as shares, loans, foreign exchange, insurance, bonds, call money and time deposits (Stiglitz 2015). Finally, the creation of many low-paid and temporary jobs gave employers greater economic leeway (Honneth 2023). From the outset, numerous neoliberals conceded that the transformation would make the rich even richer. Nevertheless, they predicted a trickle-down effect whereby increased investment, higher economic growth, greater demand for workers and higher incomes would also benefit poorer sections of society. However, the trickle-down effect has not materialized, as the neoliberal transformation has created an economic structure from which only the top 10 % have benefited.

The neoliberal transformation has had effects that extend beyond economic inequality. From a political perspective, the most significant of these is the alarming rise in right-wing extremism and fascism (Paxton 1998, 2007; Szalaw 2017), which has occurred not only in Germany, but in many other European democracies too. Numerous studies demonstrate that an increase in economic inequality leads to growing dissatisfaction with the government among large sections of the population. This attitude pushes a significant proportion of those affected towards far-right parties (Komlos and Schubert 2020, 71; Levy 2021, 738; Stiglitz 2015, 14, 216 Fn 21, 222, 237; 2025, 52, 390–2; Sandel 2023, 411; Dorn et al. 2024; Gold 2022; Rodrik 2020; Scheiring et al. 2024). A recent confirmation of this finding is provided by the statistical analysis of the state election in Baden-Württemberg.<sup>7</sup>

Another consequence of the neoliberal transformation is the rapid growth of wealth. Not only are there more ultra-rich individuals than ever before, but their wealth is also growing faster than ever before. This process can be comprehensively documented both globally<sup>8</sup> and in Germany<sup>9</sup> (Chancel et al. 2022, Figure 4.3b, 92; Piketty 2020, Table 13.1, 859; Oxfam 2025, Part 1, 3–6). A large proportion of this growth comes from the 20 richest billionaires, who have collectively increased their wealth by \$ 700 billion since 2023. It is widely recognized that extreme wealth leads to considerable political power that lacks democratic legitimacy. This phenomenon is currently particularly evident in the US.

The consequences of neoliberal transformation, combined with rising economic inequality, provide the strongest argument for the ‘Tax the Rich’ strategy. The gut feeling among large sections of the German population that they have been

<sup>7</sup> <https://www.tagesschau.de/wahl/archiv/2025-02-23-BT-DE/umfrage-afd.shtml>.

<sup>8</sup> Statista <https://de.statista.com/statistik/daten/studie/220002/umfrage/anzahl-der-dollar-milliardaere-weltweit/>. Statista <https://de.statista.com/statistik/daten/studie/1459623/umfrage/gesamtvermoege-der-milliardaere-weltweit/>.

<sup>9</sup> Manager-Magazin, <https://www.manager-magazin.de/politik/deutschland/die-reichsten-deutschen-2017-18-neue-milliardaere-a-1171164.html>. Manager Magazine, <https://www.manager-magazin.de/unternehmen/reichste-deutsche-2025-das-sind-die-500-reichsten-menschen-in-deutschland-mm-ranking-a-6dae8282-759a-4caa-9d63-c924eb10af6f>.

let down by politics, not least in financial terms, and are therefore no longer being taken seriously has been confirmed, leading to widespread unease about democracy (Sandel 2023). The growth in wealth mentioned earlier points in the same direction. For example, current developments in the USA show that the ultra-rich are striving for a plutocracy. This suggests that a serious crisis of democracy is emerging (Sandel 2023; Schäfer 2010; Decker et al 2019; Komlos and Schubert 2020; Piketty 2020, 56; Stiglitz 2025, 52–3, 390–2; Scheiring et al. 2024; Dorn et al. 2024; Gold 2022; Rodrik 2020). Suitable and well-founded measures for wealth taxes can help avert the threat to democracy. These measures would enable us to implement policies that benefit 90 % of the German population.

The preceding sections have revealed six reasons why the rich, and especially the ultra-wealthy, should be taxed more heavily.

- (1) The current level of economic inequality is too big.
- (2) The top 10 % of the richest people in Western democracies are the sole beneficiaries of the neoliberal transformation.
- (3) The top 10 % cause a disproportionate amount of environmental damage.
- (4) The neoliberal transformation has many negative effects for a large part of the population.
- (5) Our democracy is at risk of becoming a plutocracy and being abolished.
- (6) We need policies that benefit at least 90 % of the population.

## 5 Measures Against Economic Inequality

Lately a variety of measures to reduce economic inequality have been proposed. Each of these measures involves specific, calculated models (Detel 2025, Chapter 6). In popular accounts and political discussions, however, the focus is usually on a single measure. While this is understandable from a political perspective, it carries the risk of being one-sided. Some of these measures are outlined below by way of example. The SPD, the Greens, the BSW and the Left Party are calling for a wealth tax on high-net-worth individuals, for example a tax of 1 % on assets of 25 million or more, 2 % on assets of € 100 million or more, and 3 % on assets of € 1 billion or more (Bach and Thiemann 2016). This would generate additional revenue of between € 10 billion and € 20 billion, depending on the chosen model. These proposals are variations on the former wealth tax, which only applies to the ultra-wealthy. While this restriction may mitigate some of the aforementioned drawbacks of this tax increase, such as the costs of collection, it does not eliminate them. Consequently, these proposals are not particularly attractive. However, this situation could change if the EU were to implement its plan to introduce a register of EU-wide assets worth 200,000 or more (Saez and Zucman 2021, 195–8; <https://taz.de/EU-plant-Vermögensregister/!5820991/>).

However, under German tax law, there are two types of wealth tax that are more worthy of consideration: the inheritance and gift tax, and the one-off wealth levy. Many of the large fortunes in Germany are accumulated through substantial inheritances or gifts. The inheritance and gift tax has a number of advantages over the general wealth tax. It offers fewer opportunities for tax avoidance. It is fairer because heirs and *données* usually don't contribute their own labor. It promotes equality of opportunity between generations. Furthermore, Germany's position as a business location remains unaffected (Bach 2022). Currently, the value of inheritances and gifts in Germany amounts to around € 400 billion per year. Around € 13 billion in ESS tax is paid on this (Baresel et al. 2021). This corresponds to an effective tax rate (i.e. the percentage of a company's profits that it pays in taxes) of around 3.2 %. Recent estimates paint an even grimmer picture, as they project tax revenues of only 9.2 billion, which corresponds to an effective tax rate of just over 2 % (Linartas 2025, 84–5). Clearly, there is considerable scope for improvement here.

Recent proposals to increase the inheritance and gift tax are based on generous tax-free allowances. The intention is to ensure that, for every single inheritance or gift, up to € 500,000 remain tax-free. In the case of an inheritance or gift of a company, for example, efforts are made to keep the financial burden as low as possible. For example, this burden would be spread over a longer period, and the inheritance and gift tax can be subordinated to other liabilities. Interest payments and principal repayments will be dependent on the company's performance. At the heirs' request, the tax authorities can become a shareholder and thus take over the inheritance and gift tax. This could generate additional tax revenue of around € 15 billion (Thiemann et al. 2021; Bach 2022).

The inheritance and gift tax could be increased for the ultra-rich only, such as the top 1 %. As documented above, this demographic owns around 30 % of Germany's total wealth, meaning they bequeath or donate an average of around € 120 billion. Raising the inheritance and gift tax to 30 % could generate around € 40 billion in additional revenue, approximately € 27 billion more than at present. The top 1 % could cover most of this tax increase from the income generated by their property and securities, meaning their companies would remain unaffected.

The legal basis of the one-off wealth levy is Article 106 (1)(5) of the German Basic Law. One of the conditions is the government declaring a national state of emergency. Given all the problems outlined above, this declaration should not be an issue. From a fairness perspective, this levy should be designed as a proportional tax. The Greens propose an annual wealth levy of 1.49 % on private wealth over a 10-year period, with an allowance of € 1 million plus € 250,000 per child. This would generate an additional revenue of around € 100 billion (Bach et al. 2011). One of the most attractive models proposed in academic circles starts with a tax rate of 10 % on

wealth exceeding € 30 million. The levy rises to 30 % for wealth up to € 100 million and remains at this rate for even higher levels of wealth. In Germany, this measure would affect 0.6 % of the population. This measure could generate approximately € 300 billion for Germany (Bach et al. 2021; Bach 2020; DIW Econ 2025). Implementing this wealth levy across all EU countries could generate a multiplier effect of 4.<sup>10</sup> This would result in Europe generating an additional revenue of around € 1.2 trillion.

Various proposals have also been made to increase income tax. It is important to distinguish between average and marginal tax rates (Bach and Haan 2011; Bach 2021). The average tax rate is the proportion of a taxpayer's tax liability relative to their taxable income. The marginal tax rate indicates the proportion of each additional gross euro earned that is payable as tax. When people talk about top tax rates, they are generally referring to marginal tax rates. For instance, the top tax rate applicable to incomes over € 56,000 is, technically, a marginal tax rate, whereas the average tax rate for this income bracket is significantly lower, at just over 26 %. The Greens are calling for a top tax rate of 49 % on incomes of € 80,000 or more. However, they also want to increase the tax-free allowance by € 2,000. While this would benefit poorer sections of society, it would lead to a total shortfall in revenue of over € 5 billion. Atkinson proposes, for the United Kingdom, a top tax rate of 65 % on incomes of € 100,000 or more, which would generate an additional € 18 billion in revenue (Atkinson 2018, 389; Saez and Zucman 2021, 174–7, 187–9). Piketty calls for a basic allowance of € 12,000, a linear increase to 42 % up to an annual income of € 56,000, and a further increase to a 50 % tax rate for incomes of € 200,000 or more per year. Finally, he proposes an increase to 80 % for incomes of € 500,000 or more per year for industrialized countries. This would generate an additional € 24 billion in revenue (Piketty 2014, 692–4).

Proponents of wealth taxes have also suggested to introduce a financial transaction tax in Germany. This tax is levied on financial market transactions, particularly those involving securities and derivatives. Similar to VAT, this tax is a consumption tax. As financial products are predominantly owned by the wealthy, it is primarily the wealthy who trade on the financial market (Schäfer D. 2015). In the context of high-frequency trading using supercomputers, over 13,000 billion US dollars' worth of financial transactions are carried out on a typical trading day. The

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<sup>10</sup> Number of ultra-high-net-worth individuals with assets of € 30 million or more: Europe 55,000, Germany: 15,000 (Bacher U. et al. UHNWI in Emerging Markets (<https://www.efos.unios.hr/repec/osi/journal/PDF/Interdisciplinary%20ignorespacesManagementResearchIX/IMR9a40.pdf>)). See also information provider "Wealth-X" (<https://de.finance.yahoo.com/news/super-rich-germany-ranks-fourth-globally-143300466.html>). Number of ultra-high-net-worth individuals with assets of € 100 million or more: Europe 16,000 (<https://de.statista.com/infographic/28289/number-of-super-rich-by-world-region/>), Germany 3,300 (<https://www.wiwo.de/finance/investment/wealth-in-germany-number-of-super-rich-in-germany-growing-significantly/29889790.html> (Wirtschaftswoche).

volume of financial product trading is almost 70 times greater than the total volume of global goods and services traded. While some countries do levy a financial transaction tax, usually at a rate of between 0.01 % and 0.05 % per trade, this is by no means universal. Germany has not yet introduced this tax, but is participating in EU-level initiatives. For instance, Germany and France have proposed a tax rate of 0.2 %, limited to trading in shares of companies valued at over €1 billion. However, this would affect only 0.3 % of all financial transactions. It is expected to generate additional revenue of up to € 1.5 billion (Schulmeister 2020). Previously, in 2011, the European Commission had proposed taxing share trading at 0.1 % and derivatives trading at 0.01 %. This would generate an additional € 17 billion in revenue for Germany alone (Report for the German Federal Ministry of Finance 2014).

In 2012, the DIW advocated a tax rate of 0.05 % on all financial products, calculating that this would generate an additional € 32 billion for Germany. The Kiel Institute for the World Economy recently proposed a tax rate of 0.2 % for securities and 0.02 % for derivatives (Funke et al. 2020). This would result in an additional € 90 billion in revenue for Germany. However, one problem with the financial transaction tax is that it makes little sense to introduce it at a national level; rather, it would need to be introduced either globally or, at the very least, across the EU (Schäfer D. 2016). No solution has yet emerged in this context, except within a very limited framework, as noted above.

The stated purpose of taxing the wealthy is to raise additional revenue to reduce economic inequality and strengthen democracy. However, measures to reduce economic inequality may also involve enacting rules and laws that prohibit previously legal tax avoidance schemes. For instance, self-employed individuals (e.g. lawyers) with a minimum share capital of € 25,000 can establish an asset-management limited liability company (GmbH). Corporate tax, which is lower than income tax, is then payable on part of the income, enabling these individuals to save on tax. This practice could be countered by ensuring that income from labor is taxed at the same rate as income from capital (Saez and Zucman 2021, 127–34; Muckenhuber 2022; Hourani et al. 2023). A widespread and hitherto legal method of tax avoidance involves establishing a complex network of companies with varying ownership structures, the reconstruction of which is often difficult or even impossible (for example, in a court of law). Consequently, taxation frequently does not take place. However, different ownership structures within corporate chains could be prohibited (Schwarz 2019, 25; Flade 2022). The relocation of subsidiaries to tax havens is a well-known practice. Company owners or shareholders usually rely on advice from the tax avoidance industry to this end.

This is an extremely complex phenomenon. In general, cooperation with the tax avoidance industry could be subject to high taxation. Furthermore, a global minimum tax for multinational companies has been proposed, as well as the

abolition of tax deductions for business and income-related expenses. For transactions involving tax havens, income taxes could be increased, a withholding tax could be imposed, and tax benefits on profit distributions could be eliminated (see Sections 8 and 11 of the Tax Avoidance Act and Section 10(1), Sentence 1 of the Foreign Tax Act). These changes would enable states to collect more tax revenue. However, it is difficult to estimate the additional revenue that could be generated by a consistent fight against tax avoidance. One of the most recent and detailed books on this issue, with a specific focus on the US, estimates that this could amount to 4 % of national income (€ 750 billion annually) (Saez and Zucman 2021, 187). Assuming a more conservative estimate for Germany of 2 % of national income which equates to € 4,286 billion in 2023.<sup>11</sup> This would generate an additional € 85 billion in tax revenue per year. A global minimum tax for multinational companies has finally been agreed upon, which did not exist until recently.

This initiative has indeed been implemented. In 2021, 141 countries agreed on a global minimum corporate tax rate of 15 %. In Germany, the relevant legislation was approved by the Bundestag in November 2023 and by the Bundesrat in December 2023 (BGBl. I, 397). However, loopholes in this law reduce the additional revenue. One such loophole is the restriction to companies with an annual turnover of more than € 750 million. Setting the threshold at € 400 million, for example, would generate significantly more tax revenue. Furthermore, countries are still permitted to levy corporate taxes of less than 15 % if the companies concerned can demonstrate a certain level of real economic activity and are not mere letterbox firms. The Netherlands and Ireland – the two major European tax havens – can continue to offer companies, particularly subsidiaries engaged in real economic activity, tax rates well below 15 %. These loopholes should be closed during renegotiations (Alstadsæter et al. 2024).

It is difficult to calculate the potential additional revenue from all the aforementioned measures. Nevertheless, a large body of relevant literature can be examined and its findings compared to make a highly probable assumption that the annual additional revenue would range from at least € 80 billion to a maximum of € 300 billion (Unger 2012). This considerable margin arises from differing assessments of the avoidance responses (Detel 2025, Chapter 6, particularly Section 6.10).

Tax measures aimed at reducing significant economic inequality are particularly relevant from a political perspective, and it goes without saying that they worth considering. It is therefore all the more important to highlight the conditions under which such measures can be effective. Firstly, these measures only make sense if the relevant executive body – the tax investigation service – exercises

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11 <https://www.destatis.de/DE/Themen/Wirtschaft/Volkswirtschaftliche-Gesamtrechnungen/Inlandsprodukt/Tabellen/lrvgr04.html#242556>.

sufficient control over the payment of taxes. Germany, however, is currently facing a shortage of tax investigators.<sup>12</sup> With each tax investigator generating an average of around € 1 million in additional tax revenue for the German state per year, it's difficult to understand why more investigators aren't being trained and deployed. After all, this is a clear win-win situation.<sup>13</sup>

Furthermore, the calculations of additional tax revenue are based on estimates that can vary to a greater or lesser extent, and do not provide exact figures. And proposals for these measures always include models with specific parameters, such as tax allowances, tax rates, exemption rules, and payment terms. When such a model is available, different values can be entered for these parameters, quickly generating a multitude of variants. The process of discussing the advantages and disadvantages of these variants and selecting the one to be implemented politically is complex and must be carried out within the political arena. The figures mentioned above for additional revenue are based on an average of data from various relevant studies (Detel 2025, Chapter 6).

In discussions about taxing the ultra-rich, a common concern is feasibility. The proposed measures may be good in theory, but they will not gain enough support to be implemented. However, this concern is rarely supported by empirical evidence, yet it is treated as certain knowledge. As long as the implementation of political proposals has even a small probability of occurring, reservations about feasibility should be rejected outright. In the present case – the taxation of the ultra-rich – a successful precedent might be illuminating. In 1936, Franklin D. Roosevelt was elected president of the United States for the second time. In his acceptance speech, he reflected on the past years, remarking:

The political equality we had once achieved was meaningless in the face of economic inequality. A small group had concentrated almost complete control over other people's property, money, labour and lives in their hands. Against such economic tyranny, the American citizen could only appeal to the organised power of the state. The crash of 1929 exposed this despotism. The 1932 election was the people's mandate to put an end to it. (Roosevelt 1936)

The 'New Deal,' established by Roosevelt, involved massive government intervention and stabilized the economy, alleviating the hardships of the Great Depression.

<sup>12</sup> <https://www.dbb.de/artikel/personalmangel-in-der-finanzverwaltung-gefaehrdet-steuergerechtigkeit.html>). <https://www.zeit.de/wirtschaft/2010-04/steuer-finanzbeamte-verlust>. <https://www.dstg.de/aktuelles/news/wir-brauchen-dringend-mehr-personal/>).

<sup>13</sup> Troost 2016, Alt 2016. <https://www.nd-aktuell.de/artikel/1165242.steuergerechtigkeit-finanzbeamtern-fehlt-immer-mehr-personal.html>. <https://www.zeit.de/wirtschaft/2010-04/steuer-finanzbeamte-verlust>. <https://www.dw.com/de/deutsche-steuer-gewerkschaft-es-mangelt-an-steuerfahndern/a-48055556>. <https://www.spd-hessen.de/2015/03/10/zu-wenig-steuerfahnder-und-pruefungen/>. <https://www.welt.de/wirtschaft/article/121203298/Germany-affords-itself-an-absurd-tax-investigation.html>. <https://www.sueddeutsche.de/geld/fehlende-betriebspruefungen-bayern-wird-zur-steueroase-1.1067694>.

One component of the New Deal was the Revenue Act of 1935, which increased the tax rate to 79 % for incomes over five million U.S. dollars annually (Schulmeister 2014). This law became known as the ‘Soak the Rich’ tax.

## 6 Conclusion

Many countries, including Germany, are currently facing enormous challenges that cannot be overcome without additional tax revenue. As a result, German policy-makers are taking on more debt and reducing social benefits. However, for some time now, some political groups and academic studies have been proposing specific types of wealth tax to generate additional revenue and reduce current economic inequality. At first glance, tax increases, particularly a wealth tax, seem to have significant drawbacks. They could harm the economy by placing a greater financial burden on companies and jeopardizing jobs. They may also prompt avoidance reactions from affected citizens. However, these objections often do not specify which model of wealth tax is being referred to.

Academic studies propose models that primarily target the ultra-wealthy, who invest only around 60 % of their wealth in companies and therefore have other sources of income. Furthermore, recent studies suggest that the wealthy’s responses to a wealth tax would likely be far less significant than previously thought. Historical analyses show that the rapid growth of wealth in Germany and other industrialized nations stems from the neoliberal transformation – that is, the restructuring of the traditional social market economy into a deregulated market economy, and the expansion of financial markets.

This transformation has demonstrably benefited only the wealthiest 10 % but has also contributed to adverse side effects including precarious labor markets, the rise of far-right political forces, a significant additional ecological burden and the rapid increase in the number of ultra-wealthy individuals. These effects threaten to transform democracy into a plutocracy. Therefore, overall, there are more arguments in favor of taxing the wealthy than against it, provided that businesses and companies are sufficiently protected through appropriate measures, such as exemption rules and high tax-free allowances.

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