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**What is at stake on 27th September in Germany:  
Learning lessons from the financial crisis!  
Sharing the burden of the crisis!**

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## **Sharing the burden of the crisis!**

Global financial markets have caused the most serious economic crisis since the Great Depression, over 80 years ago. In response to the current crisis, governments around the globe have been stabilizing and protecting their economies and jobs with taxpayers' money. Many citizens ask themselves: Who is going to pay the bill for this? Are taxpayers the only ones to pay or will financial markets and investment bankers be held accountable to pay parts of the burden?

### **What is at stake for voters in Germany on September 27<sup>th</sup>:**

Will Germany have a government that will put its full weight behind an international financial transaction tax? And will Germany have a government that at least enacts a national stamp duty? With these measures, public policy could hold the initiators of this crisis accountable.

Will Germany have a government that limits tax deductibility for bonuses and puts a limit on bonus payments in respect to the full-year salary?

Will Germany have a government that legally requires banks to disclose their business activities in tax havens?

Will Germany have a government that stands ready and able to learn the lessons from the worst crisis of global capitalism?

As social democrats, we fully support such a course for a new government in Germany. Our political opponents stand for the opposite.

The financial crisis has shown: Unregulated markets tend towards excessive behaviour. Markets know no limits for themselves. Investment bankers and stock exchange dealers had drunk themselves into a mindless state of intoxication for profits. Quite honestly, a fair number of their clients wanted to join the party as well. These excesses almost led to the total collapse of the system. Now we must all bear the consequences. *Do we simply accept these practices or can we end the "binge-drinking" of the financial markets.*

Uncurbed alcohol abuse among youngsters is a serious concern for lawmakers in many countries. Should public policy simply stand on the sidelines when excessive behaviour on financial markets risks to ruin our wellbeing? No. The Social Democratic Party of Germany stands firmly opposed to this!

For this reason, we propose the introduction of an international financial transaction tax (FTT) in our party's platform for the September 27<sup>th</sup> federal elections. At a minimum, we proposed to introduce a national stock transaction tax (modelled after the UK stamp duty), a tax-deduction limit on senior executive remuneration and an intensification of the fight against tax-havens. The Christian Democrats (CDU, CSU) and the Liberal Democrats (FDP) are standing against these positions.

### **1. Introduce an International Financial Transaction Tax / National Stock Exchange Tax**

Germany by itself will face a fiscal shortfall of over 300 billion EUR in tax revenue during the next legislative term (2009-2013). The federal government had to mobilize a total of almost 500 billion EUR in guarantees and recapitalisation assistance to financial institutions. Consumers and businesses were supported with two fiscal stimulus packages at around 80 billion EUR in 2009 and 2010. Furthermore, the credit support scheme for non-financial corporations amounts to a total of 100 billion EUR.

Who is going to pick up the tab for this? Compensation payments and fees for government guarantees are levied on banks participating in public stabilization schemes. But this is not enough. We want financial markets to contribute their own fair share towards the financing of the fiscal burdens of this crisis. The best instrument to ensure a contribution of the entire financial sector towards the cost of this crisis would be an international financial transaction tax (FTT). This tax takes a markedly different approach from the often-discussed "Tobin-Tax", which would apply only to foreign currency markets.

We work towards an international financial transaction tax, at least on the level of the G-20, building on a broadly defined tax base and a very low tax rate. G20 countries account for roughly 92% of global trading volume in exchange-traded equities and about 76% of global trading volume in exchange-traded bonds. Evasive reactions of market participants would be almost impossible. For this reason, the tax base for an international financial transaction tax would need to comprise transactions in the exchange-based spot and derivatives markets as well as OTC markets for all asset classes (equity, bonds, derivatives and foreign exchange). Lastly, the tax rate should be very low, at about 0.01% to 0.05%.

Based on calculations of the Austrian WIFO economic research institute, a global financial transaction tax of 0.05% could yield revenue of about 1% of nominal world GDP per year. This would cover about half of the annual additional fiscal resources mobilized by G20 countries for anti-crisis measures (approx. 2% p.a.). A rough estimate of the revenue potential for Germany stands at about 10 to 20 billion EUR per year. The debate among finance

ministers in London in the run-up to G20 has shown a basic agreement that burdens of the financial crisis ought to be shared in a fair manner. If it was possible to take the next step at the G-20 Pittsburgh summit and agree on the introduction of an international financial transaction tax, governments and citizens worldwide would gain a powerful instrument to make the profiteers of financial transactions contribute to the cost of the crisis.

But even if there was no agreement on G 20 or EU level to introduce a financial transaction tax, our national policy goal is to (re-)introduce a stock exchange tax in Germany. This tax would be modelled along the lines of the UK's stamp duty which has been levied since 1694. Stamp duty rates in the UK are 0.5% to 1.5.% of market value of traded British stocks.

## **2. Limit possibility for tax deduction of managers' pay!**

German tax law provides a forceful approach to reward responsible conduct in business and to restrain simple greed and the drive for quick profit. The SPD wants to abolish the complete tax-deductibility of manager's compensation and severance packages ("golden parachutes") as business expenses. Instead, we propose to introduce a 50% deduction of payments above 1 million EUR). Christian Democrats vigorously defend the current regulation which requires the German tax-payer to pitch in on the generous bonus-payments that companies award to their senior managers. A second point where CDU and CSU were defending the interest of high-earning senior executives was related to a fixed ratio of variable compensation payments to base salary. If we do not introduce a binding guideline for such a ratio, variable bonus payments will continue to spiral out of hand.

Another forceful approach that has been repeatedly demanded by SPD leaders is to introduce a binding commitment of the management board to the "general wellbeing of the corporation" into the German law on joint stock companies (AktG). A company's conduct ought to be oriented towards the wellbeing of shareholders, workers and other stakeholders alike. This regulation would provide a powerful basis to further limit excessive executive pay.

## **3. Continue our fight against tax-havens!**

In government, the SPD has taken the fight against tax havens seriously. It is highly unjust if the richest citizens in a society are able to hide billions of Euros from legitimate tax authorities. In the end, this behaviour hits the weakest members of our society the hardest. Public education and social safety nets in Germany are financed by tax revenue. Tax havens undermine the financial underpinning of social justice in Germany.

We do not want German banks to publicize their tax-saving and tax-evading activities in foreign countries. Still today, German banks manage thousands of foundations and trusts from neighbouring countries. Why do they need to do this? Why don't they use German law to incorporate investment vehicles for their clients? Experts estimate that 90% of this international activity is performed for tax-evasion purposes. We do not know how many German clients are part of these schemes. Without the help of German banks, the majority of illegal funds could not be channelled into tax-havens. We want to stop banks making a profit from tax evasion. Until now, banking supervisors and tax authorities lack the instruments to clamp down together on such practices. We want to change this!

CDU and CSU have continued to hinder our fight against tax-havens and tax evasion. For months and months, they had blocked a draft law on the topic and had denied all need for action. Following tough negotiations, the SPD was able to push the law through the German legislative process. Currently, the Christian Democrats are dragging their feet on "arming" the legal provisions with a concrete list of tax havens to be included in the special supervision regime of German tax authorities.

### **Learning the lesson from the crisis: The SPD stands ready!**

Recent news can strengthen the fear that greed has returned to the financial markets. Global investment banks (again) earn good money, even with public and state support. We must not allow that the casino game of the banks begins once again. We do not want to return "to the old laissez-faire course". In February of this year, we had already put forward a blueprint which stipulated a set of "traffic rules and basic principles" for financial markets. Our country cannot take another crisis of this magnitude.

We want to avoid that citizens will have to pay the bill for the excesses of the financial industry while senior bank managers fill their pockets with promises of guaranteed bonuses. We will continue to work forcefully that citizens' savings in Germany are safe. At the same time, we will continue to keep a close eye on banks and other financial institutions: They need to pass on preferable financing rates (e.g. from tenders of the ECB) to private households and businesses at responsible rates.