

Ethics Draft Paper of the Research „Tax Justice & Poverty“

Ethics V: The Church and Taxation

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Please note: Certain cross references within this document (such as GW/I/2.3 or E/III/5) relate to the cross-referencing system developed for the Tax Justice & Poverty Project as such, see <http://tinyurl.com/tjp-referencing>

1 Introduction

Having discussed matters of principle importance for the judgment of items relevant to this research problem, now some more specific information regarding the church's teaching on taxes, tax-like contributions, tax administration and spending and tax policies. When browsing through standard documents such as the Compendium (2005) or Vatican Websites, one notes immediately, that there is relatively little on that topic. Why is that?

1.1 Taxation: Hardly of interest?

Regarding taxation the great man of CST, Oswald von Nell-Breuning, admits that there is very little attention given to it in Catholic Social Teaching.¹ And he provides a convincing illustration of the point himself: The authoritative Compendium "Texte zur Katholischen Soziallehre", which has been edited by himself. In its 9th edition of 2007, it provides the most essential documents of CST on 803 pages and contains only 3 references to "tax policy". Why this is the case, there are many reasons.

For centuries, "church princes" were, since unobstructed by estate and inheritance issues, wealthier than worldly princes. At the same time one has to bear in mind that during those times the church was the main provider of social security and social assistance and admittedly spent a lot of that money that way on charitable institutions and alms (Booth, 2007d, p. 111).

Regarding the question of taxes and the secular state in the past, the church was reluctant on taxation because many states collecting them were squandering those for the sake of a king, nobility or military excursions. It was only comparatively recently that Oswald von Nell-Breuning indicated that today's state is very different from those states and therefore needs our tax compliance (see E/III/2.6.3).

But there are other reasons for church restraint as well. For example, that nowadays the church is too much involved into the tax game herself, with implications arising. First, the church is a major landowner, in Germany the second largest after the state, which would call in principle for the payment of Real Property Taxes. In fact, the question of Real Estate taxation stood right at the beginning of Catholic Social Teaching (see 2.4). In many places, e.g. in GER, KEN and ZAM, the church is tax exempt for real property, in KEN at the same time opposing heavily plans to improve on the taxation of real property.

¹ ,In den Dokumenten der katholischen Soziallehre ist von Steuern und Steuerstaat auffällig wenig die Rede.' (Nell-Breuning, 1980, p. 67)

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Additionally in Germany, the state collects Church Tax, i.e. one tenth of a person's Income Tax, and forwards those proceeds to the German bishops and in addition, the church receives billions of Euros in "Staatsleistungen", i.e. regular annual payments from Germany's federal states to churches compensating for the confiscation of (some) church property during the "secularization" period hundreds of years ago (see GW/I/5.3).

Clearly, there are many reasons for the church to tread carefully. And yet: The topic is increasingly unavoidable and "the church" needs to position itself.

1.2 Interpretative context

To find such positions is, however, far from easy, as has been explained in previous chapters, most importantly E/I: The Catholic Church, too, consists of people living in many different cultures and regions. In other words: In spite of a common religion, the presence of different cultures and value systems among its members makes it difficult to interpret that religion. For example: the conclusions arising from tax related bible passages will be interpreted differently by an African adhering to the *Ubuntu*-philosophy, to a German Ordo Liberal or to an Anglo-Saxon adherent of free market ideology (see 2.1).

For that reason it also applies regarding taxation: 'As such, the precise level of taxation is a matter for prudential judgment informed, at least in part, by economic reasoning. Therefore, the Church, in Her teaching has limited Her statements to general principles and not made judgments about appropriate rates of taxation.' (Booth, 2007d, p. 112)

Or, as another scholar puts it, taxation seems to be too specific to be of importance when discussing big issues of our economic, social and political life such as: 'Politics ... should be about moral choices. How do we protect human life and dignity? How do we fairly share the blessings and burdens of the challenges we face? What kind of nation do we want to be? What kind of world do we want to shape?'²

But: After having discussed all these questions and finding answers there will be yet another question, which is very important when it comes to implementation: 'How will we pay for all that which we would like to be and what we want to shape?' Money is not everything, but without money a lot is just not possible. And this brings in the question of taxes and taxation.

These issues are often mirrored in the kind of statements one receives from different hierarchical levels: the higher and more authoritative a statement within the church is, the more balanced, the more ambiguous and the more open it is to various specifications. This applies most to statements by church councils, Vatican II included, and to papal statements. The more "incarnate" a view is into a regional, national or local church context a statement is, the more clear and unambiguous it is – but the less it is perhaps acceptable to people living outside that regional, national or local context.

² Collins/Wright: 7 and US Bishops (2004) Forming Consciences for Faithful Citizenship
<http://www.usccb.org/issues-and-action/faithful-citizenship/>

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From that historical and cultural background follow four general developments in the body of the Church's teaching in practical matters:

First, some views in the church's teaching are evolving and changing over time, e.g. the role of the state (see 2.4) or nor, e.g. regarding the relationship between labour and capital (see E/IV/4.4). This may include that some older quotes are no longer valid since the development of doctrine has shifted emphasis. Second: Some issues are simply abandoned and no longer pursued because they are no longer of relevance. Third, other issues are no longer worked upon because that which has been said cannot be said better or differently, i.e. that which has been said many years ago it is still valid for using it in an argument (e.g. John Paul II statements about the priority of labour over capital). Fourth: new issues arise since modern times are changing. Even they are not listed among, or linked to, the new contemporary "Rerum Novarum" in the Compendium (Pontifical Council for Justice & Peace, 2005, p. 155ff.), they will pose increasingly challenges for CST.

1.3 Research focusing

Whereas paper E/III was preoccupied with a general social ethical discussion of tax justice related criteria and E/IV with more indirect implications of CST for the determination of tax policies, legislation and tax enforcing instruments, this paper shall now have a closer look at explicit and direct references to taxation in scripture, tradition and CST related writings as well as specific tax instruments.

This essay does not claim any comprehensiveness. It will not be the task of this essay to evaluate, assess and prioritize those papers in a systematic way. It is merely some sort of "taking stock". This paper will look into the past, but focus on the present.

2 Taxation in scripture and church tradition

2.1 Treatment of taxation issues in the Bible

If one looks up the bible via an easily accessible search engine such as "Bible Gateway", applying this to (for example) the Revised Standard Version, Catholic Edition, one gets 46 entries on tax, 11 on taxes and 23 on tax collectors. While the first two entries cover Old and New Testament, the latter is confined to the New Testament.

One should not forget, of course, that tax-like contributions are also known under other names and can be found under the "tenth", "tithes", (crown) "levies", "offering" or "tribute"... That way, mutually agreed permanent and mandatory gifts at fixed rates (i.e. beyond the voluntary sacrifices given, e.g., by Cain and Abel) are already part of God's covenant with Abraham, see Gen 14:20 or 28:22.

Bible passages can, however, be interpreted in many ways. The famous example by Jesus "Give Caesar what is Caesar and God what is God's" (Mt. 22:17ff.) can, first of all, be used for justifying the payment of taxes to the state. But there is much more in it: (Gregg, 2007), for example, argues from this bible passage that Jesus, by saying that, robs the state of its divine character (which in those days it had due to the Roman pantheon with the Emperor being the earthly representative of the Gods), and supports a separation of state and church,

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from which it is only a second step to argue for separate church taxes - which, conveniently, is confirmed by the story of Jesus and Peter paying temple tax in Mt. 17:24.

Hence: How one uses and interprets the bible is more likely than not bound to the interpreters value background and betrays more about him than it does about the bible.

2.2 Early church/Roman Empire

To start with: The expression “Catholic” has its roots in the tax system of the Roman Empire. “Katholikos” was originally the title of a senior tax official in the larger provinces of the Roman Empire before it was adopted by high church officials in the Eastern Christian Churches or – even later – was associated with the (Western) Roman Catholic Church.³

The link between the Roman administration (including tax administration) and the Church arises also from the fact that the church had a functioning infrastructure at a time when the Roman civil administration collapsed. Hence the church assumed that role, including collecting taxes. Pope Benedict XVI used the *Sermon* of St. Maximus to indicate the historical importance of the Bishops in the administration and governance to the extent that civil authorities relied on their advice and the influence they had over the faithful. He illustrates this by using the support Ambrose offered to Flavius Magnus Maximus Augustus, the Western Roman Emperor (383-388 AD). The Pope did this by referring to the cautious and defensive attitude that Ambrose adopted to justify his famous project of redeeming prisoners of war, which project called upon the Christian faithful to support the civil authority.

By now sustained through legislation that invited Christians to redeem prisoners, Maximus, with the collapse of the civil authority of the Roman Empire, felt fully authorized in this regard to exercise true control over the city. This control was to become increasingly extensive and effective until it replaced the irresponsible evasion of the magistrates and civil institutions. In this context, Maximus not only strove to rekindle in the faithful the traditional love for their *hometown*, but he also proclaimed the precise duty to pay taxes, however burdensome and unpleasant they might appear (cf. *Sermon* 26, 2).⁴

However, there was always an obligation to justice and fairness, most importantly due to the treatment by St. Augustine in his “City of God”, by making a difference between just kingdoms and great robberies. ‘Justice being taken away, then, what are kingdoms but great robberies? For what are robberies themselves, but little kingdoms?’⁵ A similarity between kings and robbers is that both extract resources by force from productive members of society, kings would be even worse by taking territory not formerly theirs. Whereas the robber’s behaviour is considered antisocial, the king’s behaviour constitutes a public service and requires justification. The robbers did not make overarching laws while the kings had the authority and powers to make such laws, thus making the actions of the latter legal.

³ See e.g. http://www.katholische-sonntagszeitung.de/index.php/sz/Service/jahr_des_glaubens_kurzkatechese_von_bischof_stephan_ackermann, <http://en.wikipedia.org/wiki/Catholicos> and <http://www.catholicose.org/PauloseII/Catholicate.htm>,

⁴ Benedict XVI, General Audience (2007, October) Retrieved from http://www.vatican.va/holy_father/benedict_xvi/audiences/2007/documents/hf_ben-xvi_aud_20071031_en.html

⁵ Augustine of Hippo, *The City of God [De civitate Dei]* 4.4. The translation is that of Marcus Dods (New York: Modern Library, 1993).

2.3 Thomas Aquinas

Thomas Aquinas dealt more explicitly with the issue of what constitutes just taxation, attempting to make a difference between just taxation and legal plunder, an important question for Christian ethics. He tried to give another perspective of what St Augustine said on tax ethics by comparing kingdoms and robberies. Accordingly in his “Summa Theologica”, he cites Augustine’s “City of God” chapter 4.4, making reflections on the question on just taxation and robbery. Aquinas asserts that the moral law against robbery applies just as much to princes as to private persons, thus condemning any acts of the sovereigns forcibly taking resources from their subjects. Nevertheless to him, taxation is not always robbery. The distinction between just taxation and legal plunder hinges on the prince’s official capacity as guardian of the public good. He considers “robbery”, used by St. Augustine as, ‘... a certain violence and coercion employed in taking unjustly from a man that which is his.’ However, he observes that princes, entrusted with public authority and as guardians of justice have moral authority to employ coercion, but only ‘within the bounds of justice’ to ‘exact from their subjects that which is due to them for the safeguarding of the common good. This may involve the use of violence in so doing. On the other hand, Aquinas argues that ‘to take other people’s property violently and against justice, in the exercise of public authority is unlawful, making the prince guilty of robbery. In Thomas’ view princes, who extort property from their subjects beyond the bounds of justice ‘are bound to restitution,’ just as robbers in the private sector would be.⁶ He therefore tries to make a distinction between what would be considered just taxation, even if forcibly done, by referring to the intention; and goes on to condemn other acts of violence in which those in authority would violently take property, as robbery. This would therefore justify any acts of the state that are aimed at taking revenue from the citizen for the common good.

For Aquinas, the prince’s position as guardian of public justice justifies the tribute he levies on the people as payment for his services to the public. Basing his ideas on Paul’s Epistle to the Romans, Aquinas affirms that taxes [*tributa*] are due to the prince ‘as a sort of salary for his ministry.’ He understands Paul’s rationale for the obligation of paying taxes to civil rulers in Romans 13:6 as parallel to the same apostle’s rationale for the justice of wages for Christian ministers: ‘Each one ought to make a living out of his own ministry 1 Cor. 9:7, like the one who tends a flock consuming some of its milk. The ministry of princes is the preservation of the public peace, in return for which they receive an allowance in form of taxes [*tributa*] for this sort maintenance of peace for all. This tribute is not, the reward [*praemium*], but the living to which they are entitled. He emphasises that the justification of a prince’s collection of taxes is his status as one who fights for the common good. Aquinas distinguishes the tax [*tributum*], which is paid to the prince for the general administration, from the princely revenue or duty [*vectigal*] the payment for and maintenance of the services rendered, like merchants’ goods delivered for the maintenance and repair of roads. He

⁶ (Aquinas, 1920) Summa Theologica II-II, Q. 66, art. 8, objection 3, responsio, and reply objection 3. Aquinas cites City of God 4.4 in the reply to objection 3.

therefore provides a moral foundation for the duties, to which the prince is entitled to take fair payment for the provision of public services from those who chiefly benefit from them.⁷

In return for these privileges of exacting taxes Aquinas was quick to note that the prince may: exact more than the populace can afford to pay or more than is permitted to him by established law, ‘... a kind of pact between the king and the people’, or he may exact lawful taxes from the people but fail to fulfil his duty to provide for the public good. In fact, princes are also bound to refund money to taxpayers if they neglect their duty, like failing to suppress theft, for which they earn their salary. For Aquinas, the proper function of taxation is administrative. It is justified by the prince’s provision of necessary public services, such as defence, suppression of crime, preservation of domestic peace and order, and infrastructure, and thus taxes are morally legitimate only as long as the prince faithfully executes these obligations. To him therefore, taxes provide the prince with a living and to cover the costs of his administration. Its scope is limited by a kind of social contract between the prince and the populace, and its collection qualifies as legal plunder if this purpose and scope are disregarded (Todd Meredith, 2008, p. 44).

2.3.1 Comments

This is a very minimalist approach to the relationship between state/government and taxation and, basically, very close to Adam Smith and, by that, would certainly show a lot of difference in the current trends in the Catholic Social Teaching, which emphasise a more redistributive approach. Meredith Todd agrees that Aquinas view of just taxation does not confer any duty on the part of the prince to direct tax revenues to provision for the physical needs of the poor or to redistribute the wealth of the more affluent members of the community to those of limited means. This point is significant, considering that much of the recent discussion of the tax question by the Catholic Social Teaching and other Christian ethicists increasingly assumes that the moral question of taxation is fundamentally one of distributive justice and that distributive justice means redistribution of wealth by the state. It is now often taken for granted that the provision of food, housing, medical care, and schooling, to the poorer class of citizens at the expense of the richer, is part and parcel of the state’s administration of justice, through any tax system (Todd Meredith, 2008, p. 44).

On the other hand, more questions could also arise from the view Aquinas holds about the prince’s absolute role in taxation if perceived in the context of the state today. For instance, what would Aquinas still consider it morally and ethically right for governments in countries where immediate priorities would involve addressing issues of human security—poverty, health, education, and yet choose to devote a bigger portion of the national budget to purchase arms, ammunitions and other military equipment for protection against perceived enemies? Again, Aquinas emphasises the role of the rulers/states governments (modern times) in administration and management of the tax revenues but does not and only emphasises that the citizens have to pay what is due to the state. This does not offer any ideas about the

⁷ According to Christopher Todd Meredith, the prince would be entitled to two types of duties: tolls the prince collects on the transportation of merchandise and rights of maintenance he enjoys from local communities when he travels. (Todd Meredith, 2008, p. 43)

mechanisms that should exist in a state to allow the citizens play such a role for a more effective use of tax revenue.

One present-day Christian thinker John Finnis however argues that Aquinas' ideas on just taxation also implied redistribution too. According to Finnis, Aquinas considers the proper function of civil government as the provision of peace through, among others, 'a sufficiency of at least the necessities of life' (Finnis, 1998; 227) Therefore, Finnis interprets his component of peace, as a reflection that Aquinas also thought about redistributive taxation. Finnis admits that 'Aquinas tends to speak of taxes as a kind of stipend for governing', nevertheless he insists that a broader purpose for taxation is implied by Aquinas' views on the responsibility of rulers to provide for their subjects and of the proper use of legislation to encourage the use of goods in common. Additionally, he sees the king as the provider for his people in his position as the ruler and in using the law to regulate the common use of goods. However, he admits that some of these roles are not explicitly stated in Aquinas' arguments about just taxation but rather inferences made according to some of his thoughts.

Interesting, too, Elmar Nass and his review of neo-Aristotelian thought: Based on Aquinas, he deduces the entitlement of the poor for some (social) minimum standards. If those minimum standards are not provided by the state or contemporary wealth-holder, he argues it constitutes some right to self-defence on part of the poor.⁸

2.4 CSTs evolving view on the state and taxation

For the Church, the crucial question is indeed whether the common good of all, and special care of the poor, is best served via the obligations arising from love and charity, thus voluntary, or whether there is an obligation by the state to step in. And if the latter has to be the case the question is whether the best effect is obtained by taxation or other, e.g. market-based, means:

Traditionally, the emphasis is on private charity and the exercise of individual freedom of choice, even in early CST encyclicals. A good summary of that discussion is given in (Booth, 2007d).

Ironically, the famous first Encyclical which (kind of) inaugurated Catholic Social Teaching, namely Pope Leo's *Rerum Novarum*, is said to be sparked off by the perceived need to attack a specific tax proposal, namely Henry Georges' Single Tax which aims to tax the value of Real Estate.⁹ Knowledgeable experts report that the Pope was urged to take his

⁸ (Nass, 2016): In German "Notwehr", which is much stronger than self-defence.

⁹ See (Frambach & Eissrich, 2015, S. 25ff.). The relevant passage here is "To remedy these wrongs the socialists, working on the poor man's envy of the rich, are striving to do away with private property, and contend that individual possessions should become the common property of all, to be administered by the State or by municipal bodies. They hold that by thus transferring property from private individuals to the community, the present mischievous state of things will be set to rights, inasmuch as each citizen will then get his fair share of whatever there is to enjoy. But their contentions are so clearly powerless to end the controversy that were they carried into effect the working man himself would be among the first to suffer. They are, moreover, emphatically unjust, for they would rob the lawful possessor, distort the functions of the State, and create utter confusion in the community." RN, Nr.4

stance due to pressure by Italian and Irish Bishops who feared for their land rents.¹⁰ And indeed: Henry George also perceived the encyclical to be directed against his idea which is why he replied with an open letter titled “The Condition of Labour”.¹¹

The encyclical starts with the view that the situation of the poor may be deplorable and first, of course, advocates charity and almsgiving. Beyond that, “the law ... should favor ownership, and its policy should be to induce as many as possible of the people to become owners.” (RN 46). “If working people can be encouraged to look forward to obtaining a share in the land, the consequence will be that the gulf between vast wealth and sheer poverty will be bridged over” (RN 47). Following this thread of thought, Leo even expounds that private property is a right of nature, a view which Thomas Aquinas never held (see E/IV/4.5.1). The right to possess private property is derived from nature, not from man; and the State has no means to absorb it altogether via (excessive) taxation which, in consequence, is against the natural order: ‘The State would therefore be unjust and cruel if under the name of taxation it were to deprive the private owner of more than is fair.’ (ibid.)

The previous was re-quoted and confirmed by Pius XI in QA Nr. 49 & 50, where the Pope explicitly defends the (natural) right to pass on property via inheritance¹² because Man is Older than the state. In consequence, also Pius XI considered charity and investment to be much better than taxation, at the same time emphasizing that the wealthy are under ‘very grave’ obligation to share that which they do not need for their own upkeep with the poor. But he himself realizes that between obligation and practice is a gap and yet he prefers the redistribution of property as well, following the line of Leo.

Vatican II criticizes inequality in income and wealth stronger than earlier councils and writings and even admits that the ‘complex circumstances of our day make it necessary for public authority to intervene more often in social, economic and cultural matter’ (GS 74). It is also interesting that the obligations of love are by now joined by the obligations of justice. And it is here that the only mentioning of the word “tax” occurs: NOT as a remedy against poverty and inequality, but only the appeal that cheating is not permitted, especially, if the obligations imposed are light¹³ - one further proof that it is always easier for complex

¹⁰ From a private mail by a scholar on Land Tax issues: „Die Kirche ist nicht nur in Afrika der größte Grundbesitzer, sondern auch in Griechenland, was die Einführung einer Bodenwertsteuer unmöglich gemacht hat. Die Enzyklika *Rerum Novarum* war gegen Henry George gerichtet (dem Erfinder der Bodenwertsteuer), weil sich vor allem die italienischen und irischen Bischöfe gegen die Aneignung der Bodenrente wehren wollten. Die Haltung der Kirche zur Bodenfrage war und ist skandalös.“ Literature: Hubert Wolf (Hg.), Sabine Schratz (2010) *Das Gift des alten Europa und die Arbeiter der Neuen Welt - Zum amerikanischen Hintergrund der Enzyklika Rerum novarum* (1891) Schoeningh, Paderborn. Siehe auch (Große-Kracht, 2016).

¹¹ <https://www.henrygeorgefoundation.org/the-science-of-economics/letter-to-pope-leo-xiii.html> This issue shall not be deepened here because this position is clearly more differentiated nowadays.

¹² ‘The natural right itself both of owning goods privately and of passing them on by inheritance ought always to remain intact and inviolate, since this indeed is a right that the State cannot take away: "For man is older than the State," [34] and also "domestic living together is prior both in thought and in fact to uniting into a polity." [35]’ QA 50

¹³ GS 30: ‘It grows increasingly true that the obligations of justice and love are fulfilled only if each person, contributing to the common good, according to his own abilities and the needs of others, also promotes and assists the public and private institutions dedicated to bettering the conditions of human life. Yet there are those who, while possessing grand and rather noble sentiments, nevertheless in reality live always as if they cared nothing for the needs of society. Many in various places even make light of social laws and precepts, and do not hesitate to resort to various frauds and deceptions in avoiding just taxes or other debts due to society.’

Discussion paper, not yet finalized version!

institutions to be against something (inequality) than finding agreement on a positive remedy (tax based redistribution).

John Paul II takes the justice requirement addressed to the social and political framework one step further. In the famous paragraph where he both introduces the preferential option for the poor and the concept of the “social mortgage” of private property he argues that the requirements arising from the preferential option of the poor is both individually and based on charity, but that there is also a social dimension: ‘It affects the life of each Christian inasmuch as he or she seeks to imitate the life of Christ, but it applies equally to our social responsibilities and hence to our manner of living, and to the logical decisions to be made concerning the ownership and use of goods.’ (SRS 42). In the following paragraph he writes that this preferential option ‘must be translated at all levels into concrete actions, until it decisively attains a series of necessary reforms. Each local situation will show what reforms are most urgent and how they can be achieved.’ (SRS 43). Surprisingly, the word “tax” never appears and John Paul II seems to have a lot of hesitancy towards that, to the big joy of all those who are in favour of “lean government” – and John Paul II seems to prove them right:

In Centesimus Anno John Paul II, while once more avoiding any mentioning of taxes and taxation, explicitly warns of ‘creating a new type of State, the so-called "Welfare State" ... dubbed the "Social Assistance State". Malfunctions and defects in the Social Assistance State are the result of an inadequate understanding of the tasks proper to the State.’ CA 48). Possibly building on that, but even more explicit, is the Compendium on Social Doctrine when saying ‘solidarity without subsidiarity, in fact, can easily degenerate into a “Welfare State”’.¹⁴ (Pontifical Council for Justice & Peace, 2005, p. 152)

But, here again, what this specifically and justifiably means needs to be spelled out in every local, national and cultural context, and at least within the German Context there is always a distinction between the positive concept of the “Welfare State” and the negative concept of a “Social Assistance State”. Major theorists always emphasized that the state must support the individual, not patronize it.¹⁵

The following statement by Alberto Gonzales can be taken as a summary of the previous overview. By interpreting Jesus’ statement “Render unto Cesar”, Gonzales puts the relationship of taxation, state and society in the context of most/all relevant CST principles

Taxes are established in the sole interest of the common good of a society; as such, the moral law governing the legitimate application of taxes takes many factors into account. Solidarity would require that the basic needs of every member of society be protected, and distributive justice would assert that the wealthy have a responsibility toward the poor in their society; taxation is a viable mechanism to serve that purpose, though it is not the only avenue by which

¹⁴ At the same time, the Compendium agrees on the important link between taxes and the state in some general terms, see below, 5)

¹⁵ For the difference between “Wohlfahrtsstaat” und “Versorgungsstaat“ siehe (Große-Kracht, 2016). Nell-Breuning: Der Wohlfahrtsstaat habe „seinem Sinn und Wesen nach das Gemeinwohl zu verwirklichen und dadurch die allgemeine Wohlfahrt zu fördern.“ Wenn der Staat aber in den Fehler verfall, „die Selbständigkeit und Selbstverantwortung der Einzelnen durch seine Tätigkeit, statt zu ergänzen, *ersetzen* zu wollen“, dann entarte er zum Versorgungsstaat. In: (Hagedorn, 2018, S. 42).

that goal may be secured. Furthermore, subsidiarity would call for a respectful consideration on the part of the State of the needs of individuals, families, and local communities so that they are not taxed beyond the point where they would no longer be able to provide for their own necessities.¹⁶

3 Markets and States, human beings and the poor

First of all, two context chapters are important to spell out the starting point of the churches' reflection. One has to start with explaining the gradually emerging preference for state and democracy rather than markets and capital. There is a wide diversity of tasks for states and administrations which need to be considered and addressed and where taxation pops up and is dealt with, both regarding tax collection and tax spending.

3.1 Financial-economic order, common good, human well-being

A recent joint publication of the Congregation for the Doctrine of Faith and the Dicastery for Promoting Integral Human Development (2018) had a look at the global financial and social order and tried to provide both an ethical analysis and some guidelines for reform. Within this context, the paper also deals with Offshore Havens and tax crimes.

The paper affirms the important role, markets, finance, profits etc. do have in advancing economies and societies. The state, however, that the 2007 crisis revealed excesses which were not remedied adequately until the present day. Quick profit for its own sake, but misusing unfair advantage in size and knowledge, benefitting the few rather than all, is morally wrong, forgetting that successful markets rely on immaterial goods which markets cannot generate is short-sighted (Nr. 9). "The integral development of every person, of every human community, and of all people, is the ultimate horizon of the common good that the church ... seeks to advance." (Nr. 2). ... "No profit is in fact legitimate when it falls short of the objective of the integral promotion of the human person, the universal destination of goods, and the preferential option for the poor." (Nr. 9), "Markets and market actors, if left to their own, tend to create "centers of power that incline towards forms of oligarchy and in the end undermine the very efficiency of the economic system" (Nr. 12).

This is why regulation is so important and, since markets, financial actors and big enterprises are transnational, political and state cooperation is essential: "The understandable difficulties in this regard should not discourage the search for and imposition of concordant normative systems consolidated among different nations but with supranational scope." (Nr. 21). Important for regulations to work is "complete transparency regarding whatever is traded." This transparency is also key to combat the concentration of economic power. From this follows a comprehensive treatment of Offshore Tax Havens, see #

¹⁶ (Gonzales, 2013). Interesting enough, this contribution cannot be found anymore and even more intriguing is the question whether the person quoted is indeed the former US Attorney General.

3.2 Securing social cohesion and social peace

Pius XI sets out that some state action may be required to avoid not only unjust situations, but bring about and secure social cohesion and social peace which then will also benefit wealth holder.¹⁷

CST knows the argument that state intervention/taxation may be justified on grounds of securing social cohesion and social peace since if inequality is getting unacceptable it may endanger the common good of all (Fisch, 2016a, p. 99f.)

3.3 Caring for infrastructure and institutions

In Book V of his *Wealth of Nations*, Adam Smith argued already that there are essential tasks for society which are of little attraction to the private investor, among which is the publicly used infrastructure. In their book “*Wealth and our Commonwealth*”, whose focus is on Wealth Taxation, Gates and Collins recall the CST position that „there is a ‚social mortgage on capital‘”: “Part of society’s claim is the recognition that owners did not create wealth alone. ‘They have benefited from the work of many others and from the local communities that support their endeavours.’” (Gates & Collins, 2002, p. 120). Nobody created wealth on his own, most things needed (legal security, law enforcement, infrastructure) is paid for with tax dollars. For that reason, also Foundations are no alternatives, especially not if they serve the purpose of tax avoidance.

3.4 Securing individual freedoms and capabilities

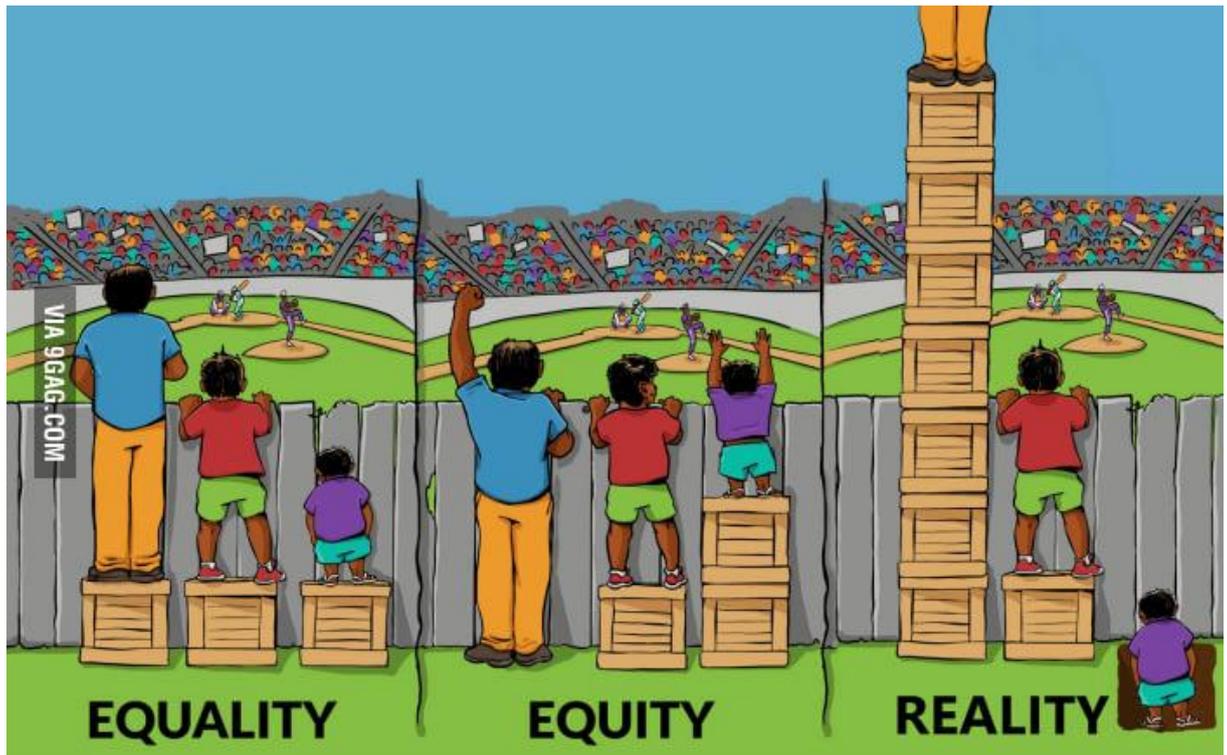
A major issue arising from CST is the question how the individual is put in a situation that he can develop and exercise his capabilities and subsequently participate in social and political life of his community. Here it is obvious that market distribution of income is not adequate to counter some disadvantages, i.e. some state intervention is seen to be necessary. (Fisch, 2016a, p. 99).

Here, one has to distinguish the liberal concept of subsidiarity and the CST concept of subsidiarity: While the former put everything to individual responsibility and risk, the latter also emphasis that the superior level has to provide support to the inferior level where those acting there are not capable of getting most out of their capacities (Große-Kracht, 2016)

3.5 Basic welfare/material needs/insurance

On that background, one has to be mindful between the distinction between equality, equity and reality.

¹⁷ ‘Yet when the State brings private ownership into harmony with the needs of the common good, it does not commit a hostile act against private owners but rather does them a friendly service; for it thereby effectively prevents the private possession of goods, which the Author of nature in His most wise providence ordained for the support of human life, from causing intolerable evils and thus rushing to its own destruction; it does not destroy private possessions, but safeguards them; and it does not weaken private property rights, but strengthens them.’ QA 50



Accordingly, the question is ever more urgent: What needs to be done specifically about the poor and others “left behind” and their justifiable needs? Here a number of sources argue that the state is in charge:

John XIII: The public administration must therefore give considerable care and thought to the question of social as well as economic progress, and to the development of essential services in keeping with the expansion of the productive system. Such services include road-building, transportation, communications, drinking-water, housing, medical care, ample facilities for the practice of religion, and aids to recreation. The government must also see to the provision of insurance facilities, to obviate any likelihood of a citizen's being unable to maintain a decent standard of living in the event of some misfortune, or greatly increased family responsibilities. MM 64

John Paul II: The obligation to provide unemployment benefits, that is to say, the duty to make suitable grants indispensable for the subsistence of unemployed workers and their families, is a duty springing from the fundamental principle of the moral order in this sphere, namely the principle of the common use of goods or, to put it in another and still simpler way, the right to life and subsistence. LE 18

Once more the question arises, where the money for all that will come from. The US Bishops suggested:

Government may levy the taxes necessary to meet these responsibilities, and citizens have a moral obligation to pay those taxes. The way society responds to the needs of the poor through its public policies is the litmus test of its justice or injustice. ... The dignity of workers also requires adequate health care, security for old age or disability, unemployment compensation (United States Conference of Catholic Bishops, 1986)

3.6 Funding, not providing

However: In the attempt to keep public involvement in supporting the poor to as little as possible, there is emphasis that the state should provide basic welfare, services, assistance and goods, but not with an own institutional apparatus (Booth, 2007d, p. 135ff) ‘It seems clear that Catholic Social Teaching supports giving the poor the means to purchase education and health provision, although this should not necessarily mean universal free access and certainly not state provision of these services’ (p.139) .

It is an outflow of the principle of subsidiarity that those closest to the problem are those most able to solve it, but this meaning family and friends (Sirico, 2007). This does also apply to local government within a federal-decentralized state-structure.

For this, solutions can be found disregarding whether the society is market friendly or market skeptical: In the first, for example, vouchers can be issued which then are being spent at a place of choice. In Germany, the state delegates certain functions to NGOs and Welfare Organizations.

3.7 Empowerment, citizenship, democratic participation

Only if peoples’ abilities are adequately developed and thus empowered, they realize two things: First, that “the system” is indeed beneficial for their interests, and therefore, second, engagement is worthwhile after they have been enabled adequately to participate in developing the Common Good in which they are stakeholder with ownership. This will motivate them to engage and participate in democratic procedures.

A good Christian is a good citizen. You must love your country, obey its laws, respect your leaders, and pay your taxes. You are called to take your due part in political, social, economic and cultural affairs. When you are eligible, you should vote and be voted for in political elections.¹⁸

Our society has developed a variety of services and institutions for the protection and well-being of its members. Such provision enables the majority to live in freedom from want and with possibility of fulfilling their aspirations and potential abilities. This costs money. Probably very few pay tax with enthusiasm, but it is a way in which we contribute to the common good. The parallel with paying tax to Caesar is not exact, but the *Pax Romana* had many advantages. Peace rather than war did much to allow society to flourish. If we pay tax we want to have some say in ensuring the fairness of how the money is collected as well as in its distribution between numerous claims. To do this satisfactorily, voting has to be taken seriously. This is how we exercise responsibility. Some hold back from this, recognising that politics involves compromise. A particular political party or candidate may not in every respect uphold the values we think are important. But the alternative, refusing to vote, is also the refusal to support the good that is possible. We also have a responsibility to be well-informed. Proposals ought to be accepted only after their effects on all sections of society have been considered. Investigation into causes and means of prevention need to accompany generosity towards those stricken by disaster. Choosing policies of collaboration rather than

¹⁸ Address of John Paul II to the young people of Nigeria (1982, February 13). Retrieved from http://www.vatican.va/holy_father/john_paul_ii/speeches/1982/february/documents/hf_jp-ii_spe_19820213_giovani-nigeria_en.html

competition would be ones more likely to enable human flourishing in a peaceful society.
(Smith, 2012, p. 3)

3.8 Enforcing justified contributions to the GLOBAL Common Good

Markets in their present forms are unable to consider adequately the global Common Good. Rather, they tend to exploit conditions in some place for the benefit of others, mostly, because standards in that exploited place are lower than in others. This, of course, applies for conditions of labour as well as the overexploitation of natural resources. In a world linked by financial as well as migratory “flows”, however, we have to adapt to the fact that the Common Good has to be thought universally and no longer locally. If it does not happen, we will inevitably reap its unpleasant consequences:

Profound and rapid changes make it more necessary that no one ignoring the trend of events or drugged by laziness, content himself with a merely individualistic morality. It grows increasingly true that the obligations of justice and love are fulfilled only if each person, contributing to the common good, according to his own abilities and the needs of others, also promotes and assists the public and private institutions dedicated to bettering the conditions of human life. Yet there are those who, while possessing grand and rather noble sentiments, nevertheless in reality live always as if they cared nothing for the needs of society. Many in various places even make light of social laws and precepts, and do not hesitate to resort to various frauds and deceptions in avoiding just taxes or other debts due to society. Others think little of certain norms of social life, for example those designed for the protection of health, or laws establishing speed limits; they do not even avert to the fact that by such indifference they imperil their own life and that of others. Let everyone consider it his sacred obligation to esteem and observe social necessities as belonging to the primary duties of modern man. For the more unified the world becomes, the more plainly do the offices of men extend beyond particular groups and spread by degrees to the whole world. But this development cannot occur unless individual men and their associations cultivate in themselves the moral and social virtues, and promote them in society; thus, with the needed help of divine grace men who are truly new and artisans of a new humanity can be forthcoming. (GS Nr. 30)

4 Cornerstones for pro-poor policies

The second, and more specific premise for church reflection is the preferential option for the poor and, from there, deciding conflicts between norms and policy options. But here, too, historical and cultural influences come in and need to be considered.

4.1 Entitlement: Homo oeconomicus or Human Person?

A basic conflict between neoliberalism and CST is the kind of imagery which is linked with human beings. While neoliberalism wants to understand economics as “hard science” and human beings as rational calculating beings, often confined to their material needs and consumer options, CSTs understanding of the Human Person as a relational being living and shaped by widely diverging cultural and traditional contexts is much wider and less clear defined. Most certainly, however, CSTs person is entitled to a number of non-material needs and rights as well, beyond mere materialist goods. Accordingly, neoliberalism would assume different sets of entitlements for “its” humans as would CST. This is why for neoliberals, “equality of opportunity” suffices, while CST insists on “equity of opportunity”.

4.2 Private and market based initiatives or state?

Once the tension between markets and states is resolved (see E/IV/4), there is still the question whether the poor can be assisted better via charity and private initiative, or via mandatory obligation and contribution: While there is total agreement and while there are many strong appeals that the strong have to assist the poor, there is permanent disagreement by what means this should be done best. Christian Faith in general and CST in particular have a strong bias towards ethical surplus arising from empathy and brotherly love, i.e. favouring private initiative. From the Middle Ages onwards, it were religious society, cooperatives or fraternal institutions primarily providing solidarity based on charity not on coercion. ‘State redistribution through political structures is not an extension of charity but an alternative mechanism for the allocation of resources to that of the market and voluntary initiative’ (Booth, 2007d, p. 112ff.).

For a long time, the Popes preferred donations, almsgiving and other forms of charity (see 2.4) and it was only Paul VI who brought in taxation after posing a challenge to those blessed with affluence in *Populorum Progressio*: First he reminds them of a saying of St. Ambrose, namely ‘You are not making a gift of what is yours to the poor man, but you are giving him back what is his. You have been appropriating things that are meant to be for the common use of everyone. The earth belongs to everyone, not to the rich’” (PP, 23). And he continues:

On the part of the rich man, [building up the human community] calls for great generosity, willing sacrifice, and diligent effort. Each man must examine his conscience, which sounds a new call in our present times. Is he prepared to support, at his own expense, projects and undertakings designed to help the needy? Is he prepared to pay higher taxes so that public authorities may expand their efforts in the work of development? Is he prepared to pay more for imported goods, so that the foreign producer may make a fairer profit? Is he prepared to emigrate from his homeland if necessary and if he is young, in order to help the emerging nations?” (PP, 47).

It is clear that Pope Paul has a very comprehensive understanding of “assistance”, not limited to taxation, but also to personal engagement, consumer justice and charitable donations. At the same time, Paul focused on international development, which leaves it open how he thought about the state’s role in developed states (see E/IV/5.3).

John Paul II and those following him (Sirico, 2007) argue that the Social Assistance state makes people dependent.

Against that, the US bishops argue that, facing wealth concentration in their country, the means with which to support the poor need to be reviewed

76. These duties call not only for individual charitable giving but also for a more systematic approach by businesses, labor unions, and the many other groups that shape economic life—as well as government. The concentration of privilege that exists today results far more from institutional relationships that distribute power and wealth inequitably than from differences in talent or lack of desire to work. These institutional patterns must be examined and revised if we are to meet the demands of basic justice. For example, a system of taxation based on

assessment according to ability to pay⁽³²⁾ is a prime necessity for the fulfillment of these social obligations. (United States Conference of Catholic Bishops, 1986, p. 18)

And a group of Jesuits concludes:

We recommend the promotion of public policies that redistribute wealth: We see a growing acknowledgement that policies designed to enable the rich to become richer in order for those who are better off to create opportunities for the alleviation of poverty, i.e., the “trickle-down effect,” do not in effect do so. This acknowledgement opens the door for reconsidering redistribution policies. Increasing income taxes should be considered again as a valid option both to reduce inequalities and to provide the state with fiscal opportunities that advance the common good. (Social Justice and Ecology Secretariat, 2016, p. 28)

Nowadays, the discussion does not so much surround the issue alms vs. state redistribution, but private and corporate initiative vs. state regulation and redistribution. For example: (Sirico, 2007) argues that businesses are best situated to create and multiply wealth which then benefits the poor. Proof: The private charitable sector in the US approaches half a trillion US\$. Another supposed proof is: Of the 30 most business-unfriendly states 23 are in Sub Sahara Africa, which happen to be also the poorest states in the world. (Booth, 2007c, p. 82). The latter also argues that inequality is growing because poverty is reduced, i.e. because of the surplus wealth generated and increasing the wealth gap, this is the precondition for distributing good things among the poor which is why their number has been decreasing over the past decades parallel to the growing wealth gap (Booth, 2007c, p.67)¹⁹, see also 4.3+4.

4.2.1 Comment

In accordance with the Principle of Subsidiarity, private/cooperative system may be good on lower levels, e.g. family, clan, village, but loses its value at higher level: There it includes the danger that those closest to the dispensing individual or group are preferred, others neglected. Here, states have to set regulation and frameworks and act in a coordinated manner since NGOs and civil society are unable to counter negative effects of global financial flows or TNC practices.

Private assistance via donations, alms and “charitable foundations” are very non-transparent, state spending is comparatively transparent. A state is more accountable to a means-tested approach.

Regarding donation and active involvement: In spite of all appeals by popes and priests: Some do it, some don't do anything. This is why there should be some mandatory minimum for all, which is why even the US Bishops are for state organized and tax revenue based redistribution.

Against private and corporate initiative vs. state organized redistribution one may ask Sirico, whether the amount eventually allegedly given to charity from private and corporate wealth holder is actually dispensed or whether it is at least partly stashed away in foundations.

¹⁹ However, market defending advocates are not merely in Anglo-Saxon contexts. Also in continental Europe one still finds friends of neoliberal preferences, e.g. Prof. Martin Rhonheimer. “Barmherzigkeit schafft keinen Wohlstand” (19.2.2017) In: FAZ <http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/martin-rhonheimer-ist-priester-und-neoliberal-14873611.html>

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Against Booth one may question whether not other factors are equally important for enduring poverty, e.g. unfair free-trade regimes and corruption.

4.3 Redistribution via property or taxation?

But what about the idea of *Rerum Novarum*, Nr. 46f., preferring redistribution of property rather than taxation to reduce wealth inequality?²⁰

(46)... We have seen that this great labor question cannot be solved save by assuming as a principle that private ownership must be held sacred and inviolable. The law, therefore, should favor ownership, and its policy should be to induce as many as possible of the people to become owners.

47. Many excellent results will follow from this; and, first of all, property will certainly become more equitably divided. For, the result of civil change and revolution has been to divide cities into two classes separated by a wide chasm. On the one side there is the party which holds power because it holds wealth; which has in its grasp the whole of labor and trade; which manipulates for its own benefit and its own purposes all the sources of supply, and which is not without influence even in the administration of the commonwealth. On the other side there is the needy and powerless multitude, sick and sore in spirit and ever ready for disturbance. If working people can be encouraged to look forward to obtaining a share in the land, the consequence will be that the gulf between vast wealth and sheer poverty will be bridged over, and the respective classes will be brought nearer to one another. A further consequence will result in the great abundance of the fruits of the earth. Men always work harder and more readily when they work on that which belongs to them; nay, they learn to love the very soil that yields in response to the labor of their hands, not only food to eat, but an abundance of good things for themselves and those that are dear to them. That such a spirit of willing labor would add to the produce of the earth and to the wealth of the community is self evident. And a third advantage would spring from this: men would cling to the country in which they were born, for no one would exchange his country for a foreign land if his own afforded him the means of living a decent and happy life. These three important benefits, however, can be reckoned on only provided that a man's means be not drained and exhausted by excessive taxation. The right to possess private property is derived from nature, not from man; and the State has the right to control its use in the interests of the public good alone, but by no means to absorb it altogether. The State would therefore be unjust and cruel if under the name of taxation it were to deprive the private owner of more than is fair.

On this background taxation is bad not only because private wealth is taxed away, depriving him of the fruit of his labour. It would also decrease that property which would be available for distribution among workers, i.e. prevent workers from acquiring property and thus strengthening his position both towards “capital” and the state itself.

Also Pius XII argued for the redistribution of property, including capital by explaining how “better banking” can contribute to the redistribution of property which is, according to CST a preferred way to make all owner of property and thus participants in market transactions, an originally preferred way of CST of redistribution:

²⁰ Overview in (Frambach & Eissrich, 2015, S. 35ff.)

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You can remedy this to a great extent by making ordinary depositors collaborators either as bond or share-holders, in undertakings whose launching and thriving would be of great benefit to the community, such as industrial activities, agricultural production, public works, or the construction of houses for workers, educational or cultural institutions, welfare or social service.²¹

John XXIII in *Mater et Magistra* recommended beyond a fair wage a stake or share of labourer of some kind in the business which employs them,²² a view that is even upheld today, e.g. by the Vice Chair of the Social Commission of the Bishops Conference, Losinger.²³ Related, but not entirely comparable, is Benedict XVI's plea to shift from a "shareholder" approach to a "stakeholder" approach and thus broaden those involved in business decisions.²⁴

4.3.1 Comment

This proposal could be a legitimate alternative, if it is indeed implemented. And: Collectively owned businesses could even receive tax privileges, as is proposed by those advocating the Common Good Economy (*Gemeinwohlökonomie*), e.g. Christian Felber. Similarly, and for the US, John Medaille proposes a form of differential taxation where 'tax rates for employee-owned business could be lowered relative to corporations. This would recognize the "social" value of employee-owned businesses and provide a real advantage in the marketplace' (Medaille, 2002, p. 8).

One problem is that this participation will resolve only part of the inequality problem: What about the low pay jobs in the service sector, who cannot participate in a larger business or who earn too little to build houses or buy shares?

4.4 Redistribution via wages or taxation?

The popes further attempted to improve inequality via higher and better wage payments. Leo XII already linked the "fair wage" to be a demand of "natural justice", meaning, that even if labourer agree in bargaining to a lower wage than needed for a decent life that such a payment is morally unacceptable, including the prohibition towards the labourer to accept such a sub-standard offer.²⁵ By earning higher wages, people are able to do savings from which then they can acquire property (QA 61ff.). Hence wage has to be a bit more than

²¹ From his talk "Function of Banking, 24 October 1951. See also (Percy, 2004)

²² In this connection, as Our Predecessor clearly points out, it is advisable in the present circumstances that the wage-contract be somewhat modified by applying to it elements taken from the contract of partnership, so that "wage-earners and other employees participate in the ownership or the management, or in some way share in the profits." (MM 32)

²³ <http://www.augsburger-allgemeine.de/politik/Weihbischof-Losinger-warnt-Armut-kann-sich-vererben-id41317706.html> : However, against that proposal arises criticism on part from owner and trade unions. While there are also owner supporting it, trade unions fear the influence of non-unionized representatives in decisive discussions.

²⁴ ...Today's international capital market offers great freedom of action. Yet there is also increasing awareness of the need for greater *social responsibility* on the part of business. Even if the ethical considerations that currently inform debate on the social responsibility of the corporate world are not all acceptable from the perspective of the Church's social doctrine, there is nevertheless a growing conviction that *business management cannot concern itself only with the interests of the proprietors, but must also assume responsibility for all the other stakeholders who contribute to the life of the business*: the workers, the clients, the suppliers of various elements of production, the community of reference.... (CIV 40)

²⁵ See (Frambach & Eissrich, 2015, S. 41)

just that which is needed for paying the family a decent living. At the same time, another limit to the level of wage is the survival of the business or the endangering of other jobs.²⁶ Doing that, both the encyclicals of Leo and Pius advocated the solidarity movement of workers, i.e. labour unions – whereby, of course, Catholic Labour Unions would have been preferable to secular ones (QA 35). A very important issue stressed by CST authors is that the partnership between representatives of capital and trade unions should be one at eye level, meaning, that the fact of property owned and controlled by capital should not give them an edge over labour (see Nell-Breuning in E/IV/4.3). Then, and only then, dominance or even the control of capital over labour could not be assumed.

The problematic of trade unions is illustrated by negative examples, such as the role of trade unions in Great Britain (almost bringing the state's economy to a standstill) or the US (where there is a link to organized crime) See also (O'Brien, 2007, p. 243f.). On the other hand, the German model of “social partnership” is working wonderfully.

The importance of trade unions to be a counterforce against capital owner is about to be rediscovered these days, e.g. by the authors of the Club of Rome whose one recommendation among its 13 was to strengthen trade unions. (Randers & Maxton, 2016).

4.4.1 Tax funded job creation/wage payment

As a sub-point the question arises whether the state should also support or even fund job creation:

162. We recommend increased support for direct job creation programs targeted on the long-term unemployed and those with special needs. Such programs can take the form of direct public service employment and also of public subsidies for employment in the private sector. Both approaches would provide jobs for those with low skills less expensively and with less inflation than would general stimulation of the economy.(22) The cost of providing jobs must also be balanced against the savings realized by the government through decreased welfare and unemployment insurance expenditures and increased revenues from the taxes paid by the newly employed. (United States Conference of Catholic Bishops, 1986, p. 38)

This agrees with German labour market policies when state intervention prevented businesses to go bust and/or make worker redundant after the World Financial and Economic Crisis 2007, or tried to get people into work with so-called ABMs, or added money to low-pay wages in order to enable a decent living (“Kombilohn”).

4.4.1.1 Comment

This is a tricky question, and a number of objections can be raised: First, whether those jobs are “real” jobs and can survive under market conditions. The question is whether all jobs HAVE to act and survive under market conditions. How can there be competition

²⁶ QA 74. Lastly, the amount of the pay must be adjusted to the public economic good. We have shown above how much it helps the common good for workers and other employees, by setting aside some part of their income which remains after necessary expenditures, to attain gradually to the possession of a moderate amount of wealth. ... Hence it is contrary to social justice when, for the sake of personal gain and without regard for the common good, wages and salaries are excessively lowered or raised; and this same social justice demands that wages and salaries be so managed, through agreement of plans and wills, in so far as can be done, as to offer to the greatest possible number the opportunity of getting work and obtaining suitable means of livelihood.

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among home care for the elderly or assistance for marginalized kids in school. Hence there may be a segment where the state and state payment may rightly be at home.

Second, trade unionists rightly point out that the indication of this option alone will tempt employers to not live up to their obligation to pay decent wages themselves. Preferable, therefore, should be legislation for a Minimum Wage. It is certainly true that this should happen wherever such payments do not threaten the survival of the business and its jobs as such.

At the same time we have to be aware that there are jobs which are outside the ability of employer to pay minimum wage due to competitors from abroad or because they are too poor, e.g. in the private care segment. Especially as to the latter, there is no convincing counter argument why the option of additional wage payments should not be considered, especially in Germany, where the state pays already mandatory SSCs for a certain category of jobs (Minijobs).

4.4.2 Supersalaries, adequate salaries, shadow economy...

Given the importance of labour for the “social question” it is not surprising that the relationship between taxation and jobs, also an important argument for today’s politicians, is treated in CST.

Pope John Paul II addresses in the following quote both the scandal of “super-salaries” and the defence of privileges (e.g. bonuses) and arising accumulation, but also the issue shadow economy.

I am grateful to you for seeking new ways to reduce unemployment; concrete solutions are certainly difficult, since the mechanisms of the economy are complex and are almost always of a political and financial nature. Many things also depend on the norms governing taxes and trade unions. ... Employment is certainly a major challenge in international life. It presupposes a sound distribution of work and solidarity between all persons of a working age who are able to do so. In this spirit, it is not normal for some professional categories to be preoccupied with preserving acquired benefits, which can only have negative repercussions on employment in a country. Furthermore, the parallel system of black-market labour seriously damages a country's economy, since it represents a refusal to participate in national life through social contributions and taxes; likewise, it places some workers, especially women and children, in an uncontrollable and unacceptable state of submission and servility, not only in poor countries but also in industrialized nations. It is the authorities' duty to see that everyone has the same opportunities regarding employment and the work code.²⁷

CST has recommended a variety of private and public responses that should be implemented to help alleviate the economic, social and spiritual costs of unemployment and underemployment. Among these is unemployment insurance. Pope John XXIII’s 1963 Encyclical *Pacem in Terris* articulated the general principle stating: ‘It is necessary also that governments make efforts to see that insurance systems are made available to citizens, so that,

²⁷ Address of John Paul II to the participants of the 5th General Assembly of the Pontifical Academy of Social Sciences (199, March 6). Retrieved from http://www.vatican.va/holy_father/john_paul_ii/speeches/1999/march/documents/hf_jp-ii_spe_19990306_acd-sciences_en.html

in case of misfortune or increased family responsibility, no person will be without the necessary means to maintain a decent standard of living [§64]. John Paul II is more pointed; ‘The obligation to provide unemployment benefits is a duty springing from the common use of goods, or put in a simpler way – arising from the right to life and subsistence [Laborem Exercens §18]. Economic Justice for All US Catholic Bishops) reiterates the claim, (DeFina, 2004, S. 19)

4.5 Tax or donations/foundations

In many countries, Germany and Kenya included, donations or charitable foundations tax exempt. Could this be a way to generate more means for the common good?

QA 50. Furthermore, a person's superfluous income, that is, income which he does not need to sustain life fittingly and with dignity, is not left wholly to his own free determination. Rather the Sacred Scriptures and the Fathers of the Church constantly declare in the most explicit language that the rich are bound by a very grave precept to practice almsgiving, beneficence, and munificence.

Hence if people act accordingly and adequately, and if investments are socially just and ecologically sustainable, then this could be an acceptable avenue.

4.6 International trade or (tax based) aid

Fair trade conditions are linked so that developing countries are enabled to compete at eye level with those produced in developed countries and sell their goods there unhindered. Only then CST would back up the slogan “Trade, not aid” (Nell-Breuning, 1980, p. 294).

Fact is, and our project provides proof to that, that wealthy states still exploit resources of poor countries: Due to the lack of good governance, human and social capital poor countries are not able to resist that process effectively. It is here where the question occurs whether wealthy states do not have an obligation to assist poor countries more to create social capital with which to empower adequate their people so that they are enabled to take their own affairs more efficiently into their own hand – at the expense, perhaps, of wealthy countries who, right now, can do business unhindered.

More specifically: Developing countries will be exploited of their natural resources as long as they have no own productive facilities to process their natural goods locally or within the region. To provide the basis for that requires investment into infrastructure or electricity, the money for which developing states do not have. Or: Developing countries will have no skilled workforce as long as their educational sector is understaffed. Here again, money is needed: If a family depends on children to work in the field for the survival of the family, the family would need a compensation of that child instead sits at school.

This can be summed up in the statement that only if the dependence of developing countries is removed they are in a position to resist exploitation and to gain a place of its own in a complementary world economic system.²⁸ This begs the question whether the wealthy

²⁸ ‘Im Verhältnis der fortgeschrittenen zu den unterentwickelten Ländern ist zu erreichen dass die bestehende Dependenz der letzteren nicht länger durch die fortgeschrittenen ausgebeutet werden kann.’ (Nell-Breuning, 1980, p. 311)

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countries do not have a responsibility (due to previous exploitation) to provide developing countries with funds, enabling them to establishing all that which is needed to get to that point. This does not mean a continuation of unconditional budget aid from government to government, rather, direct unconditional investment in the improvement of local infrastructures and the health and education of people. If those factors are improving, FDI will come to do the rest. This huge investment requirement, however, could be financed by taxation.

4.7 Tax or investment

A widespread argument by private and corporate wealth holder is that taxation will take away resources which otherwise could be invested into businesses and jobs. This is confirmed.

QA 51. Expending larger incomes so that opportunity for gainful work may be abundant, provided, however, that this work is applied to producing really useful goods, ought to be considered, as We deduce from the principles of the Angelic Doctor,[37] an outstanding exemplification of the virtue of munificence and one particularly suited to the needs of the times.

4.8 Conclusion

Regarding avenues for the diminishment of poverty, CST is unambiguous in its assertion that the wealthy are under grave obligation to assist the poor. This is beyond dispute. The dispute is about the best possible way under given contemporary circumstances. Traditionally, the church is more in favour of individual charitable action or, more recently CST favours the re-investment of surplus into the real economy. This, at least, is a clear position against rent seeking or the domination of capital over labour and all the others, it does not tell us how to proceed now, in the years after the second World Financial and Economic Crisis, the overexploitation of natural resources and climate change.

There are many ways to combat inequality and poverty, but experience teaches that leaving too much to private and corporate voluntariness risks that not much is being done. Taxation, at last, makes sure that a certain share is being paid (if avoidance and evasion is prevented) or provides private and corporate activity if this might lead to tax exemption. Here, however, one should examine everything and only keep the good (see G/W/II).

Taxation is, therefore, among the means to combat inequality and poverty and clearly, as the US Bishops declare, the tax system should be geared to the benefit of the poor and against inequality. For that they develop three criteria

First, the tax system should raise adequate revenues to pay for the public needs of society, especially to meet the basic needs of the poor. Secondly, the tax system should be structured according to the principle of progressivity, so that those with relatively greater financial resources pay a higher rate of taxation. The inclusion of such a principle in tax policies is an important means of reducing the severe inequalities of income and wealth in the nation. Thirdly, families below the official poverty line should not be required to pay income taxes. Such families are, by definition, without sufficient resources to purchase the basic necessities of life. They should not be forced to bear the additional burden of paying income taxes ...

5 Direct references to taxation in the Compendium

Even since 25 years are between Nell-Breunings admission, that taxation is an unjustifiably neglected issue in CST (see 1.1), and the publication of the Compendium of Catholic Doctrine: When looking in the index of the Compendium for entries regarding the main concepts in the (sub-)headlines of this research project, only three direct entries and references on taxes and taxations are given, referring to merely three paragraphs out of 583:

- Taxes, public spending and the common good (para 355)
- Payment of taxes and solidarity (para 355 as well)
- Jesus and taxes paid to Cesar (para 379)
- Civic duty to pay taxes (para 380)

Given the other elements of the research's' (sub-)title, there are 5 entries each on Inequality/Wealth Gap and (general) debt, but many on justice (which is, however, a very complex issue) and many poverty, the latter including, of course, also spiritual aspects and not only material ones. Of the quotes given on taxation, paragraph 355 is of greatest interest:

Tax revenues and public spending take on crucial economic importance for every civil and political community. The goal to be sought is public financing that is itself capable of becoming an instrument of development and solidarity. Just, efficient and effective public financing will have very positive effects on the economy, because it will encourage employment growth and sustain business and non-profit activities and help to increase the credibility of the State as the guarantor of systems of social insurance and protection that are designed above all to protect the weakest members of society.

Public spending is directed to the common good when certain fundamental principles are observed: the payment of taxes [739] as part of the duty of solidarity; a reasonable and fair application of taxes;[740] precision and integrity in administering and distributing public resources.[741] In the redistribution of resources, public spending must observe the principles of solidarity, equality and making use of talents. It must also pay greater attention to families, designating an adequate amount of resources for this purpose.[742] (Pontifical Council for Justice & Peace, 2005, p. 153)

Within this quote, a good argument for mandatory taxes and levies is given, ranging from redistribution/social security/assistance to institution building to economy and development. At the same time, this quotation offers a wonderful illustration to the point that even this statement finds qualification and resistance among the very Catholics who are its prime addressees: While they concede that solidarity 'calls each member to be available to assist others, individuals should not be forced to do so; otherwise, aspects of Human Dignity are undermined' (Jones & Waller, 2010, p. 289). The question between voluntary and mandatory contributions is indeed an important one, especially among adherents of an Anglo-Saxon or European way of reading CST and will preoccupy us more in the course of both this essay and the following.

The two other quotes, namely 379 and 380 do not argue ethically, but legalistically: To pay taxes is a duty if the duty is based on law and/or legitimate authorities.

379. Jesus refuses the oppressive and despotic power wielded by the rulers of the nations (cf. Mk 10:42) and rejects their pretension in having themselves called benefactors (cf. Lk 22:25), but he does not directly oppose the authorities of his time. In his pronouncement on the paying of taxes to Caesar (cf. Mk 12:13-17; Mt 22:15-22; Lk 20:20-26), he affirms that we must give to God what is God's, implicitly condemning every attempt at making temporal power divine or absolute: God alone can demand everything from man. At the same time, temporal power has the right to its due: Jesus does not consider it unjust to pay taxes to Caesar. ...

380. Submission, not passive but “for the sake of conscience” (Rom 13:5), to legitimate authority responds to the order established by God. Saint Paul defines the relationships and duties that a Christian is to have towards the authorities (cf. Rom 13:1-7). He insists on the civic duty to pay taxes: “Pay all of them their dues, taxes to whom taxes are due, revenue to whom revenue is due, fear to whom fear is due, respect to who respect is due” (Rom 13:7). The Apostle certainly does not intend to legitimize every authority so much as to help Christians to “take thought for what is noble in the sight of all” (Rom 12:17), including their relations with the authorities, insofar as the authorities are at the service of God for the good of the person (cf. Rom 13:4; 1 Tim 2:1-2; Tit 3:1) and “to execute [God's] wrath on the wrongdoer” (Rom 13:4)...

This legalistic element is one of the oldest Catholic arguments for paying taxes up to the present day, even though some bible passages contained in the second quote indicate already some criteria which authorities need to fulfill in order to justifiably command obedience.

Those former quotes reflect the need of the hierarchy to remain general facing the many different cultural and historical contexts (see 1.2) and does not assist in a practical way when it comes to the question whether, and which, Wealth Taxation is the best or how taxation out of requirements of social justice harmonized with Green Taxation arising from the need to protect natural resources.

6 Demarcation: Negative criteria for taxation

The preceding illustrates how many aspects need to be considered in a pluralist world and how difficult it is to agree positively on a position. For that reason, the Tax Justice & Poverty team decided that it is easier to start with agreement on a social problem or injustice first, before starting to discuss its remedy (see E/II/8). This, and a constant reference, should be therefore here, too, starting point for any solution orientated debate.

6.1 Avoid overtaxing

In RN 47 argues that (private) ownership of all is the best way to decrease social tension in a society, motivate not only the wealthy, but also labourer to work harder for the Common Good and wealth of the community and will be less inclined to emigrate to another country. “These three important benefits, however, can be reckoned on only provided that a man's means be not drained and exhausted by excessive taxation. The right to possess private property is derived from nature, not from man; and the State has the right to control its use in the interests of the public good alone, but by no means to absorb it altogether. The State

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would therefore be unjust and cruel if under the name of taxation it were to deprive the private owner of more than is fair.”

MM 132 “In a system of taxation based on justice and equity it is fundamental that the burdens be proportioned to the capacity of the people contributing.”

‘For example, a system of taxation based on assessment according to ability to pay⁽³²⁾ is a prime necessity for the fulfillment of these social obligations. (United States Conference of Catholic Bishops, 1986, p. 18)

Nell-Breuning warned that just and rational taxation has to be done by comprehensively analyze the social and economical context because: That, which is for redistributive purposes in one social and economical setting just, reasonable, proportionate and beneficial for the common good would be damaging in another social and economic setting because the very same measures would, for example, stifle economic innovation and growth (Nell-Breuning, 1970).

Also contemporary scholars confirm that overtaxing will discourage investment and hard labour: A negative side effect of high PIT, CIT and wealth taxation contains the risk that private and corporate wealth holder leave the country and no foreign capital comes to be invested. It also reduces the willingness of high private and corporate performers to take risk or work more than others if there is no more profit in it. (Fisch, 2016a, p. 102).

6.2 Avoid undertaxing

But: As there is the danger of overtaxing capacities, there is the danger to tax less than in accordance with the Principle of Ability to Pay.

In 1970 Nell-Breuning stated already two interesting points: First, that those having no options for tax planning and, that way, options to diminish taxable income, should be compensated by, e.g. tax credits. Second, that there are “grave reasons” for tax based redistribution today since inequality should not become too excessive (see E/III/2.6.6)

Generally, the principle of a “tax burden in proportion to the capacity of the people contributing” justifies that the strong carry a tax burden in accordance to their ability to pay (MM, 132) (Fisch, 2016a, p. 102)

This applies in particular for unearned wealth: Especially inheritances and gifts are an “unearned” increase in economic ability, thus it needs to be taxed heavily (Fisch, 2016a, p. 104). A similar argument can be done for income from land rents and, depending on the country context, other income arising from wealth assets (capital, corporations, buildings...)

At the same time a state has to do everything to enforce its own tax laws. The state has to be able to counter threats from private and corporate wealth holder to withdraw assets from a certain country if no concessions are given. If this is not the case, it leads to sinking PIT and CIT rates, to the abandonment and weakening of wealth taxes and an increase in indirect taxation. CST scholars call this pragmatism devoid of principles (Fisch, 2016a, p. 105)

6.3 Avoid tax avoidance & tax evasion

Given the fact that Gaudium et Spes brings in the topic of tax first and in connection with tax avoidance, this alone indicates that this is of high priority for CST.²⁹ In consequence, Paul VI and Pope Francis declare tax avoidance and evasion with the help of tax havens to be wrong because this deprives one's own community of resources needed for securing the Common Good of all (more below, 4.8).

This supports once more the Principle of Inescapability (Kabinga & al., 2016), i.e. the existence of a tax regime which makes it impossible for private, corporate and criminal wealth holder to hide their property from taxation and shift to tax harder those who cannot escape taxation. If this is meant to be serious, it implies adequate legal and administrative provisions, which are supported, but to varying extents (see, e.g., 9)

6.4 Avoid unfair burden arising from flat/indirect taxation

As also our research indicates, indirect taxes, especially VAT, burden low and middle-income people far more than those well off. Rebates for basic goods, meant to relieve the poor, benefit also the wealthy, while no luxury VAT exists

‘Evaluating the morality of tax systems means asking about the progressivity and regressivity of various kinds of taxes - the more progressive, the more moral’ (Kammer, Catholic Social Teaching and Taxes, 2011a) He sees a flat tax for personal income as much less progressive since, by definition, it taxes the income of the wealthiest family at the same rate as that of the poorest family. Even income tax systems with nominally graduated income tax rates may be regressive where, for instance, the percentage of those paying the highest rate is very large. This is especially true if the taxing authority also provides special tax breaks targeted to upper-income families (Kammer, Catholic Social Teaching and Taxes, 2011a, p. 1), see also (Fisch, 2016a, p. 103).

6.5 Avoid impact upon the poor

As the US Bishops pointed out, ‘The tax system should be continually evaluated in terms of its impact on the poor.’ (United States Conference of Catholic Bishops, 1986, p. 45).

6.6 Avoid socially unacceptable level of wealth accumulation

As shown already in E/IV/5.5, there are limits to wealth accumulation and taxation is among the options to restrain or decrease wealth accumulation. And still, stating this is a long way off from supporting a preferred number of tax instruments. There are, however, bits and pieces, e.g.

- Capital Taxation, see 7.3.1+2 & 3
- Progressive Taxes, see 7.3.5
- Wealth Taxes, see 7.3.6+7 and 7.3.8.2

²⁹ ‘Yet there are those who, while possessing grand and rather noble sentiments, nevertheless in reality live always as if they cared nothing for the needs of society. Many in various places even make light of social laws and precepts, and do not hesitate to resort to various frauds and deceptions in avoiding just taxes or other debts due to society.’ GS 30

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- Luxury VAT, see 7.3.9

6.7 Avoid unequal taxation of earned and unearned income

A major loophole is that some categories of income are taxed differently. If there is a difference at all, unearned income should be taxed higher than income from labour, not lower (Fisch, 2016a). For example: In Germany, income from capital is subject to a Flat Tax, income of labour not. Similarly, earned and unearned income from wealth assets is taxed differently: The Wealth Tax is suspended, Inheritance Tax is hardly generating revenue and Real Property Taxation is a complex case in itself.

6.8 Avoid priority of capital over labour, secure the opposite

A highly complex area involving also issues of taxation is the relationship between labour and capital. According to (Percy, 2007), CSTs emphases here shifted over time: While Leo XIII defended private property, shares and capital included, Pius XI criticized certain behavior of capital and capitalists harshly, while still aiming for a balanced view, calling already the government to secure this balance between those two. In *Quadragesimo Anno* he writes:

110 the twofold character, that is individual and social, both of capital or ownership and of work or labor must be given due and rightful weight. Relations of one to the other must be made to conform to the laws of strictest justice - commutative justice, as it is called - with the support, however, of Christian charity.

John Paul II finally and based on the personalist argument puts in *Laborem Exercens* the emphasis and priority on labour (see chapter 9!), both dependent labour and entrepreneurial labour, as opposed to capital (Percy, 2007, p. 203).

This would endorse Pius XII's criticism of idle accumulation of capital³⁰ and the search for ways and means making capital serving again the real economy and its productive investment, either via taxation or by using taxation to make it more profitable to spend/invest capital again.

7 Specific issues

7.1 Context

Before entering the specifics of taxes and taxation one should be aware of some preliminary considerations:

7.1.1 Offshore Tax Havens, transparency & sanctions

There is an emerging view among CST scholars that national and international communities have neglected to effectively correct injustices arising from financial

³⁰ “How much capital is lost through waste and luxury, through selfish and dull enjoyment, or accumulates and lies dormant without being turned to profit! There will always be egoists and self-seekers; there will always be misers and those who are short-sightedly timid. Their number could be considerably reduced if one could interest those who have money in using their funds wisely and profitably, be they great or small. It is largely due to this lack of interest that money lies dormant.” From his talk “Function of Banking, 24 October 1951. See also (Percy, Private Initiative, Entrepreneurship and Business in the teaching of Pius XII, 2004)

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globalization for private, corporate and criminal wealth holder. Here most certainly corrections are needed both in the area of tax law and the international cooperation of tax administrations (Fisch, 2016a, p. 104).

Paul VI, Populorum Progressio

Consequently, it is not permissible for citizens who have garnered sizeable income from the resources and activities of their own nation to deposit a large portion of their income in foreign countries for the sake of their own private gain alone, taking no account of their country's interests; in doing this, they clearly wrong their country. PP 24

Similar Pope Francis:

Papst Franziskus tritt gegen die Verlagerung von Vermögen ins Ausland ein. „Auch das Geld hat ein Vaterland, und wer eine Industrie im Land betreibt und das Geld mitnimmt, um es außerhalb des Landes zu horten, der sündigt“, heißt es in einem exklusiven Vorabdruck des Buches „Über Himmel und Erde“, den das Magazin Cicero in seiner Maiausgabe veröffentlicht. Wer Mittel ins Ausland transferiere, ehre damit weder das Land, das ihm den Reichtum gegeben habe noch das Volk, das für den Reichtum gearbeitet habe.³¹

More recently and systematically, the Joint Paper of the Congregation for the Doctrine of Faith/Dicastery for Promoting Integral Human Development (2018) deal extensively with Offshore Tax Havens: Paragraphs 30-32 are devoted to this, including their role within the tax avoidance and evasion game as well as financial crime. Due to its importance, the complete passage shall be quoted:

It must be noted, in this regard, if the formal reason which is given to legitimize the presence of the *offshore* sites is that of permitting the institutional investors not to be subjected to a double taxation; firstly in the country of their residence and secondly in the countries where the funds are domiciled, in reality, these places, to a considerable extent, have become an opportunity for financial operations often *border line*, if not *beyond the pale*, both from the point of view of their lawfulness under the normative profile and from that of ethics, meaning an economic culture, healthy and free from the intentions of tax avoidance.

Today, more than the half of the commercial world is orchestrated by noteworthy persons that cut down their tax burden by moving the revenues from one site to another according to their convenience, transferring the profits into fiscal havens, and the costs into the countries of higher taxation. It appears clear that all these have removed decisive resources from the actual economy and contributed to the creation of economic systems founded on inequality. Furthermore, it is not possible to ignore the fact that those *offshore* sites, on more occasions, have become usual places of recycling dirty money, which is the fruit of illicit income (thefts, frauds, corruption, criminal associations, mafia, war booties etc.)

Thereby disguising the fact that the so-called *offshore* operations do take place in their official financial places, some States have consented to obtain profit even from crimes, thinking however of not being responsible as the crimes did not take place formally under their jurisdiction. This represents, from the moral point of view, an evident form of hypocrisy.

³¹ Papst Franziskus gegen Verlagerung von Vermögen ins Ausland (24.4.2013) In: Cicero.
<https://www.cicero.de/wirtschaft/papst-franziskus-gegen-verlagerung-von-vermoegen-ins-ausland/54280>

In a short period, such a market has become a place of major transition of capital, because its configuration represents an easy way for realizing different and essential forms of tax avoidance. Therefore, we understand that the *offshore* domestication of many important societies involved in the market is very much coveted and practiced.

31. Certainly, the tax system prepared by the various nations does not seem to be always equal. In this regard, it is relevant to keep in mind how such inequity often disadvantages the economically weaker persons and favors the more endowed, and is capable of influencing even the normative systems that regulate the same taxes. In fact, an imposition of the taxes, when it is equal, performs a fundamental function of equalization and redistribution of the wealth not only in favor of those who need appropriate subsidies, but it also supports the investments and the growth of the actual economy.

Tax avoidance on the part of primary stakeholders, those large financial intermediaries, who move in the market, indicate an unjust removal of resources from the actual economy, and this is damaging for the civil society as a whole.

Due to the non-transparency of those systems, it is difficult to establish with precision the amount of assets that are transacted in them. However, it was calculated that a minimum tax on the transactions accomplished *offshore* would be sufficient to resolve a large part of the problem of hunger in the world: why can't we undertake courageously the way of a similar initiative?

Furthermore, it has been established that the existence of *offshore* sites has encouraged also an enormous outflow of capital from many countries of low income, thus creating numerous political and economic crises, impeding them from finally undertaking the path of growth and a healthy development.

For this reason, it is worth mentioning that more often different international institutions have denounced these practices and many governments have rightly tried to limit the flow of the *offshore* financial bases. Many positive efforts have been undertaken in this regard, especially in the last decade. However, they could not successfully impose accords and norms adequately efficient until now. On the contrary, the normative frames proposed even by the international authoritative organizations in this regard have been often unapplied, or made ineffective, because of the notable influence that those bases are capable of exercising towards many political powers, thanks to the large amount of capital in their possession.

All this, while contributing grave damage to the good functionality of the actual economy, indicates a structure that, as it is formed today, seems to be totally unacceptable from the ethical point of view. Hence, it is necessary and urgent to prepare at the international level the suitable remedies to those unjust systems. Above all, practicing financial transparency at every level, (for example, the obligation of public accountability for the multinational companies of the respective activities and the taxes paid in each country in which they operate through their subsidiary groups) along with incisive sanctions, imposed on those countries that repeat the dishonest practices (tax evasion and avoidance, recycling of dirty money) mentioned above.

32. The *offshore* system has also ended up aggravating the public debt of the countries whose economies are less developed. It was in fact observed how the accumulated private wealth of some elites in the fiscal havens is almost equal to the public debt of the respective countries. This highlights how, in fact, at the origin of that debt there are often economic losses created

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by private persons and unloaded on the shoulders of the public system. Moreover, it is noted that important economic players tend to follow, often with the collusion of the politicians, a practice of division of the losses.

It is more than interesting to see the congregation not only call for more transparency, coming even close to supporting ongoing discussions about improved taxation of TNCs (public CbCR), but also for “incisive sanctions” against countries sticking to “dishonest practices.”

Here, at least, the German Churches have a position: Fight tax havens (DBK; EKD, 2014, p. 28)

7.1.2 The problem of the tax base

A major problem is not so much the tax rate, but the tax base, i.e. what is subject to taxation and what is exempt from taxation. Here, for example, it is understandable to exempt low-income families from tax payments, but what about the many exemptions, rebates and deductibles which apply to the private and corporate wealth holder, that way eluding taxation? (Fisch, 2016a, p. 103). This, too, is a question which requires careful examination in every respective context

7.1.3 Total tax burden: Taxes and Social Security contributions

The church is viewing taxes and social security contributions together as a whole in determining the burden upon people and profits arising for them (see above MM 88).

When talking about taxation one needs to be aware that in a number of states the question of minimum standards is covered not by taxes, but by private provisions or mandatory social security provisions. However: there is no objective limit for taxation.

„Insofern gibt es keine objektive Grenze der maximalen Belastung der Markteinkommen mit Steuern und Abgaben – keine objektive Grenze, die den ethischen Gerechtigkeits- und pragmatischen Nützlichkeitsabwägungen im demokratischen Prozess vorausliegen würde. Nimmt man die Gleichrangigkeit von »individualitas« und »socialitas« der menschlichen Person ernst, dann gibt es keine solche Grenze, die auf jeden Fall zu beachten wäre, und dann gibt es kein »natürliches« Verdienst, dessen Entlohnung der Staat bei der Festsetzung von Steuern und Abgaben nicht aus dem Auge verlieren dürfte.“ (Emunds, 2010)

Fisch agrees that there is no easy way to determine the tax burden. It is dependent on the tasks the state is supposed to perform, and from those tasks the need for revenue is arising (Fisch, 2016a, p. 102)

7.1.4 Tax competition

While there are clear and critical statements condemning excessive competition (see E/IV/4.5.3), the topic of explicit tax competition did not yet find its way in CST. One exception is Justice & Peace Concerted Action 2016&2017 deploring “race to the bottom” (Justice & Peace Europe, 2017, S. 4)

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7.1.5 Tax privileges, exemptions...

In 1970 Nell-Breuning stated already two interesting points: First, that those having no options for tax planning and, that way, options to diminish taxable income, should be compensated by, e.g. tax credits. Second, that there are “grave reasons” for tax based redistribution today since inequality should not become too excessive (see E/III/2.6.6)

7.1.6 Tax subsidies

See 7.1.2, own chapter?

7.2 Taxation towards specific groups and areas

Next, CST has some points of view regarding certain groups in society:

7.2.1 Taxation to benefit (poor) families

Not surprisingly, taxation and the situation of (poor) family is a very important focus for the Church:

Apostolicam Actuosa 11 ‘It has always been the duty of Christian married partners but today it is the greatest part of their apostolate to manifest and prove by their own way of life the indissolubility and sacredness of the marriage bond, strenuously to affirm the right and duty of parents and guardians to educate children in a Christian manner, and to defend the dignity and lawful autonomy of the family. They and the rest of the faithful, therefore, should cooperate with men of good will to ensure the preservation of these rights in civil legislation and to make sure that governments give due attention to the needs of the family regarding housing, the education of children, working conditions, social security, and taxes; and that in policy decisions affecting migrants their right to live together as a family should be safeguarded.(4)’

Pope John Paul II:

1996: Many aspects of the economy strongly condition the life and harmony of families. The phenomenon of poverty and under-development strikes hard at the institution of the family. Various kinds of limitations and privations make the mission God has willed for parents and children very difficult. There are problems concerning food, housing, hygiene, education. These are compounded by unemployment and the lack of a just wage that allows families to live with dignity. In many countries, the tax systems penalize families or aggravate their economic condition.³²

1997: In view of the many attacks which the family suffers today even in Italy, where it also has a particularly important social function, I want to tell you, my Brother Bishops, that I am at your side, both in your pastoral action on behalf of families, and in the commitment to which all Catholics and people of goodwill are called in order to safeguard on the legislative level the rights of the family based on marriage, and to request the adoption of new provisions

³² Address of His Holiness John Paul II to the participants in the meeting on the relationship between the family and the economy. (1996, March 08) . Retrieved from http://www.vatican.va/holy_father/john_paul_ii/speeches/1996/march/documents/hf_jp-ii_spe_19960308_family-economy_en.html

and initiatives regarding employment, construction and tax laws, so that the family and motherhood are not unjustly penalized.³³

Bishop Jan P. SCHOTTE,

In particular, it is the positive duty of governments to create conditions that enable couples to exercise responsibly their fundamental right to form families, to bear and rear their children, without coercion or pressure to conform to the small family model or limiting childbearing to one or two children per family... It is the role of governments and international organizations to assist married couples by creating a socio-economic order conducive to family life childbearing and childbearing, and by providing accurate information on the demographic situation so that couples may properly assess their duties and responsibilities. Couples should be protected from all forms of coercion such as loss of maternal and child health benefits or educational assistance, tax benefits or the imposition of penalties for going beyond a given number of children.³⁴

US Bishops define three criteria for just taxation in their Pastoral Letter Justice for all, one concerning the basic needs of the poor, one concerning families:

207. We affirm the principle enunciated by John Paul II that society's institutions and policies should be structured so that mothers of young children are not forced by economic necessity to leave their children for jobs outside the home.(64) The nation's social welfare and tax policies should support parents' decisions to care for their own children and should recognize the work of parents in the home because of its value for the family and for society. (United States Conference of Catholic Bishops, 1986, p. 45).

7.2.2 Taxation for small and medium businesses, artisans and small farmer

John XXIII Mater et Magistra Nr. 88, 131-133 *Artisans family farms and Co-operative Enterprises*. Both artisans and co-operative enterprises 'need a thoroughgoing technical and general education, and should have their own professional organizations. It is equally important that the government take the proper steps regarding their training, taxation, credit, social security and insurance. (Nr. 88) ... In addition, a sound agricultural program is needed if public authority is to maintain an evenly balanced progress in the various branches of the economy. This must take into account tax policies, credit, social insurance, prices, the fostering of ancillary industries and the adjustment of the structure of farming as a business enterprise. (Nr. 131) ... But the common good also requires the public authorities, in assessing the amount of tax payable, take cognizance of the peculiar difficulties of farmers. They have to wait longer than most people for their returns, and these are exposed to greater hazards. Consequently, farmers find greater difficulty in obtaining the capital necessary to increase returns (Nr. 133).

³³ Address of His Holiness Pope John Paul II to the Italian Episcopal Conference (1997, May 22) Retrieved from http://www.vatican.va/holy_father/john_paul_ii/speeches/1997/may/documents/hf_jp-ii_spe_19970522_cei_en.html

³⁴ Bishop Jan P. Schotte (1984, August 8) Statement at the International Conference on Population, Mexico City Statement at the International Conference on Population, Mexico City, http://www.vatican.va/roman_curia/secretariat_state/diplomazia-multilaterale/conf-internaz/documents/rc_seg-st_19840808_schotte-popolaz_fr.html

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Also Fisch and those quoted by him argue that the disadvantages existing for small and medium businesses compared to TNCs need to be removed so that all businesses compete again on an equally level playing field (Fisch, 2016a, p. 106)

7.3 Types of taxation

7.3.1 Capital Taxation/Capital Gains Tax

In reference to the common good and the ever increasing wealth inequalities in the United States aggravated by regressive taxation, Stephen N. DeWitt (2012) argues that ‘a fairer capital gains tax is something that would serve the common good of those in the U.S. and is well supported in CST. All Catholics, indeed all people interested in a more just society, should support such a measure and demand it of our government’ (Witt, 2012).

And a group of Jesuits states:

‘Capital taxation should be used to reduce the rate of increase in wealth inequalities (not just income) that took place in the last 4 decades. ... Financial regulation has proven to be a difficult task but should not be abandoned. At minimum, we call for a tax on capital gains. This would reduce the volatility of markets and make it easier to invest capital in green infrastructures’ (Social Justice and Ecology Secretariat, 2016, p. 28f.)

7.3.2 TNC Taxation

the Joint Paper of the Congregation for the Doctrine of Faith/Dicastery for Promoting Integral Human Development (2018) argues in Nr. 31 for public Country by Country Reporting when exemplifying “(for example, the obligation of public accountability for the multinational companies of the respective activities and the taxes paid in each country in which they operate through their subsidiary groups)”

Regarding TNC taxation, Justice & Peace Europe supported in its Concerted Action Plan 2016 improvements for TNC taxation, at that time mainly within the framework of the OECD. It also supported the Common Consolidated Corporate Tax Base (CCCTB).³⁵

Also its Concerted Action Plan 2017 contains a passage on TNC taxation and a affirmation of its call for a CCCTB (Justice & Peace Europe, 2017, S. 4)

As time went by, Justice & Peace Europe started supporting the UN initiative for a legal binding instrument for TNCs because they fall short of living up towards their responsibilities:

Multinational companies have acquired in recent years considerable economic and also political power, which implies an increased responsibility. This means not only the civic obligations to pay taxes where profits are earned it also includes full respect for the entire human rights body in all its activities.

The CCCTB is also mentioned by the German bishops, but without recognizable approval (DBK; EKD, 2014, p. 28)

³⁵ Growing Economic Inequality and Taxation: A Challenge for Europe and the World. Brussels January 2016. http://www.juspax-eu.org/de-wAssets/docs/concerted_action/2016/2016_JPE_annual_action_Basic_text.pdf

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Jesuits prefer the “Apportionment Rule” of the US (Social Justice and Ecology Secretariat, 2016, p. 31).

7.3.3 Financial Transaction Tax

Pontifical Council Justice & Peace (2011), in the wake of the Global Financial and Economical Crisis 2007/8:

On the basis of this sort of ethical approach, it seems advisable to reflect, for example, on:

a) *taxation measures on financial transactions* with fair rates modulated in proportion to the complexity of operations, especially those made on the “secondary” market. Such taxation would be very useful in promoting global development and sustainability according to the principles of social justice and solidarity. It could also contribute to the creation of a world reserve fund to support the economies of the countries hit by crisis as well as the recovery of their monetary and financial systems

Justice & Peace Europe also supported the cooperation for a FTT within the framework of Enhanced Cooperation (Justice & Peace Europe, 2017)

Likewise the Jesuits: ‘A number of suggestions have been made to regulate financial markets. These include a Financial Transaction Tax.’ (Social Justice and Ecology Secretariat, 2016, p. 29)

7.3.4 Flat Tax

It is the conviction of the Tax Justice & Poverty team that Flat Tax solutions are unfair. This is not uncontested, as the following illustrates.

It seems clear that Catholic Social Teaching supports giving the poor the means to purchase education and health provision, although this should not necessarily mean universal free access and certainly not state provision of these services. A flat-rate tax with a relatively high allowance would enable the objectives of taxation to be met while not destroying the reward for economic initiative. (Booth, 2007d, p. 139)

7.3.5 Progressive taxation

The Tax Justice & Poverty team supports adequately progressive taxation of income as one important instrument to tax in accordance with the demands of horizontal and vertical equity as well as the Principle of Ability to Pay. This finds support with the US Bishops in their famous Pastoral letter of 1986. There, the bishops define three criteria for just taxation, the second being:

‘The second criterion argues: The tax system should be structured according to the principle of progressivity, so that those with relatively greater financial resources pay a higher rate of taxation. The inclusion of such a principle in tax policies is an important means of reducing the severe inequalities of income and wealth in the nation.’ (United States Conference of Catholic Bishops, 1986)

‘The more progressive, the more moral’ (Kammer, Catholic Social Teaching and Taxes, 2011a)

‘Increasing income taxes should be considered again as a valid option both to reduce inequalities and to provide the state with fiscal opportunities that advance the common good.’ (Social Justice and Ecology Secretariat, 2016, p. 28)

7.3.6 Inheritance/Gift tax

The Tax Justice & Poverty team advocates taxation of wealth, because wealth equals not only income and material security, but also influence, social prestige and political power. The unfairness is even more outspoken if the wealth is not earned, but inherited or donated. This is why a taxation of inheritances and gifts has some priority when it comes to wealth taxation.

While Pius XI still defends in QA 50 the right to pass on property by the way of inheritance and prohibits the state to infringe this right (see E/IV/4.5.1), the Tax Justice & Poverty team wants to make use of the backdoor which the Pope left open, namely, that the state may bring private property and the interests of the Common Good into harmony. Given the importance of the Inheritance and Gift Tax for combating the increasing inequality, this seems to us the prime instrument to tackle that problem.

Funny enough, Pius XI is at the same time a strong critic of wealth concentration in the hands of few, resulting from free competition (see E/IV/4.5.4) and Article 123 of the Bavarian Constitution almost quotes QA 105 when it calls for Inheritance Taxes to prevent the concentration of wealth and power in the hands of few.

An inheritance is an “unearned” increase in economic ability, thus it needs to be taxed heavily (Fisch, 2016a, p. 104)

US Bishops deal with inheritances in the context of → Land tax.

7.3.7 Wealth Tax

A wealth tax may aim to capture rent from the possession of businesses and land, but also from capital assets. But when is wealth tax justified and when not, since some wealth holder indeed work hard to invest and multiply their assets by also creating benefit for society and environment? Fisch here quotes Wiemeyer with four criteria according to which a wealth tax is not justified: (1) If income from asset is taxed via income tax, (2) if all income arising from wealth assets is taxed, (3) if realized increases in wealth are taxed and (4) if an adequate Inheritance Tax exists, additional wealth taxation is not justified.³⁶ All four criteria are, however, hardly given anywhere in its combination (Fisch, 2016a, p. 104).

³⁶ Wiemeyer argumentiert auf der idealen Ebene: *Wenn* Vermögen (1.) aus versteuertem Einkommen stammt, (2.) das Einkommen aus diesem Vermögen tatsächlich erfasst ist, (3.) realisierte Wertsteigerungen versteuert worden sind und (4.) im Todesfall Erbschaftssteuer abgeführt wird, *dann* ist eine gesonderte Vermögenssteuer *nicht* gerechtfertigt. Auf der empirischen Ebene des Steuersystems in Deutschland (seit 2004 ohne maßgebliche Verbesserungen in dieser Hinsicht) gilt jedoch: Wegen der Mängel des bestehenden Steuersystems braucht es eine nachträgliche Korrektur durch eine Vermögenssteuer, um steuerfrei entstandene Vermögen noch zu erfassen. Der dadurch möglicherweise entstehende „Druck auf ökonomische Verwertung“, also der Anreiz statt einer bloßen Ansammlung, Geld wirtschaftlich sinnvoll anzulegen oder auszugeben, deutet Wiemeyer als Aspekt der Sozialbindung des Eigentums.

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The problem to be answered remains what to do with potential value increases in wealth which automatically increases influence and power of its owner.

7.3.8 The question of land

7.3.8.1 *Excursus: Land as Global Common?*

Given the problems surrounding land ownership (land grabbing, land banking) and given the tendency of climate change, the question is whether land should be no longer private property and be changed into a Global Common as it is growing consensus with water air or the climate.

Paul VI called for expropriation of land if it is misused in PP 24 (see E/IV/5.5)

The Compendium declares in Nr. 466ff. the “environment” to be a collective/common good. But whereas climate is explicitly mentioned to be “a good” (Nr. 470) there is no explicit mentioning of land, which also is part of the environment.

Given the resistance to the Henry Georges Single tax, however, it can be assumed that there will be little support by the church hierarchy to support the transfer of real estate into public or communal ownership. At the same time, more sympathy for the Land Value Tax could be expected nowadays if provisions for the continuation of certain tax exemptions (e.g. where charitable institutions are concerned or reserves for retirement payments of former employees) can be secured.

7.3.8.2 *The church and the taxation of land*

From church side, however, there is not much to be found on the link between the possession of real estate and real property and taxation, even though insights into the possession of real estate & property on the one hand, an rising inequality on the other, is growing.

The German Bishops published a booklet aiming for the protection of the resources of real estate against numerous threats such as land grabbing or desertification in October 2016,³⁷ but the question of taxation is not addressed in any place which now, in 2018, one co-author calls to be a grave omission.

7.3.8.3 *Taxation of Land in the context of inheritances and estates*

The US Bishops argue against the misuse of investment options into land assets and also deal with the Estate tax.

244. c. We favor reform of tax policies which now encourage the growth of large farms, attract investments into agriculture by non farmers seeking tax shelters, and inequitably benefit large and well-financed farming operations.(93) Offsetting non farm income with farm "losses" has encouraged high-income investors to acquire farm assets with no intention of depending on them for a living as family farmers must. The ability to depreciate capital equipment faster than its actual decline in value has benefited wealthy investors and farmers. Lower tax rates on capital gains have stimulated farm expansion and larger investments in energy-intensive equipment and technologies as substitutes for labor. Changes in estate tax

³⁷ Der bedrohte Boden. <http://www.dbk-shop.de/de/der-bedrohte-boden.html>

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laws have consistently favored the largest estates. All of these results have demonstrated that reassessment of these and similar tax provisions is needed.⁽⁹⁴⁾ We continue, moreover, to support a progressive land tax on farm acreage to discourage the accumulation of excessively large holdings. (United States Conference of Catholic Bishops, 1986, p. 53)

7.3.8.4 Land Value Tax

Given the history of the Land Value Tax (see 2.4) it is little surprising that the advocates of this tax argue that this tax is fully compliant with the demands of CST. On their website they quote (not always properly) quotes from papal encyclicals in their defense, argue with the biblical command of stewardship for the earth and the reduction of homelessness poverty and unemployment.³⁸

7.3.9 VAT: Luxury, Fraud

Some, such as Bill Gates, advocate a Luxury VAT to cream off money from the wealthy. This could find support by Pope Paul VI, *Populorum Progressio*

Government leaders, your task is to draw your communities into closer ties of solidarity with all men, and to convince them that they must accept the necessary taxes on their luxuries and their wasteful expenditures in order to promote the development of nations and the preservation of peace. (Nr. 84).

Justice & Peace Europe reminds that fraud with VAT causes annually ca. 160 billion Euros in damage and needs to be addressed (Justice & Peace Europe, 2017)

7.3.10 Green Taxes

The US Bishops call upon governmental frameworks within which business can then take responsible decisions and activities:

118. Businesses have a right to an institutional framework that does not penalize enterprises that act responsibly. Governments must provide regulations and a system of taxation which encourage firms to preserve the environment, employ disadvantaged workers, and create jobs in depressed areas. Managers and stockholders should not be torn between their responsibilities to their organizations and their responsibilities toward society as a whole. (United States Conference of Catholic Bishops, 1986, p. 27)

(Booth, 2007d): 134f. Charges and Levies to put a price on externalities ‘Taxation or charges levied ... as a “price for the consumption of shared resources”, are effectively used to adjust the costs of private activity for the social costs associated with the activity. As such they are not necessarily a violation of property rights, nor do they necessarily impair economic efficiency.’ (p. 134f.). ‘Taxes might be appropriate on certain economic activities that cause harm to those not party to the activity.’ (e.g. externalities). (140)

Jesuits in paper on “Justice in the Global Economy” warn of environmental damage and containing policies: ‘To be consistent, these alternative scenarios should be accompanied by the reduction of subsidies for fossil fuel production, using the savings for investment for green infrastructures.’ (Social Justice and Ecology Secretariat, 2016, p. 29)

³⁸ <http://www.landvaluetax.org/current-affairs-comment/land-value-taxation-and-catholic-social-teaching.html>

7.4 International related issues fairness

7.4.1 ODA

Both the compendium and Nell-Breuning points out that the Common Good needs to be thought of globally which applies, likewise, for Solidarity – even, and especially, in an economic order shaped by competition. The reason is that “enlightened self-interest” should realize that everybody prospers if the poor have more resource to produce and consume, which is why he thinks that Developmental Aid is no act of charity, but intelligence. He also talks about taxation: If Catholics would see the point and appreciate it, they would be prepared to pay more taxes and would push in election times that adequate and well used Developmental Aid would be an election-topic – something that politicians could not ignore (Nell-Breuning, 1983, S. 47f.)

7.4.2 International tax system

On 12 May 1972, Prof. Barbara Ward gave the following statement to the 108th plenary Session (UNCTAD III)³⁹

This is not, in any culture or tradition, the definition of the good society. And as the towers of technological man grow higher, his dependence on advanced energies systems is greater, his transport and his settlements more vulnerable; rich and poor alike could be heading for the breakdown and anarchy of world-wide civil strife. But it is precisely this kind of risk that our assembly has come together to forestall. After all, history does not dictate failure to us. Reforms have been made with imagination and generosity. «The mandate of Heaven» returns; new regimes bring in audacious ideas of renewal. It was not until 1915 that the United States introduced a progressive federal income tax. Is it inconceivable to see in guaranteed international aid the first faint beginning of a tax system on the world scale?

And on 11 February 2005, Mons. Crepaldi, Secretary of the Pontifical Council for Justice and Peace said at the 43rd session of the UN Commission for social development:⁴⁰

However, it is in the area of new forms of financing that certain donor countries are truly giving proof of creativity and good will. ... Initiatives such as the International Finance Facility or approaches through the expedient of the international tax authorities deserve to be more thoroughly examined with a positive and realistic attitude and, should the case arise, implemented with care. ...

This requires going beyond the categories of the national foundation of "common interest" or "mutual benefit" that currently inspire policies for development aid or funding. It is precisely in this perspective that the necessary political will to give free rein to the forms of financing envisaged by the international tax authorities can be created. If in the immediate future and from a practical viewpoint it is reasonable to present these mechanisms as a tax system for funding, work must be done to have them recognized as an expression of international social justice that strives to re-establish equity between peoples. In addition, we must establish at an international level the goal proper to tax revenues and national public

³⁹ http://www.vatican.va/roman_curia/secretariat_state/diplomazia-multilaterale/1-onu-ass-gen/programmes-funds/unctad/documents/rc_seg-st_19720512_ward_en.html

⁴⁰ http://www.vatican.va/roman_curia/secretariat_state/2005/documents/rc_seg-st_20050211_crepaldi-new-york_en.html

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spending, that is, to be "an instrument of development and solidarity" (*Compendium of the Social Doctrine of the Church*, n. 355).

7.4.3 National tax for international development?

What justification could there be that a nationally collected tax is earmarked for international assistance? Pope Paul VI in *Populorum Progressio* has some issues which might be interpreted that he wants to have national taxes for international peace and social cohesion, thereby linking national taxation with international justice issues:

47 On the part of the rich man, it calls for great generosity, willing sacrifice and diligent effort. Each man must examine his conscience, which sounds a new call in our present times. Is he prepared to support, at his own expense, projects and undertakings designed to help the needy? Is he prepared to pay higher taxes so that public authorities may expand their efforts in the work of development?

Paul also includes some comments which could be interpreted towards an international tax regime.

A similar link is established by Benedict XVI when he proposes "Fiscal subsidiarity" (see 8.1).

8 Taxes and alternatives

How could taxation be used to direct resources into areas where otherwise none would be received?

8.1 Fiscal subsidiarity

This principle could also be of use for international developmental aid: Benedict XVI *Caritas in veritatem* Nr. 60 'One possible approach to development aid would be to apply effectively what is known as fiscal subsidiarity, allowing citizens to decide how to allocate a portion of the taxes they pay to the State. Provided it does not degenerate into the promotion of special interests, this can help to stimulate forms of welfare solidarity from below.'

8.2 Tax to induce alternatives

Collins (CST activist)/Bill Gates discuss in their book on *Wealth and Commonwealth* the question what effect it would have on foundations and donations if the US were to abolish the estate tax. John Shervish, a professional fundraiser, is quoted as follows: "My experience suggest that while donors give for a variety of reasons (and their generosity is often incredible), few of them ignore the after tax cost of their gifts. I know I don't." This is confirmed by George Soros: "I would be dishonest if I claimed that this consideration [the estate tax deduction] had nothing to do with my decision [to donate to charity] ... Abolishing the estate tax would remove one of the main incentives for charitable giving." That way, HNWI's donate 16% to Charities, 47% to heirs, 37% for taxes. Without Estate Tax, 26% would be given to Charities, 64% to heirs and only 9% to the state (Gates & Collins, 2002, pp. 123-130).

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This is confirmed by German social ethicists: Wiemeyer, too, suggests that the introduction of a wealth tax might make investment more attractive ‘Der dadurch möglicherweise entstehende „Druck auf ökonomische Verwertung“, also der Anreiz statt einer bloßen Ansammlung, Geld wirtschaftlich sinnvoll anzulegen oder auszugeben, deutet Wiemeyer als Aspekt der Sozialbindung des Eigentums.’ Wiemeyer in (Fisch, 2016a, p. 106)

9 Tax administration

The best laws are “toothless” if there is no adequately equipped and trained tax administration.

9.1 Adequate equipment and training

9.2 Provisions against corruption

There has been increased criticism in the EU over tax policy and lax attitudes toward taxation, but also over the ineffective and sometimes even corrupt tax administration of certain EU countries. Both made it possible for the profits of transnational corporations as well as high levels of personal wealth and income to be exempted from tax to a large degree. (DBK; EKD, 2014, p. 28)

9.3 Assistance in capacity building for tax administration

What about support for tax administrations in poor countries, to increase local capacity and provide developing countries “help to self-help” on the road to financial independence?

9.4 Effective transborder-cooperation, global enforcement structures

Building on that which has been said under international development there is a case for calls to improve international cooperation since this would also greatly benefit poor countries.

The German Bishops (2014), quote in 9.5

The Jesuit working group on Justice in the Global Economy:

Regulation of tax havens and taxation of multinationals is urgently needed: There is a growing consensus of the need to regulate tax havens. Institutions like the G20 and OECD are capable of pointing them out and managing their disappearance. This will require new regulation of accounting practices of multinational corporations. The “apportionment rule,” which already exists in the US, could serve as a model for preventing taxes from being siphoned off by corporations and banks which use these tax havens. (Social Justice and Ecology Secretariat, 2016, p. 30f.)

9.5 Financial and tax transparency

No matter how strong a given tax administration is or will be, those employed are also in need of an environment which enables them to do their job.

Given the options available for private, corporate and criminal wealth holder an increase in transparency is urgently required, most importantly a weakening of the banking secrecy (Fisch, 2016a, p. 105f.).

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German bishops link present problems in public finance to a ‘great lack of transparency in the financial sector.’ This is about to change, but needs to be put into practice:

We must view the fact that nearly all European countries have since spoken out for more transparency and a greater exchange of information as a reaction to increasing public awareness and criticism and to losses in confidence on the part of the financial sector. The cultural change that this made possible now needs to be translated into international cooperation with appropriate measures in order to more effectively prevent and legally combat tax fraud and evasion in the future. (DBK; EKD, 2014, p. 27f.)

Not from CST, but based on CST thinking: from EU Commissioner Algirdas Semeta: A lot of tax avoidance, tax evasion and fraud only works because of the strict protection of financial, monetarian and taxation relevant data. Given the priority on the human wellbeing, which is deprived by these activities, the call for more tax transparency overrides privacy.⁴¹ (EU Kommissar Semeta Pressemeldung 130605). The CST argument could be that the Common Good and social responsibility deriving from the private use of common goods override the individuals interest in privacy and, linked to this, the banking secret.

10 The best level to implement tax policies

10.1 Global

10.1.1 World Tax Authority

The Pontifical Council on Justice and Peace supported 2011 the establishment of a Central World Bank when saying: ‘In fact, one can see an emerging requirement for a body that will carry out the functions of a kind of “central world bank” that regulates the flow and system of monetary exchanges, as do the national central banks.’ (Pontifical Council for Justice and Peace, 2011)

If this is possible, why not a World Tax Authority in its own rights? This is proposed by Peter Dietsch and Thomas Rixen (Dietsch & Rixen, 2016a). Especially in chapter 15 (Rixen, 2016b), explains a middle way between global centralized government and “leave it as it is” by proposing a coordinating World Tax Authority whose task is, similar to the WTO, between competing-conflicting tax regimes. Given also the context problems addressed in this research, a trias of a (reformed) WTO (i.e. giving more weight to social and ecological concerns in trade disputes than so far!), a (strengthened) ILO (with at least as many powers as WTO has towards national governments) and a newly established ITO could be indeed a way forward against one could not reasonably object. This approach would indeed enable ‘the concept of the family of nations (to) acquire real teeth’.⁴² It could be a compromise between real power transfers to global institutions on the one hand and leaving things as they are.

⁴¹ Clamping down on tax evasion and avoidance: Commission presents the way forward (2012, December 6). Retrieved from http://europa.eu/rapid/press-release_IP-12-1325_en.htm

⁴² Benedict XVI, Caritas in Veritate Nr. 67

10.2 Regional (EU)

Justice & Peace Europe states that almost all EU member states take part in the “global carousel” of tax avoidance and evasion (Justice & Peace Europe, 2017, S. 4)

There has been increased criticism in the EU over ... ineffective and sometimes even corrupt tax administration of certain EU countries. Both made it possible for the profits of transnational corporations as well as high levels of personal wealth and income to be exempted from tax to a large degree. (DBK; EKD, 2014, p. 28)

11 Tax Spending

It is noteworthy that a substantial share of the few statements directly dealing with taxation and related issues in the present Compendium on Social Doctrine deal with the states responsible handling and spending of collected resources. This is also taken up elsewhere in the compendium, for example:

For the handling of tax revenue, an attitude of “stewardship” is called for on part of the state and tax administrations, calling for spending it prudently and responsibly: ‘As an instrument of the State, public administration at any level — national, regional, community — is oriented towards the service of citizens: “Being at the service of its citizens, the State is the steward of the people's resources, which it must administer with a view to the common good”.[844]’ (Pontifical Council for Justice & Peace, 2005, p. 177)

12 Tax Policy Priorities

12.1 Drawing together political, legal and administrative priorities

When reading through E/III, IV and this chapter, the question remains: Since there is no coordinated position of CST or “the church” towards taxation: What policy priorities can be deduced? To put it differently: Given the history of taxation within CST and given the diversity of “inculturation” of CST into a variety of different social, economical and cultural contexts: What could be an overlapping consensus for present tax policies and advocacy?

One first has to recall the differences between the “lean government” approach of Anglo-Saxon CST and the broader (e.g. Booth 2007), more state friendly approach of central European traditions and, due to those differences in the conceptions of the role of government, only to areas seem to overlap on a theoretical level: Combating tax crime and Green Taxes.

This would be supported as priority also from the empirical findings by the Tax Justice & Poverty research team: Enforcing existing law and combating aggressive tax avoidance, tax evasion and other forms of IFF are a main reason behind growing inequality, and Green Taxes could be a major instrument to slow down climate change. The team would then, however, would also add that the priority of the Principle of Ability to Pay should be restored where it was diminished over the past years (developed countries) and implemented where it was never implemented before.

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All three areas would require the implementation of the Principle of Enforceability, namely, that each and every good tax law should be examined under the heading whether there are adequate resources for tax administrations and other branches of government to enforce those laws.

This in turn would call for an environment which would enable civil servants to fulfil their jobs and duties, calling for equal transparency for private wealth holder (i.e. equal in transparency compared with dependently employed and recipients of social welfare benefits) and public transparency for corporate wealth holder. On the political level it would require a stop to tax competition and the begin of tax cooperation and, where this fails due to lacking capacities, adequate support for poor countries by developed countries.

Given the presentations in E/IV+V, a final priority a review of existing tax system under two headings: First, its impact upon the poor and second, whether tax presents and subsidies are well spent and generate what they promise.

12.2 Combating tax crime...

Most clearly there is agreement in fighting any form of tax crime. Doing that, may fulfil a number of policy objectives:

12.2.1 ...to collect revenue

Combating aggressive tax avoidance, tax evasion, tax fraud and related crime:

Close loopholes to generate more revenue (United States Conference of Catholic Bishops, 1986, p. 63)

Justice & Peace Europe reminds that fraud with VAT causes annually ca. 160 billion Euros in damage and needs to be addressed (Justice & Peace Europe, 2017)

It is easier to find agreement for combating tax evasion than positive agreement on new tax rates. From a speech of Charles Rossotti the former US IRS Director at a conference on Taxation and the Common Good:

The second item in the Iowa Bishops Conference statement says, "All citizens have the right and responsibility to contribute to the common good through the payment of taxes." And I think people of good will can reasonably disagree about the precise degree of the progressivity of the tax code, whether the numbers that I cited are progressive enough or not progressive enough. But I would ask: Can there be any serious disagreement about the fact that those who don't even pay the taxes already required by the tax code are meeting their obligation under the common good? The people who are not even paying what is in the books are clearly, in my view, shirking their responsibility to all the other taxpayers, whether they're rich or poor.

So, what I would say in interpreting the principles that I think were very well stated by Iowa Bishops Conference is that there is a higher degree of certainty about the application of those principles of social justice to the issue related to people who are not paying even what's required than there is about the debate over whether the tax code is progressive enough (Bole, 2004).

12.2.2 ...to advance development

Pope Francis' letter to David Cameron ahead of the G8 summit:

The priorities that the British Presidency has set out for the Lough Erne Summit are concerned above all with the free international market, taxation, and transparency on the part of governments and economic actors. Yet the fundamental reference to man is by no means lacking, specifically in the proposal for concerted action by the Group to eliminate definitively the scourge of hunger and to ensure food security. ... The actions included on the agenda of the British G8 Presidency, which point towards law as the golden thread of development – as well as the consequent commitments to deal with tax avoidance and to ensure transparency and responsibility on the part of governments – are measures that indicate the deep ethical roots of these problems.⁴³

12.2.3 ...to remove market distortions

How can combating tax crime contribute to a better working of the market, i.e. removing cheating or oligopolies and practices which damage the common good?

Pope Francis: *Evangelii Gaudium*

56. While the earnings of a minority are growing exponentially, so too is the gap separating the majority from the prosperity enjoyed by those happy few. This imbalance is the result of ideologies which defend the absolute autonomy of the marketplace and financial speculation. Consequently, they reject the right of states, charged with vigilance for the common good, to exercise any form of control. A new tyranny is thus born, invisible and often virtual, which unilaterally and relentlessly imposes its own laws and rules. Debt and the accumulation of interest also make it difficult for countries to realize the potential of their own economies and keep citizens from enjoying their real purchasing power. To all this we can add widespread corruption and self-serving tax evasion, which have taken on worldwide dimensions. The thirst for power and possessions knows no limits. In this system, which tends to devour everything which stands in the way of increased profits, whatever is fragile, like the environment, is defenseless before the interests of a deified market, which become the only rule.

(Nell-Breuning, 1980, p. 67) emphasizes the importance of taxes for revenue and for directing the economy because of tax rebates, exemptions and privileges. Tax evasion, therefore, is also more than missing revenue, but distorting market competition, thus creating also indirect damage because giving the cheater unjustified advantage. If, however, too much control exists, then also the honest contender is hampered in his business dealings.

International efforts to effectively enforce tax obligation would not only contribute greatly toward budgetary consolidation. They would also increase the tax burden connected to the profits of transnational corporations in particular, and thus bring about a more equitable situation with regard to the burden of small and middle-sized companies and income from employment. (DBK; EKD, 2014, p. 28)

⁴³ Pope Francis' letter to David Cameron (2013, June 15). Retrieved from http://www.vatican.va/holy_father/francesco/letters/2013/documents/papa-francesco_20130615_lettera-cameron-g8_en.html

A very interesting position of Bernhard Häring combines tax evasion with lobbyism and market distorting impact of concentrated wealth/oligopolies:

There is not only the sin of tax evasion by trying to escape tax payment; there is frequently the greater injustice of blocking proper legislation through powerful pressure groups and through cooperation in these sins because of individual and group selfishness. The most abominable tax crimes are committed by members of the legislating bodies who, for personal benefits, back the already over-privileged groups to the detriment of the less-privileged and of the welfare of all.⁴⁴

Similar Jesuits on Justice in the Global Economy:

We strongly support policies that reduce the capture of states by lobbying elites and stronger efforts to combat corruption: Policies that make the capture of the state by lobbying elites and corporations more difficult are urgently needed. These include prohibiting revolving doors between private financial sector, multinationals, academia and government positions. This may be the easiest and most efficient way to keep separate the interests of each sector. Insuring the independence of the judiciary is another. Most of all, policies that mandate transparency at all levels, and that enable an involved and informed citizenry to monitor these sectors, are essential pillars of the needed reforms. (Social Justice and Ecology Secretariat, 2016, p. 29)

12.3 Stop tax breaks, tax holidays and other tax expenditures

While aggressive tax avoidance and evasion “merely” deprives the state of money, tax breaks, tax holidays and other tax expenditures channels a lot of taxpayers money to those, who do not really need it since they have already plenty – especially business sectors or TNCs. However: In return, under the present system, the state/municipality doing it profits at least to some extent from it since those entities create or maintain jobs in that country. However: From a global view, seen under the aspect of the global common good, these practices distort the market mechanisms and does damage to countries/municipalities who would otherwise profit from those businesses/TNCs. And: The money thus paid is still missing in the states coffers and therefore cannot be used for other important purposes. For that reason, those practices need to be gradually shut down to the degree the world community integrates further.

Included should be the removal of tax privileges of fossil fuels:

To be consistent, these alternative scenarios should be accompanied by the reduction of subsidies for fossil fuel production, using the savings for investment for green infrastructures. (Social Justice and Ecology Secretariat, 2016, p. 29)

12.4 Decrease inequality, also by Wealth Taxes and redistribution

⁴⁴ Häring, Bernhard (1981) Free and Faithful in Christ. Vol . III, New York: Crossroad Publishing Co., p. 358

12.5 “Green Taxes”?

Even though there are not many quotable statements on the wide range of Green Taxes, it can be assumed that their role and importance in public discussion will grow speedily due to the reception and acclaim of Laudato Si.

13 Conclusion

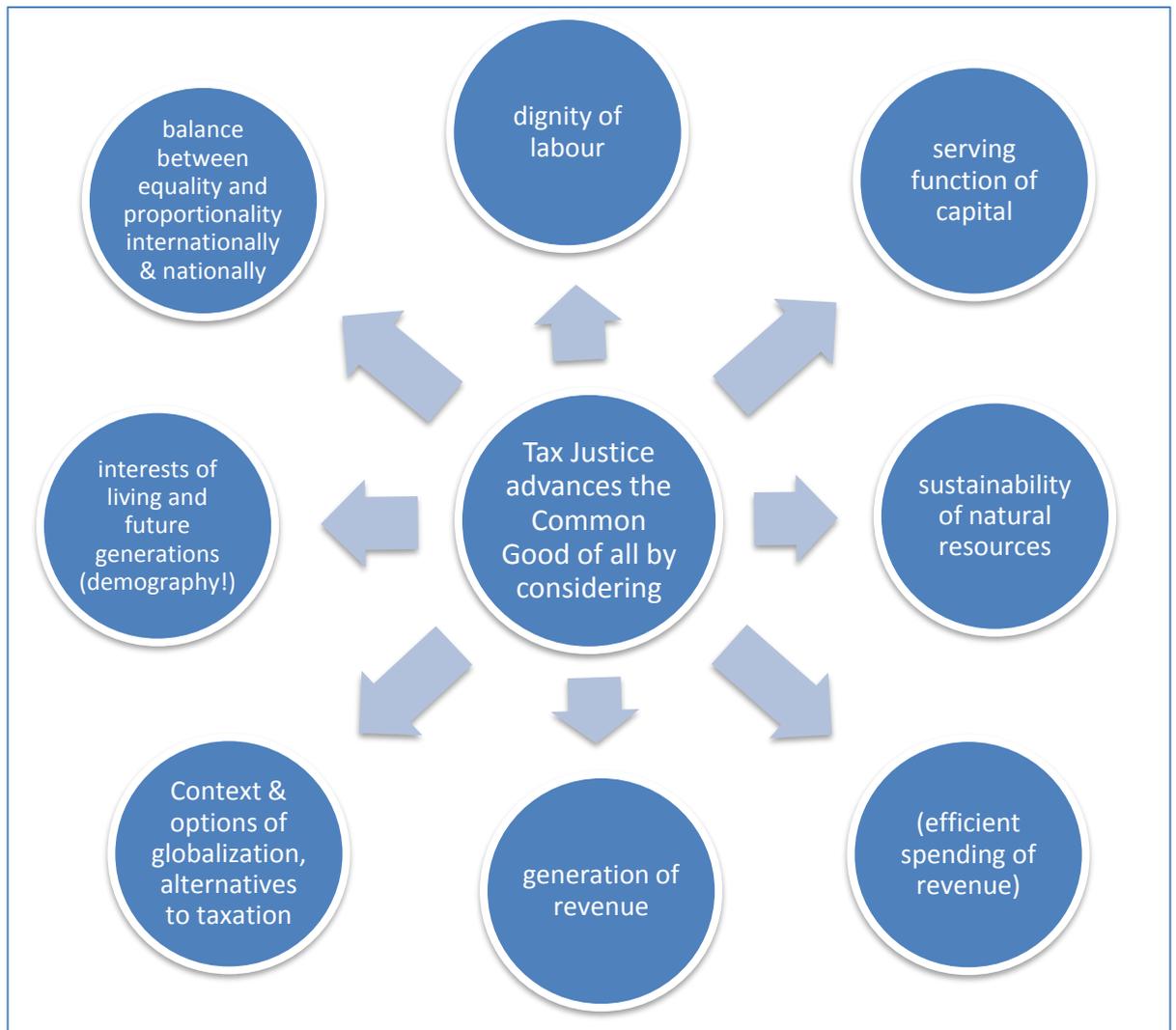
As our ethical reflection, especially E/III, IV and this chapter illustrate, taxation has a strong potential for changing our present social and economical order into something which is socially more just and ecologically more sustainable.

13.1 CST: An underused normative framework

Even though CST is extremely hesitant regarding specific taxation instruments, some coherent views are emerging over the past decades which are of direct relevance for the tax justice issue: It is our conviction that a case could be made towards the following

- Paying taxes is not only a legal, but moral obligation, which is why aggressive tax avoidance and tax evasion and other tax related crimes need to be prosecuted.
- Taxes should be according the Principles of Ability to Pay, which supports progressive taxation rather than Flat Taxes.
- Direct taxes are preferable towards indirect taxes, because the latter disadvantage over proportionately the poor
- Unearned income and wealth needs to be taxed more heavily than earned income and wealth.
- Taxes and levies could be one way to curb the over-exploitation of natural goods and/or push back damaging consumption, e.g. Carbon Fuels.

Overall, CST principles and values can provide for a number of criteria whose best possible observance in formulating tax laws and policies assists in determining whether the outcome is more just than existing tax instruments



In reference to those criteria, impact assessments upon the poor could be conducted when new laws and policies are introduced, followed by a rating of competing alternatives. Those criteria assist also in evaluating and assessing alternatives to taxation (e.g. philanthropy, Foundations or Corporate Responsible Investment) which claim to be better to advance the common good in general and the situation of the poor in particular. More on that (Alt, Was tun? Katholische Soziallehre als normativer Kompass. Kurzfassung - Diskussionspapier, 2018)

13.2 Taxation reducing the power of capital

The best argument for re-balancing the relationship between markets and states, including whatever means are available, taxation included, is the internationalization of financial markets and capital flows, and the power of those in control to blackmail governments and democracies up to the point of state capture if they do not comply with “competition” or other “requests of the markets”. Taxation thus may be also a solution to one problem which bothered not only popes and scholars of CST: The power of capital over markets, states and democracy and/or the idle uselessness of not invested capital. The main problem is, however, the first issue: The accumulated wealth of financial assets is linked with an increasing influence of private, corporate and criminal wealth holder over democratically elected and accountable governments, via, e.g. bribery or extremely large consumption and

Discussion paper, not yet finalized version!

investment preferences by very few, which is also behind the volatility of markets as has been one lesson from the 2007 World Financial and Economic Crisis (see I/IV). Here also foundations are not the solution since they just “outsource” wealth to another institution while donors still keep control over those assets.

This over proportionate influence of few could be reduced to the extent those depots and funds controlled by them could be reduced. Here taxation would be a wonderful solution since taxation with its pay as you go approach would generate revenue that could be dispensed via transparent, democratically controllable processes. Putting a tax on those wealth accumulations would therefore either reduce those depots and funds via the generation of revenue, thus reducing their influence, or force private, corporate or criminal wealth holder to spend or invest it. Spending would again generate revenue via (luxury?) VAT or generate jobs via investment and/or innovation.

Clearly, not all funds could be dissolved or reduced that way. Certain exemptions might be justified because there is no real alternative to them, e.g. the oil based state fund of Norway whose goal is to preserve resources to the nation once oil reserves are depleted. In other areas the world will be a happier place if, e.g. capital based insurances and pension funds are gradually closed down and its beneficiaries are once more covered by the tax and SSC based solidarity system. Of course, revenue levels might sink to the extent wealth in those foundations is reduced.

13.3 Taxation and transformation

This brings us to the final point: The opportunity of CST to guide the use of taxation within any attempts to bring about a transformation from the present socio-economic system, based upon neoliberal values and norms, to a society and economy once more serving the Common Good of all Rather than the interests of the few, see (Alt, Taxation and Transformation: The use and usefulness of Catholic Social Teaching, taxes and tax-related instruments to advance systemic change, 2018f)

14 Abbreviations

The following church documents are quoted by the following commonly used abbreviation, followed by paragraph number.

- CA Centesimus Annus
- GS Gaudium et Spes
- LE Laborem Exercens
- MM Mater et Magistra
- PP Populorum Progressio
- QA Quadragesimo Anno
- RN Rerum Novarum
- SRS Sollicitudo Rei Socialis

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