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## A Tax Debate in Germany

*Editorial*

German voters go to the polls in two months, but the major parties haven't exactly been overflowing with fresh ideas about the country's flagging economy and how to revive it. So kudos to the Free Democrats for keeping pro-growth policies—and tax policy in particular—in the national conversation.

Chancellor Merkel's junior coalition partners have revived calls to wind down Germany's much-hated "solidarity tax." That's the 5.5% surcharge added to personal and corporate income taxes, first imposed in 1991 to fund development in newly reunified East Germany. Last year Germans (both Ossi and Wessi) paid €13.6 billion via the surcharge.

The solidarity tax was originally slated to last a year. The latest incarnation, introduced in 1995, keeps the surcharge in place until 2019—30 years after the Berlin Wall came down.

The FDP is struggling in the polls and is looking to draw sharper lines between itself and the CDU, which is campaigning against tax hikes but in favor of expanded spending. Mrs. Merkel has stood fast behind the solidarity levy, arguing that Germany's domestic investment needs haven't diminished and require the extra kick to federal coffers.

The Chancellor's attitude is indicative of how the surcharge has morphed from a special levy to rebuild East Germany into an extra source of general revenue. Rainer Brüderle, the FDP's candidate for Chancellor, told the *Süddeutsche Zeitung* on Tuesday that "Whoever wants to finance other spending projects should make clear that he wants new taxes."

The solidarity surcharge is arguably a failed project: Much of the East still lags behind the West economically. The better solution in 1990 would have been to turn the ex-communist states into a development zone that could attract private enterprise with low taxes and lighter regulations and social protections. (A similar strategy today could lift the Southern euro-zone countries.)

But the more important point ahead of September's vote is that the average German worker faces a tax burden of nearly 50% on his income (according to a 2012 OECD study), under one of Europe's most Byzantine tax systems. Long forgotten in this election season is the Merkel government's unmet pledge, in its 2009 coalition agreement, to lower personal income taxes. If current trends hold and the next government is a left-right coalition, Germans could see a reintroduced wealth levy and even tax hikes for high earners.

With unemployment low and Germany's economic growth still outperforming its European neighbors', Chancellor Merkel is calculating that she has the fiscal space to promise new spending

goodies without having to take any politically sensitive steps to reinvigorate growth. She'll regret that calculation if—dare we say it—trouble in the euro zone comes roaring back after September.