The financial transaction tax in the framework of EU enhanced cooperation: Evolution and perspectives.

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Introduction

The economic and financial crisis that has marked the world economy in recent years, originated with the explosion of speculative bubbles that had been fueled for years by the lack of regulation and control of the financial markets.

Indeed, all of the actors involved in the international system were aware of this lack of control and quite a few had announced its potential danger. However, in 2006 the crisis not only broke out but affected the economies of western developed countries much more than anticipated. This showed that financial capitalism, as an “unregulated” and irresponsible “casino”, was a major threat to global economic stability and its victims were no longer solely the peripheral economies based on primary commodities.

Coping with the crisis has greatly affected European countries, and has led to the allocation of a considerable amount of public spending to finance sovereign debt and bailout vulnerable economies and the banking system.

Financial institutions have greatly benefited, either directly or indirectly, from the bailout operations and guarantees paid by European taxpayers over the period 2008 to 2012. These operations, together with the decline in economic activity caused by the uncertainty regarding the stability of the economic and financial system as a whole, have deteriorated the balances of public funding across Europe by more than 20% of the GDP.\(^1\)

The consequences of the crisis have not been reduced to the financial sector or to macroeconomic indicators. The lives of many people have been affected. In countries like Spain, it will take many years to regain the employment level and the productive fabric that has been destroyed by the crisis.

Beyond the crisis as such, the current financial system is a source of inequality, and it encourages a system of winners and losers in which the poorest are affected by the consequences of speculative activities. A clear example of this perverse system is the impact of tax havens and the practices of tax evasion and avoidance. The poorest regions of Asia, Africa and Latin America see how enormous amounts of money from the exploitation of natural resources leave their countries, devastating the possibilities of internal financing for development policies. The only way to address this threat is through regulation; States have to control markets and not the other way around.

According to the European Commission, there is a broad consensus, both within the EU and internationally, regarding the need for the financial sector to pay a more equitable and proportional contribution, given the costs of combating the crisis and the low taxation levels to which the sector is currently subject.\(^2\)

Along these lines, the Financial Transaction Tax, hereinafter FTT, is promoted as a solution based on a very simple idea, whose original version consists in: “applying a tax of 0.05% on all international financial transactions.”\(^3\) The tax is expected to generate a number of positive effects:

In the first place, it would generate substantial revenues. Despite being a very small percentage of the value of transactions, the volume is much higher than the real economy. As highlighted in a study carried out by Oxfam Intermón in Spain, financial transactions worldwide exceed 75 times the transactions of the real economy, that is to say, much larger than all exchanges of goods and services that are performed around the world. The foreign exchange market, meanwhile, represents 15 times the global GDP and is 60 times greater than world trade. This demonstrates the dimensions of the global financial sector, which obtains the greatest profits; in fact, it is 26 times more profitable than all other sectors, but it is also the one that pays the least taxes.

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Second, a tax of this nature would allow for the registration of transactions carried out regardless of their speed or amount which in turn would be a disincentive for some speculative operations (both for the ability to register them as for the imposition of an additional cost), this would be the third benefit. The latter is especially relevant if you consider that 80% of transactions are essentially speculative or very short term⁴, not linked to the real economy.

Fourth, the tax could help reduce market volatility and penalize rapid and successive transactions, with an insignificant effect on real investment, thus encouraging productive activities over speculative ones.⁵ Finally, the tax would have political and social value by showing the public that the financial system also assumes part of the costs generated by the crisis, for which it is largely responsible.

In this document, the evolution of the FTT proposal is analyzed, as well as the criticisms and the support that it has received. It especially examines the Enhanced Cooperation proposal that has been signed by 11 European countries, including its current state and future prospects.

**Background of the financial transaction tax**

The search for ways to regulate financial markets and to finance the imbalances of the economic system is not a new idea. In 1936, in order to curb the volatility of the stock market that had succumbed to the crisis in 1929, John Maynard Keynes suggested the creation of a financial transaction tax. In 1972, his disciple, James Tobin, would return to this idea, but in this case in order to control the volatility of exchange markets, generated by the free-floating system of currency exchange rates. Since then, the tax has been known as the “Tobin Tax”. The general idea consists in applying a low rate (between 0.1% and 0.5%) on all foreign exchange market operations, thus increasing their cost. This would discourage speculative movements and is intended to stimulate “productive investment” and the economic growth of a country, while controlling the volatility of the foreign exchange markets.⁶

From the beginning, Tobin distanced himself from the idea to establish this tax as means of financing development, as he only viewed it as a stabilization tool. It was in the nineties when the idea became popular to use this tax as a way to balance the injustices between countries and between people that are generated by the financial system.

Either way, until relatively recently the feasibility of this tax, in terms of political will, was unclear. In fact, when James Tobin was asked if the tax would someday come to light, he replied: “Not at all, policy makers are opposed to it.”⁷

**Recent developments**

Indeed “the decision makers” left the issue aside for a long time, until a new crisis put it back in the spotlight. In the mid-nineties, the crisis in Mexico marked the direct precedent of the Monterrey Conference on Financing for Development. In this scenario, the tax was revived both as a control mechanism and as a source of resources, and organizations such as the Association for the Taxation of Financial Transactions and Citizens’ Action (ATTAC)⁸ were promoters of this proposal.

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⁴. Short term operations: These are transactions through which securities are traded very quickly to take advantage of the changes that are produced in the value of shares over a day or over a few days. There are various practices, almost all with a speculative character. From the quickest practices, known as Scalping, in which a change in the cost of the share could discourage the transaction or Swing trading, Core trading or Spread trading which are usually used by institutional traders to limit risk and operate over longer periods of time depending on the evolution of the values of the shares.


⁸. Association for the taxation of financial transactions for the aid of citizens.
Technically, the proposal for the tax was also significantly reformulated by the economist Paul Bernard Spahn using a very simple rationale: adapting the amount of the tax to the amount of speculation. While speculation is low and does not lead to significant fluctuations in the exchange rates, a low tax is sufficient. At the moment speculation increases, with the risk of producing excessive fluctuations in the exchange rates, a top-up rate would be applied, which would increase the tax. This supplementary "rate" would be added to the normal one when circumstances demand, that is to say, when the exchange rate exceeds previously stipulated limits.10

The reformulation carried out by Spahn, which was presented at the Monterrey Conference at the request of the German Cooperation Agency, had no other objective than to overcome the criticisms of Tobin’s proposal that focused on the negative impact of the tax on foreign exchange markets. This reformulation reduced the interference of the tax on day to day foreign exchange operations and demonstrated greater feasibility of the tax as a system to generate revenue for development.

Although the proposal gained a following among social movements and gradually among some international organizations committed to development aid, it was the financial crisis in 2007 and its effects on developed countries that raised the issue in forums such as the G20.

The G20 countries represent about 90% of global GDP, 80% of world trade and two-thirds of the planet’s population. However, these countries are also home to more than half of the world’s poor, while inequality continues to increase in many of them.

In the G20, the FTT was first proposed in 2008 and in 2009 the International Monetary Fund (IMF) was asked to explore options through which countries could make the contribution of the financial sector fairer and more substantial in order to pay the burdens associated with the government interventions to repair the banking system. In response, in 2010, the IMF recommended the adoption of taxes on financial transactions to pay the costs generated by the bailout of troubled institutions or in the face of future failures or crises. Moreover, the IMF11 analyzed the possibility of increasing the revenues from financial sector activities more generally. In its report, the Fund considered the possibility of using Financial Transaction Taxes, but focusing specifically on the implementation of a “Tax on Financial Activities,” applied to the sum of profits and remunerations of financial institutions.12 This tax essentially amounts to a tax on aggregate value, from which the financial sector is usually exempt, and could help reduce the differential tax treatment between this and other sectors of the economy.13

The IMF indicated the need for radical changes in global macroeconomic policies, recognizing that these policies must go beyond price stability and ensure financial stability, relying on the use of macro prudential tools.14 Thus, the IMF closed the cycle marked by the Washington Consensus and with it, its major paradigms, such as the idea that deregulation and privatization generate prosperity per se, and that the markets will monitor and correct themselves. In fact, the IMF’s 2012 Global Financial Stability Report urges regulating bodies and central banks to study possible “restrictions on certain activities of the banking business” in order to mitigate systemic risks.15

The major shift in the political perception of the FTT led to the proposal playing an important role at the G20 in 2011, where it gained support from countries such as France, Spain, Germany, Brazil,
Argentina, Ethiopia and South Africa. These countries also argued that the resources be dedicated to fighting poverty and the effects of climate change. But, the real commitment to the FTT materialized when some European countries began to promote the implementation of the tax at the EU level.

THE FINANCIAL TRANSACTION TAX IN THE FRAMEWORK OF EU ENHANCED COOPERATION

KEY DATES

In September 2011, the European Commission presented a proposal for a Directive to introduce the Financial Transaction Tax (FTT) in the European Union.

January 2013: the European Council accepted the proposal of the FTT in the framework of EU enhanced cooperation to be implemented in 11 countries.

February 12th 2014: more than 300 European organizations representing over 70 millions citizens ask the Presidents of Austria, France, Germany, Italy and Spain to support the implementation of the FTT.

February 19th 2014: Franco-German council in Paris. Both countries agree on reaching a commitment with the 11 countries of the EU on the implementation of the FTT before the European Parliamentary elections in May.


The European proposal of the Financial Transaction Tax

In March 2010, the European Parliament adopted a resolution calling on the European Commission to consider introducing a tax on financial transactions. In July 2011, the leaders of France and Germany sent a letter to the President of the EU Council proposing its approval. In 2011, the European Commission also assessed its implementation as an EU own resource and the possibility of the FTT being incorporated within the Multiannual Financial Framework 2014-2020.  

Finally, in September 2011, the European Commission presented a proposal for a Directive to introduce the Financial Transaction Tax in the European Union. The objective for the adoption of this tax is "to ensure that the financial sector makes a fair contribution at a time of fiscal consolidation.

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16. As relevant data, it should be noted that at the G20 Summit in Cannes, the United States, which opposed the tax and had been reluctant to Europe unilaterally imposing the tax, withdrew its objections at the meeting in Cannes in 2011.
in the Member States. The financial sector played a role in the origins of the economic crisis. Governments and European citizens at large have borne the cost of massive taxpayer-funded bailouts to support the financial sector. Furthermore, the sector is currently under-taxed by comparison to other sectors. The proposal would generate significant additional tax revenue from the financial sector to contribute to public finances. Also, this tax was identified as an opportunity to advance in the consolidation of a single European market by harmonizing the various taxes imposed by several member countries of the EU Community and thereby reducing distortions of the EU market, while also strengthening the EU’s common position through the G20 for the global implementation of such a tax.

The model of the tax proposed in 2011 involves the application of a minimum rate of 0.1% on the sale of stocks and bonds and 0.01% on derivatives. In this case financial transaction means: first, the purchase or sale of financial instruments, including repurchase and reverse repurchase agreements as well as the lending or borrowing of loan securities. Second, the transfer between entities of the same group with the right to dispose of a financial instrument as owner and any similar transaction involving the transfer of risk associated with the financial instrument, and in cases not covered by the above the carrying out or modification of derivatives agreements. The scope of implementation of the tax is broad because it is intended to cover transactions involving all types of financial instruments, since in many cases some instruments are substitutes for others. Existing financial mechanisms are summarized in the following table.

**FINANCIAL MARKET INSTRUMENTS**

<table>
<thead>
<tr>
<th>Market</th>
<th>Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Short term bank deposits.</td>
</tr>
<tr>
<td></td>
<td>Futures and options on short term bank deposits, interest rate swaps,</td>
</tr>
<tr>
<td></td>
<td>interest rate options, forward contracts.</td>
</tr>
<tr>
<td>Credit</td>
<td>Bonds (debt).</td>
</tr>
<tr>
<td></td>
<td>CDS; bonds; swaps and options; forward contracts.</td>
</tr>
<tr>
<td>Capital</td>
<td>Securities (equity):</td>
</tr>
<tr>
<td></td>
<td>Futures and stock options.</td>
</tr>
<tr>
<td>Foreign Exchange</td>
<td>Direct exchange of foreign currency.</td>
</tr>
<tr>
<td></td>
<td>Currency options and futures.</td>
</tr>
<tr>
<td>Commodities</td>
<td>Futures and options on commodities.</td>
</tr>
</tbody>
</table>

The tax would fall on financial operators leaving exempt the primary emissions of bonds, stocks, mergers and acquisitions to avoid penalizing companies seeking to restructure. Also day to day banking operations of citizens and businesses would be exempt. According to the proposal, the tax would apply to transactions where a financial institution located in an EU Member State intervene, either acting on their own account or on behalf of a party involved in the transaction, and in transactions in which at least one of the parties is established in an EU Member State.

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23. For example, insurance contracts, mortgages, business loans, credit card operations, service payments, cash deposits and withdrawal, specific foreign currency transactions, etc.
"In September 2011, the European Commission presented a proposal for a Directive to introduce the Financial Transaction Tax in the European Union “to ensure that the financial sector makes a fair contribution at a time of fiscal consolidation in the Member States. The financial sector played a role in the origins of the economic crisis. Governments and European citizens at large have borne the cost of massive taxpayer-funded bailouts to support the financial sector.”

As Martínez Carrascal points out, the definition used for financial institution is broad and includes mainly banks, investment firms, credit institutions, insurance and reinsurance undertakings for collective investment, pension funds and their managers, holding companies, leasing companies and special purpose entities. The proposed Directive states that, in addition, other actors that carry out certain financial activities on a large scale basis should be considered financial institutions.

As noted above, the proposal had as one of its goals to advance the fiscal harmonization of the EU, thus, the legal basis of the proposal of the Council Directive was Article 113 of the Treaty on the Functioning of the European Union. Because fiscal matters are reserved to the Member States, this legal basis requires the Council to act unanimously in accordance with a special legislative procedure and after consulting the European Parliament and the Economic and Social Committee.

The European Parliament issued a favorable ruling on the Commission’s initial proposal on May 23, 2012, and the Economic and Social Committee did so on March 29, 2012. But in Council meetings that took place on June 22 and July 10, 2012 it was found that fundamental differences regarding the need to establish a common system continued to persist, and therefore it was considered impossible to achieve this objective within a reasonable time frame for the European Union as a whole.

The debate among member countries regarding the tax and the lack of consensus deserves an analysis as it reflects important differences in the way the economy and the future of the European Union are understood. As Steinberg notes, on one side are the British, along with some of the new Eastern European member countries. On the other side are the majority of the countries in continental Europe which use the euro, led by Germany and France, which have a view of capitalism where markets are considered dangerous and should be regulated and controlled. The first group would be the representatives of neoliberalism, while the latter are part of the “ordoliberal” model. This model considers that the regulation of all markets including financial ones is necessary as these tend to “overreact,” suffer panics and are harmful to the maintenance of the social market economy. This model also claims that excessive debt and credit, which are characteristic of Anglo-Saxon capitalism, have perversive effects and do not tolerate inflation.

This is not a minor debate given that it will define the future of the euro and of the common market. Moreover, as Europe led the development of trends in socialism and the welfare state during the second half of the twentieth century, the strengthening of this alternative and changing vision of capitalism could also establish a paradigm internationally. The European experience in creating market control systems as well as compatibility between the market and social policies will be an important example so that emerging countries follow this same direction and support the European demands and proposals in international forums, including and especially related to the global FTT.

**Current situation of the Financial Transaction Tax proposal in Europe**

Since it was impossible to reach a consensus on the implementation of the tax at the EU level, eleven Member States, including Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia, requested that the Commission submit a proposal to the Council to authorize enhanced cooperation in the area of the FTT.

25. IBID pg:50
26. Article 113 of the Treaty on the Functioning of the European Union 2010: “The Council shall, acting unanimously in accordance with a special legislative procedure and after consulting the European Parliament and the Economic and Social Committee, adopt provisions for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonisation is necessary to ensure the establishment and the functioning of the internal market and to avoid distortion of competition.”
27. European Commission (2013) Pg. 2
28. IBID
30. Enhanced cooperation allows those countries of the Union that wish to continue to work more closely together to do so, while respecting the legal framework of the Union. The Member States concerned can thus move forward at different speeds and/or towards different goals. However, enhanced cooperation does not allow extension of the powers as laid down by the Treaties, nor may it be applied to areas that fall within the exclusive competence of the Union. Moreover it may be undertaken only as a last resort, when it has been established within the Council that the objectives of such cooperation cannot be attained
All of the Member States specified that the scope of implementation and the objectives of the legislative proposal of the Commission that would lead to enhanced cooperation should be based technically on the initial proposal of the Financial Transaction Tax made by the Commission in 2011. They also clarified that practices such as evasions, distortions and transfers to other countries should be prevented. The proposal was accepted by the European Council in January 2013.

As is evident, its implementation is limited to the participating Member States, and for the sake of clarity of some of the proposed provisions, the monitoring of the “principles of issuance and establishment” as within a reasonable period by the Union as a whole. The general arrangements for enhanced cooperation are laid down in both the Treaty on European Union (Title IV). In principle, at least nine states must be involved in enhanced cooperation, but it remains open to any state that wishes to participate. It may not constitute discrimination between those participating and the other states. Any acts that are adopted within the framework of such cooperation are binding only on the participating Member States and do not constitute a part of the acquis. Enhanced cooperation must further the objectives, protect the interests and reinforce the integration process of the Union. In addition to the general regime, special arrangements are laid down in the Treaty on the Functioning of the European Union (Title III). Glossary of the European Union. http://europa.eu/legislation_summaries/glossary/enhanced_cooperation_es.htm

31. Decision 2013/52/UE of the European Council, 22/01/2013, by which enhanced cooperation in the area of the financial transaction tax is authorized

the foundation of the tax are reaffirmed. This means, the obligation to pay the tax applies both to those institutions with offices in the 11 EU countries that initially implemented the tax as well as to the products issued in these 11 countries, regardless of which financial institution carries out the transaction or where in the world it is performed.\(^{33}\)

It is intended that by complementing the principle of establishment (i.e. the place where the operator is registered) with some elements of the principle of issuance (the place where the stocks or securities are issued) it will be less advantageous to transfer activities and establishments to countries that remain outside the territorial scope of the FTT.\(^{34}\)

Under the principles of issuance and establishment, the only possibility for entities that reside in the EU to avoid the proposed tax would be to renounce their customer base here and/or to not market their products in the area that includes the Member States participating in the Enhanced Cooperation Mechanism, which would result in too high of a cost.\(^{35}\)

The financial institutions in non-participating Member States will benefit from this Enhanced Cooperation, given that they will only be confronted with a common FTT system applicable to the participating Member States, rather than a multitude of systems. At the same time, since the proposed harmonization is a Directive rather than a regulation, it does not go beyond what is necessary to achieve the proper functioning of the internal market, respecting the principle of proportionality.\(^{36}\) However, criticism from detractors within the EU has been unceasing.

The British government has fiercely resisted the FTT insisting that the tax would affect the free development of financial activity and impose costs that people with savings and investments will ultimately have to assume. Moreover, the UK launched a legal offensive at the European Court of Justice against the Enhanced Cooperation Procedure. The argument put forth by the British government and shared by the financial sector established within its territory is that this tax goes beyond the jurisdiction of the Member States of the EU and interferes with the sovereignty of the United Kingdom. The British government believes that the tax would impose costs on the transactions of British companies operating in countries that will implement the rate.\(^{37}\)

The Legal Service of the European Council ruled against the tax, highlighting the possibility that its implementation in the 11 countries would affect other EU members. The Commission quickly dismissed the Council’s opinion which is also non-binding. The European Commissioner for Taxation and Customs Union, Algirdas Šemeta, noted that the Commission differed profoundly from the opinion of the Council’s lawyers, especially when their criticism was restricted only to part of the principle of residence and not to the tax in general or to the enhanced cooperation mechanism. He also highlighted the deep legal analysis that the Commission had undertaken prior to submitting the proposal.\(^{38}\)

The tax clearly falls on all companies which carry out transactions with assets in or in the territory of the countries of the Enhanced Cooperation Procedure, including those of the UK, which is a legitimate exercise of governance. In fact, London has already long imposed the Stam Duty on

\(^{33}\) OXFAM INTERMON (2013) Una tasa contra la pobreza
\(^{34}\) EUROPEAN COMMISSION (2013) OP. Cit. Pg. 7
\(^{36}\) The principle of proportionality regulates the exercise of powers by the European Union. It seeks to set actions taken by the institutions of the Union within specified bounds. Under this rule, the involvement of the institutions must be limited to what is necessary to achieve the objectives of the Treaties. In other words, the content and form of the action must be in keeping with the aim pursued. The principle of proportionality is laid down in Article 5 of the Treaty on European Union. The criteria for applying it is set out in the Protocol (No 2) on the application of the principles of subsidiarity and proportionality annexed to the Treaties European Union. Summaries of EU legislation, Glossary. http://europa.eu/legislation_summaries/glossary/proportionality_es.htm
\(^{37}\) In fact, UK Chancellor George Osborne stated: “Britain doesn’t want to take part but it also doesn’t want to be caught in the effects of this tax being introduced by other countries. … “So we want to make sure that yes ok, fine, if some European countries want to introduce those kind of taxes they can do so but they should not do so in a way that impacts Britain.” 20/04/ 2013 BBC News: Financial Transactions Tax: UK launches legal challenge.
\(^{38}\) 11/07/2013 EURACTIVE: EU institutions in legal spat over financial transaction tax
European companies and actors in the financial market of the City and this has not been a problem for these companies or their countries of origin. Moreover, it has not even been a problem for the City which remains highly attractive to investors.

Beyond the external criticism, the fact is that right now the momentum or the weakening of the proposal can only come from the 11 States committed to its implementation. For this reason, the renewed momentum that this issue has assumed after the German government took power is especially important. During the recent Franco-German summit, their leaders committed to reaching an agreement on the implementation of the FTT prior to the European Parliamentary elections in May, thus paving the way for its implementation by the end of 2014.

**Grassroots Support**

One aspect that should not be overlooked is the support of European citizens for the tax. As reflected in the 2011 Eurobarometer survey, Europeans were strongly in favor of the financial transaction tax at the European level or globally. Even the British largely responded in favor.

| Are you in favor of the financial transaction tax at the global or European level, if this only applies to transactions between financial operators and not to the general public? |
|----------------------------------|------------|----------------|
| UE 27                            | SI: 61%    | NO: 26%        | Not Sure/ No Response: 13% |
| Euro zone                        | SI: 63%    | NO: 25%        | Not Sure/ No Response: 12% |
| Non Euro Zone EU countries       | SI: 54%    | NO: 30%        | Not Sure/ No Response: 16% |
| Spain                            | SI: 52%    | NO: 32%        | Not Sure/ No Response: 18% |
| UK                               | SI: 65%    | NO: 25%        | Not Sure/ No Response: 10% |

The country where the FTT receives the greatest support is Austria with 80%; the least support, meanwhile, is in Malta where only 30% of the citizens are in favor. Furthermore, of the 61% of the Europeans who support the tax, 81% agree that it should be introduced at the European level if the initiative did not receive global support, as indeed happened.

<table>
<thead>
<tr>
<th>Reasons European citizens support the tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>To fight speculation and help prevent future crises</td>
</tr>
<tr>
<td>So that financial actors contribute to the costs of the crisis</td>
</tr>
<tr>
<td>To reduce the public deficit</td>
</tr>
<tr>
<td>Because it is an innovative source of financing for social policies and development cooperation</td>
</tr>
</tbody>
</table>

Along with the support of citizens, the FTT has also gained the support of businessmen and women, financiers and entrepreneurs like Bill Gates, George Soros, Warren Buffet or the letter signed by 1,000 economists, including some Nobel Prize winners. These significant endorsements by public figures from different spheres of the economy support the soundness of the approach and its feasibility.

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39. 21/02/2014 Financial Times: France and Germany in push for ‘Robin Hood’ tax deal
40. EUROPEAN UNION PUBLIC OPINION MONITORING UNIT (2011) Europeans and the crisis: European Parliament Eurobarometer; EB Parlemeter 75.2 Summary; European Union Directorate General for Communication
41. 13/04/2011 The Guardian: Robin Hood tax: 1,000 economists urge G20 to accept Tobin tax
The financial transaction tax in the framework of EU enhanced cooperation: Evolution and perspectives.

"European citizens were strongly in favor of the financial transaction tax. Eurobarometer 2011."

The experience of other countries in the implementation of similar taxes

Another factor to be taken into account in analyzing the implementation of the tax in the 11 European countries is the experience of other countries with similar taxes, both good experiences, as well as those who have faced difficulties. As shown in the table, 32 countries currently impose taxes on financial transactions. Although there are significant differences, a common feature of these types of taxes around the world is that in most cases the sale of shares is taxed while the application of the tax to fixed income securities is less common, and in most cases it focuses on transactions carried out in secondary markets.

FINANCIAL TRANSACTION TAXES AROUND THE WORLD (2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>Shares</th>
<th>Corporate bonds</th>
<th>Gov. Bonds</th>
<th>Futures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>0.60%</td>
<td>0.60%</td>
<td>0.60%</td>
<td>0.60%</td>
</tr>
<tr>
<td>Australia</td>
<td>0.30%</td>
<td>0.15%</td>
<td></td>
<td></td>
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<td>Austria</td>
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<td>Belgium</td>
<td>0.17%</td>
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<tr>
<td>Brazil</td>
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<td>Chile</td>
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<tr>
<td>China</td>
<td>0.5%</td>
<td>0.8%</td>
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<tr>
<td>Colombia</td>
<td>1.50%</td>
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<td>Finland</td>
<td>1.60%</td>
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<tr>
<td>France</td>
<td>0.15%</td>
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The case of the UK Stamp Duty (a tax on stock trading of 0.5%) is especially significant given that while also being one of the oldest taxes in the world it has not meant a decline in competitiveness for the City of London. In fact, 40 percent of the revenue from the Stamp Duty comes from British foreign operators.

Moreover, around 23 billion dollars are collected annually in only seven of the countries implementing such taxes, and half of that amount corresponds only to the United Kingdom and South Korea. Among the countries that successfully implement some form of the FTT are some of the most dynamic and attractive economies for investors, such as Brazil, that uses this tax with the objective of market stabilization.

Meanwhile, the Swedish case is of interest as a failed experience. In the eighties, Sweden imposed a 1% tax on the buying and selling of shares and 0.02% or 0.03% on transactions of public and private fixed income securities. Those taxes produced the flight abroad of financial activity from this country and a decline in the trading of Swedish public debt. The truth is that the reason the Swedish model failed is not shared by the European proposal, given that based on the principle of issuance, the tax applies regardless of the nationality of the investor.

Overall, international experiences including that of the British demonstrate the technical feasibility of this type of taxes and their revenue potential, while they clearly contradict the idea of a mass flight of investors if the market offers other benefits, such as stability, security and profitability.

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**Table: Examples of Financial Transaction Taxes (FTT)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Capital Gains Tax</th>
<th>VAT Rate</th>
<th>Example</th>
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</thead>
<tbody>
<tr>
<td>Germany</td>
<td>0.40%</td>
<td>0.20%</td>
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<tr>
<td>Greece</td>
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<td>0.60%</td>
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<tr>
<td>Guatemala</td>
<td>3%</td>
<td>3%</td>
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<tr>
<td>Hong Kong</td>
<td>0.3% + $5 Imp.</td>
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<td>Timbre</td>
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<tr>
<td>India</td>
<td>0.50%</td>
<td>0.50%</td>
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<tr>
<td>Indonesia</td>
<td>0.14% + 10% VAT</td>
<td>0.03%</td>
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<tr>
<td>Ireland</td>
<td>1.00%</td>
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<td>Malaysia</td>
<td>0.50%</td>
<td>0.015%</td>
<td>0.0005%</td>
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<tr>
<td>Morocco</td>
<td>0.14% + 7% VAT</td>
<td>7% VAT</td>
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<tr>
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<td>0.15%</td>
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<tr>
<td>Peru</td>
<td>0.08% + 18 VAT</td>
<td>0.08% + 18% VAT</td>
<td>0.08%</td>
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<tr>
<td>Philippines</td>
<td>10% VAT</td>
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<tr>
<td>Russia</td>
<td>0.08% + 8% IVA</td>
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<tr>
<td>Singapore</td>
<td>0.05% + 3% VAT</td>
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<tr>
<td>South Korea</td>
<td>0.30%</td>
<td>0.30%</td>
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<td>Swede</td>
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<td>Switzerland</td>
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<td>Taiwan</td>
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<td>United Kingdom</td>
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<td>Venezuela</td>
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<tr>
<td>Zimbabwe</td>
<td>0.45%</td>
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Implementation of the tax within the European Enhanced Cooperation Procedure

The implementation of the tax is advancing slowly, although the negotiations are gaining momentum since the new German Government took power, and the tax should be operating by the end of 2014, although the procedure allows states to go ahead and unilaterally establish a national tax while the joint proposal moves forward. In fact, in August 2012 France launched a tax of 0.2% on the sale of company shares that are based in France and with a market value above 1 billion Euros (which only applies to about 100 companies). Additionally, France imposed a 0.01% tax on certain transactions in high frequency business (relative to short term operations), as well as on some default insurances (CDS) on sovereign debt in the EU. In these cases, only companies and individuals subject to be taxed in France are affected.

This “minimalist” version of the tax, although it is a big step, should only be the first toward a broad-based version; otherwise, the purpose of the tax could be undermined. Italy and Portugal have announced that similar taxes will be launched shortly.

Despite the initial French leadership, the French Minister of the Economy, Pierre Moscovici, has gathered the fears and complaints of the banking and other French financial sectors that the tax is too high. Such reticence has fueled the debate among members of the Enhanced Cooperation Agreement regarding the characteristics of the FTT. Germany has taken the leadership in defending the FTT just as the Commission proposed, and has been responsible for channeling the concerns of different members of the proposed Enhanced Cooperation Procedure. In fact, during the Franco-German Council of Finance Ministers on February 19, 2014, the FTT occupied a significant part of the agenda. The German position favors a broad-based tax, going beyond France’s reluctance to extend the more limited tax, which the country has already established. In this regard, France went from being the European leader and pioneer to proposing this minimalist version of the tax as the model to follow. In February 2014, on the occasion of the EU Economic and Finance Council meeting, leaders returned to address the issue of a Financial Transaction Tax. The Spanish Government has shown signs of wanting to support the French position and join a “watered-down” version of the tax. In this case, instead of demanding broad-based implementation, the tax would be limited to the sale of shares of large multinationals.

This change in the Spanish position not only alters the expected benefits of implementing the tax. It also shows the power of the banking and financial lobby. To overcome this difference of opinion, it is likely that an intermediate implementation of the tax will be proposed, using a gradual approach, through “phases.” While this would allow for the advance of a broad-based tax, the fact is that in order to achieve the expected results and avoid creating incentives for capital mobility between different assets or alter the market forecasts it is best to implement the tax as conceived by the Commission from the outset.

The initial momentum needs to be regained in order to ensure that the tax does not lose its effectiveness, as initially proposed, and especially that its revenue potential is not reduced. Many of the advantages of the FTT depend on whether it applies to the widest number of instruments possible. Also, a key aspect of its implementation lies in whether it is sufficiently broad-based, otherwise it could generate incentives for capital flight of instruments that are both taxed and not taxed.

It is evident that the lobbies of the financial and banking sectors are putting significant pressure on the eleven countries of the Enhanced Cooperation Mechanism. Nevertheless, the countries of southern Europe such as Spain, Portugal, and Italy have to take an active stance in defense of a broad-based tax, as they are the countries that will have to deal for a longer period of time with the effects of the financial crisis especially in terms of poverty and inequality.

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45. It was originally planned that the tax would be in place beginning in January 2014; however, the 11 countries involved determined that this period was not viable and its implementation was postponed for later in 2014.
47. 12/07/2013 Le Monde.fr: De la décision “historique” à la mesure “excessive”: comment Moscovici a changé d’avis sur l’ex-taxe Tobin
48. 04/02/2014 Algidas Šemeta: Financial Transaction Tax: Time to engage, compromise and deliver, European Commission - SPEECH/14/92
“A key aspect of the FTT’s implementation lies in whether it is sufficiently broad-based, otherwise it could generate incentives for capital flight of instruments that are both taxed and not taxed.”

Benefits and challenges in the imposition of a financial transaction tax

Having outlined the progress of the negotiations for the implementation of the FTT, it is necessary to analyze the benefits and challenges of its implementation. It should be noted that the expected results will only be effectively fulfilled if the tax applies in the terms in which the Commission laid out in its original proposal, that is, a broad-base of products and issuers and not limited to big players or concrete instruments. As noted above, the Commission’s proposal taxed stocks, bonds and derivatives.

The specific objectives of the FTT can be divided into three groups: To correct flaws in economic governance, to stabilize the markets and, finally, for revenue purposes.

1. Improved economic governance

As noted, the economic crisis has further highlighted the need for governments to impose on the markets. This means, there is a need to end the anomaly of having a sector of the economy without strong regulation or supervision and whose operations are not subject to the VAT. In fact, a financial sector without regulation and taxes, and without prohibitions on the development or use of instruments that are potentially harmful for society, is an anomaly in the modern economy when compared to any other productive sector.⁴⁹

The negative externalities of the lack of financial regulation include the volume of speculative transactions that take place beyond the transactions of the real economy, which creates numerous problems such as volatility or speculative bubbles in sectors that have a high social impact. In this case, the main problem has to do with high-frequency trading or logarithms in which a share is bought and sold multiple times in the same day in order to take advantage of slight variations in the price. At the same time, the wide and excessive exposure to risk among financial market actors becomes an externality; this is basically what happened with the distribution and contamination of the market with subprime mortgages. These externalities become systemic risks when the size of the entities is too large, and their fall or excessive exposure could spread to or influence the entire economic system. This was the case of many of the banks that have been bailed out in European countries, despite the costs that this imposed. This is the well known as “too big to fail”.

In the case of activities with negative externalities, taxation becomes a tool, first to offset the social costs of the activity and, second, to provide incentives for reducing the harmful activity.⁵⁰ The FTT is therefore not only a proposal linked to mitigating the consequences of the financial crisis, but it is proposed as a tool to prevent uncontrolled markets from affecting the states.

As already pointed out, the tax also has an important social and political value, because it is both progressive and redistributive. The actors that operate at the stock market are essentially banks, funds and finance agents with a high rate of revenue and/or that operate with the capital surplus of financial actors. They are some of the most prosperous economic actors, but, in turn, they contribute the least to the public treasury with their activity. The tax is therefore a fairer and more equitable tax revenue instrument, and if some of its funds are allocated to the fight against poverty, it will also have a redistributive effect.

In addition to the externalities caused by the financial sector and the lack of regulation, there is also a problem of lack of information regarding its activities. The speed of the transactions and the opacity regarding the beneficiaries of those activities, in many cases, poses significant challenges for the establishment of regulations. A broad-based FTT (applied to stocks, bonds and derivatives), would provide information on high-speed activities of which right now there is no record. Information is also a valuable asset for governments and regulators.

Finally, among the advantages for economic governance and the fiscal system, the FTT is presented as an alternative that is less susceptible to tax evasion. By taxing transactions under the principle of issuance, the implementation of the tax becomes simpler and with that the ease in meeting the obligation and monitoring to ensure that it is fulfilled.

2. Market Stabilization

The idea, in very simple terms, is that the financial transaction tax would reduce the profit margin for each operation, given that high-frequency trading has small margins on each transaction, investors would be discouraged to perform them as their costs would increase. Due to their characteristics, such transactions are considered undesirable because it is assumed that they exacerbate a price trend based on speculations.

But beyond the simplicity of this idea, the stabilizing component is one of the areas that generates the greatest debate among academics and fiscal experts. The idea comes from Tobin’s original proposal whereby the tax would reduce volatility in international financial markets by increasing the transaction costs of operations, in this case, by taxing currency exchanges. Thus, the tax would mainly affect short-term operations, but international trade and long-term investment would endure the tax to a much lesser extent.

As pointed out by Garciamartin51, Tobin assumed that financial markets are governed by irrational expectations, based on some exchange rates whose equilibrium rate was unclear and where information was far from perfect, that is, as financial markets that tend to overreact. For this reason, it was necessary to discourage operators that encouraged reactions and introduced misinformation.

51. GARCIMARTÍN, C (2010) La Tasa Tobin en el debate sobre el diseño del sistema financiero internacional; Real Instituto Elcano ARI 35/2010
Tobin’s critics have pointed out that there are speculators in the financial market but that there is also a great majority of desirable actors, which provide liquidity and contribute to stabilization. Thus, the amount of the tax would have to be very small in order to not affect the market (discourage the desirable actors) but perhaps such a small tax would not deter speculators. In this sense, the main objection is that the tax not only penalizes operators that destabilize the market, but also the actors that contribute to its stabilization. This is to say that the tax would affect not only fund managers, but also the trading companies and especially the banks that carry out 60% of foreign exchange transactions.

These arguments are based on the foreign exchange market, and in the present case, it is not clear that such an instrument is intended to be taxed. Also, these criticisms do not take into account that the main triggers of the financial crisis were the actions of the banks, and therefore making them net contributors to the system is itself one of the objectives of the FTT. As noted by Fundación Ideas, the problem behind the crisis was linked to insufficient and inadequate regulation and supervision of the banking sector in several countries, with excessive leverage for financial institutions, as well as incorrect (or reckless) estimates of the risks associated with certain assets, particularly mortgages and their complex derivatives. The lack of transparency in the OTC markets and the proliferation of complex and non-transparent financial instruments were other factors that contributed to the crisis.

Regarding the problem of volatility, some suggest that there is no clear evidence that a tax on financial transactions would increase or decrease the volatility of asset prices. In fact, in their report prepared for the European Parliament, Darvas and Von Weizsacker analyzed the countries that currently impose taxes on financial markets and demonstrated that a direct effect between the imposition of the tax and reducing volatility cannot be established. Meanwhile, the Fundación Ideas suggests that this is due to the confluence of two different effects derived from the FTT: on the one hand, the tax increases volatility by reducing liquidity and due to the problems related to the definition of prices generated by the tax. At the same time, the tax reduces volatility by eliminating short-term transactions that are susceptible to increasing instability.

In fact, high frequency traders argue that high-frequency operations in themselves provide liquidity to critical markets. This is misleading, given that during moments when the markets are calm, high-frequency trading, in effect, promotes liquidity, but in times of crisis, they try to get ahead of the trend, draining liquidity just when it is most needed. In this sense the FTT, by limiting high frequency trading, provides a bonus through improving the capacity for systemic resistance.

Meanwhile, Griffith Jones insists that one of the expected advantages of the FTT is to contribute to better financing of the real economy, as it would encourage investment and job creation by shifting money from speculation to the real economy. In turn, it would limit the inevitability of future crises as there would be greater liquidity in the market.

If the effects of a crisis are reduced through prevention, long-term economic growth will be promoted, which would offset the marginal possibility that the FTT will negatively affect growth (-0.2% according to the CE) given the decline in transactions.

In fact, the author notes that the FTT will prevent actors such as pension funds from moving their long term (more secure) operations to short-term operations (riskier). This will provide security that ultimately benefits pensioners and long term savers.

Another instrument of which it is worth noting the impact of the tax is sovereign bonds. It does not appear that a tax of 0.01% on bonds or treasury bills could have a significant impact on the price, or lead to investor flight as bonds are often safe havens for many institutional investors, who seek security rather than high profitability. The biggest impact will be on speculative investors and

The financial transaction tax in the framework of EU enhanced cooperation: Evolution and perspectives.

high-frequency trading, which will experience lower profit margins. Furthermore, given that the majority of bonds are usually held by investors of the issuing country itself, and under the criteria of residence and issuance of the FTT, there is no clear risk of the flight of investors.  

Under these arguments, there is a call to ensure that there is no limit either to the actors or the instruments taxed, in order to fully take advantage of the potential of this tax.  

3. Revenue potential

After analyzing the impacts of the FTT from a technical point of view, it is necessary to review what is perhaps considered the greatest advantage, even in the eyes of its critics. That is, its revenue capacity. Evidently, the potential revenue of the tax is difficult to calculate because its impact could lead to a decline in these types of transactions, which, as already mentioned, is one of its intended effects. The revenue will depend on the market response to its implementation, and since there is still no decision on the coverage of the tax, only assumptions can be made about different scenarios, which is why it is difficult to calculate a precise figure. The European Commission and various promoters of the tax have taken into account these variables when calculating the expected revenue, and with all this in mind, it is expected to be high in comparison to the revenue efficiency of other taxes.  

According to preliminary estimates by the Commission, the introduction of the tax under the 2011 Proposal for a Directive, only referring to the 11 countries adhering to the procedure, would mean a revenue potential of between 30 to 35 billion Euros depending on how markets react by adapting their business models, through product substitution and off-shoring. However, as pointed out by the consultancy firm KPMG, after the inclusion of the principle of issuance as a measure to prevent off-shoring and some exclusions in the scope of implementation of the tax, the above estimate could be reduced to around 31 billion Euros.  

According to the Deutsches Institut für Wirtschaftsforschung, the estimates of the revenue potential based on nine EU countries, among which Finland was included (which is not part of the Enhanced Cooperation Procedure) but excluding Estonia, Slovenia and Slovakia, which do form part of the group of 11, the revenue potential (on a downward scale) could reach 4.42 billion Euros if only stocks are taxed, 8.17 billion if bonds are taxed, 24.47 billion Euros if derivatives are taxed, and 37.06 billion if the above three assets are jointly taxed. These figures are used as an average estimate of the potential revenue. Please note that foreign exchange, the basis of the Tobin Tax, is not included. In the case of Spain, it has been estimated that the revenue from a broad-based FTT, could reach up to 6.3 billion Euros.  

To achieve a significant level of revenue, it is essential that the tax applies, as the Commission proposes, to a wide range of financial products including derivatives, avoiding exceptions that promote some products over others and that would only lead to the transfer of capital to avoid the tax. In fact, the implementation of the tax should be extended in the future and also applied to foreign exchange transactions, in order to address a market in which speculation generates extremely negative economic and social effects. Moreover, an FTT as suggested by France and Spain would reduce by more than 80 percent the likelihood of generating revenue, without counting the effects it might have on the migration of taxed instruments to untaxed instruments.  

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57. STAMP OUT POVERTY (2014) Opportunity or Threat? The application of the EU-11 FTT to Sovereign Bonds.  
59. KPMG (2013) El nuevo Impuesto sobre las Transacciones Financieras (ITF) Propuesta de Directiva del Consejo sobre el Impuesto sobre las Transacciones Financieras en el ámbito del procedimiento de cooperación reforzada; Tax Alert.  
62. OXFAM INTERMON (2013) Una tasa contra la pobreza
The impacts of a financial transaction tax

It is true that any tax of these characteristics would generate costs. First, because an FTT could increase the costs of financing the economy. This would also affect speculators, reducing their expected profit, but also to some extent entrepreneurs who want to fund their projects and also for household loans.

In any case, the effect on day to day credit should not be exaggerated, because the tax does not apply specifically to banks or to bank assets, but to any trader in the financial markets. Moreover, as noted above, the amount is too low to be a problem for transactions that take place within the productive economy.

Recently, alarmist reports have come to point out that the FTT could cause a cascade effect on the banking sector and lead to a cost on the savings of Spanish citizens of up to 80 billion Euros. Light research into this “prediction” allows one to check that the estimates are not based on the tax as it has been proposed, but on one that is 10 times greater. A tax in which, furthermore, an identical rotation is calculated, i.e. the high-frequency of all instruments, regardless of the significant difference between them (which the financial market is based on). These statements, in fact, serve as a counterexample to demonstrate the positive impact of reducing, at least in a minimal manner, the amount and the frequency of financial transactions.

On the other hand, by making financial transactions more expensive, the market liquidity would be reduced only marginally with a sufficiently low rate such as the proposed 0.05 percent. For example, financial trading operations that generate a profit of 1 million Euros would entail paying 500 Euros, which is hardly a deterrent. This would especially discourage speculative operations whose earnings are based on taking advantage of temporary marginal differences in prices for the buying and selling of financial assets.

An additional challenge is to prevent the creation of new financial instruments to avoid paying the tax. This problem could be very serious, increasing the strength of the banking sector that resides in the dark, working outside the perimeter of supervisors and regulators. This difficulty can be avoided through tighter regulation internationally. On the other hand, the existence of a broad-based tax in which all transactions are subject to the same principles reduces the options for creating new instruments, as those would also be subject to the tax.

Moreover, from a political point of view, it seems that now is the time to further support such reforms, an opportunity that cannot be wasted. We know that in good times the incentives for systemic reforms disappear. Therefore, we must reach a political agreement at the EU level at this time regarding the the introduction of the Financial Transaction Tax (FTT), its technical design and the date it will enter into effect.

However, it should be noted that neither the FTT nor any other measure alone will do away with financial speculation and the negative externalities of the financial market. A tax contributes to ensuring the financial sector helps pay the costs of the crisis, but the fight for tax justice and against the effects of financial volatility on the real economy requires many other measures to be consolidated. Among them, the criminalization of high-risk practices and the control of the creation of assets linked to these practices, imposing taxes on large fortunes, or the registration of the owners of the profits (which by the way has already been launched in the UK) as well as an effective fight against.

“50% of the revenue could thus be used to meet the social needs in Spain and the remaining 50% of the revenue could be allocated to programs to fight poverty in developing countries and to flight climate change.”
Allocation of the funds

The resources that are raised from implementing the FTT, even in the face of possible limitations and the impact on markets represent a very significant amount, although their distribution is now to be determined.

Moreover, in the conclusions of the Multiannual Financial Framework 64, 2014-2020, the Member States participating in the enhanced cooperation measure are invited to study whether such a tax could be used as the basis for a new particular resource of the European Union 65. In this case, some analysts suggest that the contributions of these countries be reduced, which could be an option. 66 However, given the characteristics of the FTT and that the effects of the financial crisis have led to increased political will, a European agreement should be reached to allocate resources to three essential purposes: the fight against poverty in the 11 countries involved in the Enhanced Cooperation Mechanism, global poverty reduction and the fight against climate change. These funds are vital in order to reduce the impact of the crisis, to finance global public goods such as health and education, and to fulfill international commitments. 67

In this case, it would make sense that the revenue be centralized and coordinated at the European level by the European Commission, for example, which would allocate national funds and directly manage the implementation of the funds for cooperation and climate change, according to the percentages agreed to be allocated to each objective by the countries participating in the Enhanced Cooperation. It is important to note that these percentages regarding the allocation of the funds, as well as the mechanisms of accountability, must also be agreed together and prior to the implementation of the tax. In any case, it is also important to prevent that this revenue serve to plug the holes in the banking system or become diluted in the general state budgets.

50% of the revenue could thus be used to meet the social needs in Spain through poverty reduction programs that could compensate for the budget cuts and the elimination of social protection measures and mechanisms that up until now protected vulnerable groups.

In 2013, Spain had 12.5 million people living in poverty, while 6 million people were unemployed. While citizens suffered from the budget cuts, the government also increased the tax burden for them: 1 in 3 Euros from the state budget was allocated to pay the debt, and 5 banks were nationalized, being bailed out with public money. 68 The increase in inequality in the wake of the crisis has been severe; the Gini index rose almost 10% in just the first two years of crisis. The slowdown in economic activity and the soaring unemployment resulted in the largest increase in inequality since annual information on household income has been available. 69 If significant changes are not made to social policy, 18 million people could be living in poverty by 2022. The purpose of these resources must be to help reverse inequality and reduce poverty.

The remaining 50% of the revenue could be allocated to programs to fight poverty in developing countries, especially dedicated to social services such as health, education, and policies to flight climate change.

The financial crisis also had a serious impact on development cooperation policy in Europe, and especially in Spain, with the most impoverished countries, many of them also victims of the negative externalities of the financial markets. The funds allocated by the EU to cooperation with the most impoverished countries have fallen by 4% and are at their lowest point since 2007.

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64. Multiannual Financial Framework: The European Union’s Multiannual budget plan which establishes the budget limits and priorities of the EU. It covers a period of 7 years.
66. KPMG (2013) El nuevo Impuesto sobre las Transacciones Financieras (ITF). Propuesta de Directiva del Consejo sobre el Impuesto sobre las Transacciones Financieras en el ámbito del procedimiento de cooperación reforzada; Tax Alert, Marzo 2013 Pg. 4
67. GATES B (2011) A report by Bill Gates to G20 leaders; G20 Cannes, November 2011
69. RUIZ HUERTA, J (Dir.) ELAL. (2013) First report on inequality in Spain, Madrid: Fundación Alternativas Pg.52
Far from achieving the agreed target of 7% of GDP by 2015, today development funds have declined or stagnated in 19 European countries.\(^7\)

Despite the differences in the technical negotiations of the tax, the French government has already pledged to use part of the funds in the fight against global poverty and both Angela Merkel and José Manuel Durão Barroso and European Commissioner Šemeta, have publicly spoken in favor of allocating these funds to global public goods, such as the fight against poverty and the effects of climate change. The Spanish government should also commit to allocating the resources to the fight against poverty and climate change within and beyond its borders.

### Conclusions

After having debated in global forums the need to create mechanisms to improve global economic governance, such as the Tobin Tax, and the inability to reach international or even EU level agreements, a group of 11 European countries have launched an Enhanced Cooperation Agreement in the EU to jointly establish a Financial Transaction Tax (FTT). This is a decision which has great value as a tool for economic control and as a political message.

The FTT is backed by international organizations such as the UN, the G20, the European Commission, the European Parliament and even the IMF, which was initially reluctant. The reasons for this support are sound: there is a need to improve the governance of the financial sector, it is imperative to create measures that encourage market stability and the crisis has left many victims, inside and beyond the borders of Europe, for whom quality policies need to be financed.

Today an unregulated economic sector and with low or no taxation is an anomaly, in fact an anomaly difficult to fix that has been at the root of the economic crisis. It is essential that governments recover their role in regulating and supervising financial markets. It is also estimated that 80% of financial transactions are essentially speculative, not linked to the real economy, so it is intended that the FTT could help reduce market volatility by discouraging such operations. Another advantage would be its ability to provide information on a sector that has been rather opaque until now, which in turn would play in favor of market liquidity and encourage investment in the real economy.

An analysis of the balance between the interests involved in the FTT is unusually conclusive. Among its supposed negative effects would be the possibility of the shifting of operations to tax free jurisdictions, although existing evidence indicates otherwise. Also, fears that the tax would lead to a reduction in liquidity offered by high-frequency trading seem exaggerated in the face of such a small tax – between 0.1 and 0.01 percent. Finally, some impacts on the banking sector and the possible decrease in the activities of some financial markets are also cited.

Among the benefits of the FTT are the likely reductions in speculative transactions that operate on tight margins in high-frequency trading. But undoubtedly the strongest argument in favor of this tax is its ability to raise a significant amount of resources with a minimal impact on the real economy. It is estimated that depending on the transactions taxed, between 30 and 35 billion Euros could be raised.

The FTT is also a matter of justice for citizens. Financial institutions, apart from having a lower tax than other sectors, have greatly benefited, directly or indirectly, from the bailout operations financed by European taxpayers. Hence the political value of a decision to show the public that the financial system also assumes part of the costs generated by the crisis, for which it is largely responsible. Moreover, recent polls show that 61% of Europeans and 52% of Spanish citizens are in favor of the FTT.

A fundamental aspect of the FTT is the destination of the funds raised. Its revenue should be centralized and coordinated by the European Union which should allocate national funds and

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\(^7\) Concord (2013) AidWatch Report: *The unique Role of European Aid, the fight against global poverty.*
directly manage the implementation of the funds for cooperation and climate change. In no way should these revenues be used to plug the holes in the banking sector or be diluted in the general state budgets. 50% of the funds could be used in national programs for poverty reduction to offset budget cuts and the elimination of social protection measures and mechanisms that up until now protected vulnerable groups. The remaining balance should be allocated to development cooperation programs dedicated to overcoming poverty and combating climate change and preventing its effects.

Spain has been one of the leading countries in promoting a global FTT at international forums and one of the first to pledge its support when the proposal was launched at the European level. However, there is a risk that the government could change its initial position and lean toward the French proposal, which would limit the scope of the tax and is far from the initial proposal of the European Commission. Instead of the implementation of a broad-based tax, in which the technical benefits of the FTT are justified, Spain seems now to favor limiting its application to the sales of shares of large multinational companies, excluding other products such as bonds or derivatives.

This change in the position of some countries not only alters the expected benefits of the implementation of the tax, which could leave its revenue potential at less than 4 billion Euros, but it also reflects the clear accountability of governments to the pressure of the banking and financial lobbies.

The FTT is not only a necessary instrument for financial regulation, but also a source of funds for the fight against poverty and an act of justice for citizens, at a minimal cost to the economic system.
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