# The Financial Transactions Tax *made simple*

ITUC CSI IGB

## *The global financial crisis...*

...since 2008 has resulted in greater financial insecurity, higher unemployment and huge human costs in many countries. Governments bailed out banks across developed countries, public deficits and debts increased, creating even greater financial stress for many people and communities, as a result of austerity cuts to public services. The most immediate threat to society and to working families lies not in rising budget deficits and debt, but in governments and hence citizens' exposure to the risks generated by badly regulated and improperly supervised financial markets and by repeated speculative attacks on bond and derivatives markets. Doing nothing, or doing too little too late on the regulatory front will deepen the crisis. Despite the significant role the finance sector played in creating the crisis, there has been no significant systematic change to regulations, especially of the large financial conglomerates that are the major sources of financial speculation. Exorbitant profits and bonuses have been paid. In 2011, global banking profits reached pre-crisis levels of over €400 billion. These are dwarfed by the profits in the "shadow" system, sector, including hedge funds and private equity firms. Governments are still cutting national budgets, public services and social programs. This will continue unless something is done.

## *Ordinary citizens and union members can do something:*

demand a Financial Transactions Tax (FTT), known in some countries as the "Robin Hood Tax". The FTT aims to eliminate the most extreme forms of speculative behaviours which have no social value and to recoup the losses incurred by society and seek greater financial sector accountability. The revenues generated by an FTT could fund programmes to assist those who have been worst affected by the crisis, alleviate global poverty and fund climate action.

## What is the Financial Transactions Tax?

The FTT is a tax levied on financial transactions (shares, bonds, currencies, derivatives and other financial instruments). The potential revenues are huge; recent European Parliament reports suggest a broad-based, low-rate FTT (0.01% - 0.05%) could generate revenues of nearly €200 billion annually in the EU and €480 billion globally for immediate economic needs and further ease the effects of government budget cuts. FTTs would make speculative trading (such as computerised "High Frequency Trading") and speculative "arbitrage" (such using derivatives to evade taxation or regulation) less attractive by increasing trading costs. FTTs could raise even more revenue if combined with complementary taxes such as the International Monetary Fund's (IMF) proposed Financial Activities Tax (FAT), which would compensate for the VAT-exemptions that benefit financial services. The FTT is, however, NOT a solution for all that currently ails the financial sector.

## How does the FTT relate to the Rio +20 goals?

Rio +20, the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro, 20 – 22 June 2012 marks the 20th anniversary of the landmark 1992 Earth Summit. The themes are: to the green economy in the context of sustainable development and poverty alleviation and the institutional framework for sustainable development. The ITUC believes that the FTT would directly address these Rio +20 goals by gaining commitments to generate funds for sustainable development.

The FTT could pay for social and environmental goals that would lead to a greener, more sustainable and more equitable society. As an example of innovative financing, FTT revenues could contribute to funding the estimated US$156 billion necessary for climate change measures in developing countries and up to US$180 billion so that Official Development Assistance can reach its goal of 0.7% of Gross National Income (GNI). The FTT could help address the new challenges brought on by climate change, the economic crisis and financial institution's practices. A global FTT could serve as a step towards a new global funding system.


## What are the key benefits of an FTT?

1. **The FTT is a very efficient way** to raise necessary revenues because it is progressive, fair, easy to implement and popular. An FTT could prevent cuts to essential public services to be used to fund social protection programs in developing and developed countries.

2. **The FTT is a progressive tax,** far more so, according to the International Monetary Fund (IMF), than other tax measures, especially the Value Added Tax (VAT), which taxes poor people at twice the rate as a proportion of their income than the wealthiest who disproportionately own stocks, bonds and other assets. The FTT aims to increase the contribution of the financial sector to society, which is often exempted from paying VATs and corporate taxes in the vast majority of countries.

3. **The FTT is a fair tax** because it addresses inequities in current tax systems whereby the wealthy often pay taxes at a lower rate than other citizens. The financial sector is a hugely profitable global industry but remains significantly under-taxed. Financial institutions continue to receive significant government guarantees and subsidies in the form of tax exemptions while their "excessive" profits, as the IMF described them, have returned to pre-crisis levels. The FTT would make the financial sector pay.
The FTT is a popular tax and politically feasible because it is supported by a broad spectrum of society across age groups, political parties and occupations in many of the nations most affected by the crisis. The FTT targets the very sector that caused the financial crisis so it will bear some responsibility through increased taxes.

4. **The FTT can help stabilise** countries rocked by the crisis and help revitalise struggling economies. The FTT would not have prevented the financial crisis. However, it could be an important tool to curb future reckless behaviour by the financial sector and address volatile, speculative investments.

5. **The FTT is technically feasible[2],** easy to implement and cheaper than other measures, such as the VAT, especially during recessions or inflationary periods. Technological advancements have made tax collection much easier. In a 2010 report, the IMF confirmed the feasibility of FTTs, noting that most G20 countries and major financial centres already have some form of transaction tax. While international coordination would be ideal, FTTs do not have to be global or unilaterally implemented to work.

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Fears that financial institutions will flee high tax zones to tax havens are unfounded, according to the IMF, which pointed out that FTTs "do not automatically drive out financial activity to an unacceptable extent". Financial institutions are not particularly mobile and transactions are largely beholden to particular – mostly European – time zones and a supporting cast of accountants and lawyers based in major financial centres such as New York, London, Frankfurt, and Hong Kong. The Financial Times suggested any threats of an exodus "should be faced down, not just because they are unreasonable but because they are of questionable credibility".

Fears that the cost of FTTs would be transferred onto ordinary citizens, and not borne by financial speculators, are unfounded as well. The cost of an FTT (as suggested in Europe) becomes substantial only for short term trading below a three-month "holding period" (ie. buying then selling within three months). It will have an insignificant impact for longer trades which forms the vast majority of transaction that finance the real economy.

The FTT encourages transparency in the financial sector and a crack down on tax evasion and could be a part of more fundamental tax reform.

## Why is the FTT important now?

Budgets for essential public services and environmental protection are being cut at the same time as the poorest among us bear the largest burden. Funding and investment for restoring public services, infrastructure, climate action and development programs is desperately needed.[1] FTTs could provide immediate benefits for the less-well-off, nationally and globally. An FTT could fund public sector jobs reducing unemployment and fund public services such as public transport, schools, health care, and support nations in their commitments to achieve the Millennium Development Goals (MDGs). This is important NOW. fundamental tax reform.

> *"The price of this financial crisis is being borne by people who absolutely did not cause it," Bank of England Governor, Mervyn King, said in 2011. In 2009, he described the situation well: "never in the field of financial endeavour has so much money been owed by so few to so many. And, one might add, so far with little real reform."*

## Supporters of the FTT

Many governments, trade unions, civil society groups, and economists support the FTT. In March 2011, the European Parliament voted to implement an EU-wide FTT; in September the European Commission released a proposal of legislation covering transaction in shares, bonds and derivatives. More than 1,000 leading economists including Joseph Stiglitz, Paul Krugman and Amartya Sen, have endorsed an FTT. Many national governments already have some form of FTT or are seriously contemplating their own FTT. Germany and France champion a Eurozone FTT. Over three-quarters of the G20 countries including the UK, France, Germany, Brazil, South Africa and India, already implement a limited FTT that targets some transactions.

Civil society organisations including labour unions, environmental and development NGOs and other groups, including Oxfam, Barnardos, World Wildlife Fund, Friends of the Earth, 350.Org, the Salvation Army, and the Occupy Movement support the FTT.

## Conclusion

Innovative approaches are needed to address both environmental concerns and social inequities exacerbated by financial sector practices. An FTT will be a boon to government revenues, could contribute to alleviating global poverty and fund development and climate action. It would do this not by taxing ordinary people, but by taxing specific financial transactions and the very sector that created the financial crisis.

1. According to the Austrian Institute for Economic Research, a global transactions tax of 0.1% could yield between US$410-$1060 billion per year.

2. The Cannes G20 meeting documents on "Innovative Financing for Development and the Climate" states, with regard to the FTT, that "several reports have already confirmed the technical feasibility (IMF, High-Level Advisory Group on Climate Change Financing (AGF), Gates report, Leading Group on Innovative Financing for Development)".