Financial Transaction Tax: Myth-Busting

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The Financial Transaction Tax (FTT) is now a widely discussed policy option that would generate substantial new revenue from the financial sector. The costs of the crisis have been huge, as of the end of December 2009 the amount spent on bank bail-outs by advanced G-20 economies was equivalent to 6.2% of world GDP - $1,976 billion (IMF, 2010). Yet in Europe and the US, it has been ordinary citizens, with no responsibility for creating the crisis who have borne the costs with job losses and cuts to public services. In developing countries, who also did nothing to cause this collapse, the price has been very severe with funds for health, development, infrastructure and climate change being cut or suspended.

FTTs are one of the few available options that could generate financial resources in sufficient quantity to make a meaningful contribution to the continuing costs of the global economic crisis. This would ensure the currently under-taxed financial sector pay a greater and fairer share of the costs that their actions caused. Importantly, the FTT would also help to regulate markets, curbing speculative market behavior and short-termism, and instead encourage more sustainable and equitable long-term economic growth.

Yet despite this, and the growing international support for the FTT, opponents continue to peddle a series of 'myths' concerning its impact. All of these can be shown to be false. The aim of this paper is to dispel these myths.

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What is the Financial Transaction Tax (FTT)?

FTTs are a small tax on the purchase/sale or transfer of the four main financial asset classes: equities, bonds, foreign exchange and their derivatives. The European Commission (2011) proposes a tax rate of 0.1% on equities and bonds and 0.01% on derivatives. The Leading Group[2] (2010) suggests a 0.005% tax on foreign exchange. FTTs would raise substantial new revenue: an EU-wide FTT (excluding currency) would generate €57 billion (European Commission, 2011) a year and a broad based FTT (including currency) rolled out across all developed countries would generate almost $300 billion annually (Spratt and Ashford, 2011).

It is useful at the outset to put FTTs into context in relation to other costs of trading. In respect of a 0.1% FTT, this is less than 10% of total transaction costs and certainly no greater than other costs "such as trading commissions, spreads, price-impact of trading, clearing, settlement, exchange of fees and administration costs" (Persaud, 2012, p.2). In fact, an FTT of this size would simply bring transaction costs back to where they were as recently as 10 years ago, when markets were arguably more robust.

Myth 1: FTTs have to be global to work

This is simply untrue. The world's experience of FTTs is, in fact, the opposite of global, they have been successfully implemented unilaterally (see appendix 1). "FTTs are commonplace and have been introduced permanently or temporarily over many decades in over 40 countries" (Beitler, 2010)[3]. A good example is the UK's FTT on share transactions, which raises in the region of $5billion for the finance ministry each year without a significant loss of business from the UK. Many countries, including South Korea, South Africa, India, Hong Kong, the UK and Brazil raise substantial amounts of revenue from FTTs. Brazil, for instance, currently taxes transactions of various assets at varying rates raising $15 billion in 2010 (Ministry of Finance, Brazil, 2011). The success of these existing FTTs clearly demonstrates that the tax does not need to be implemented globally to work. The myth that unless the FTT is global, financial institutions will simply relocate their transactions to avoid having to pay, is also not the case. The IMF confirms this stating that FTTs "do not automatically drive out financial activity to an unacceptable extent" (IMF, 2011). The secret behind how successful they have been depends on how well they have been designed.

Myth 2: FTTs can be easily avoided

Actually avoidance of payment can be easily minimised by a well-designed FTT – one which turns the activity from a high return, low risk venture, into a low return, high risk one. In other words, by setting the tax rate low and making the costs of non-compliance high, the incentive to avoid paying the tax is significantly reduced. Good design in respect of tax capture is critical for successful implementation. Using both the following two design principles together helps to minimise avoidance, by making the physical geography of the trade irrelevant therefore preventing relocation of trading as a means to avoid payment.

The *"residence principle"*, as proposed by the European Commission (2011)
Capture of FTT revenue would be based on the principle of tax residence of the financial institution or trader. Collection of tax depends on who is involved, not where the transaction takes place. For example, if a European state such as France levied an FTT, then any business or individual, registered as a French taxpayer, whether resident or non-resident in France, would be liable for payment of the tax, wherever in the world the asset is traded.

[2] The Leading Group (LG) on Innovative Sources of Finance of Development, a grouping of more than 60 countries, have through an Expert's Group carried out extensive study of the potential of FTTs, most especially harnessing the largest of these markets: foreign exchange.
[3] The countries are: Argentina, Australia, Austria, Belgium, Brazil, Chile, China, Colombia, Denmark, Ecuador, Finland, France, Germany, Greece, Guatemala, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Malaysia, Morocco, Netherlands, New Zealand, Pakistan, Panama, Peru, Philippines, Portugal, Russia, Singapore, South Korea, Sweden, Switzerland, Taiwan, UK, US, Venezuela, Zimbabwe.

The *"exchange of legal title principle"* (sometimes referred to as the stamp duty)
When an asset is traded, there is no registered change of legal ownership unless the FTT has been paid to the relevant authority. A non-taxed (or non-stamped) financial transaction cannot be legally enforced. Non-enforceability of contract is a very high consequence of non-compliance, as the buyer will not receive legal title to the asset and the benefits this brings such as dividends or the ability to use the asset as collateral.

"Instruments which are non-taxed and are therefore not legally enforced, could not be considered eligible for central clearing by a clearing house. This is of crucial importance today and represents one of the ways in which FTTs are far more feasible than ever before, even for derivative instruments… Instruments held which have not been centrally cleared will incur a capital adequacy requirement that would far exceed the cost of an FTT" (Griffith-Jones and Persaud, 2012, p. 9).

These factors are too high a risk for investors to take and therefore the incentive to avoid the tax is substantially reduced.

Finally opponents are applying a 'far tougher benchmark' to the FTT than to any other tax - all taxes are to some extent avoided. 100% capture never happens, take the example of income tax in the United States, which is a principal source of revenue for the US Government. A recent study by the IRS showed that non-compliance was about 19%, equating to a staggering $345bn for that tax year alone. However, the year's income tax receipt was $2,000bn. No-one would argue that because nearly a fifth of potential revenue wasn't captured, this is not a valuable tax (ibid.2012). When considering any taxation measure, the aim is to design it in such a way as to minimise tax avoidance and evasion, which the above principles achieve, it cannot be eliminated altogether.

Myth 3: Ordinary people will bear the cost of FTTs

This is untrue. The FTT will be paid, first and foremost, by the principal buyers/sellers of financial assets. In fact 85%[4] of the taxable trades are carried out by banks and other financial institutions, such as hedge funds, whose clients are often high-net-worth individuals. Ordinary people do not, by and large, trade assets such as bonds or derivatives. The IMF has studied who will end up paying FTTs concluding that they would be "quite progressive" (IMF, 2011, p.35). This means they would fall on the richest institutions and individuals in society, in a similar way to capital gains tax. This is in complete contrast to VAT, or sales tax, which falls disproportionately on the poorest people.

Most importantly, it is businesses, rather than individuals, who are constantly trading as opposed to making a one-off purchase as an investment, who will consequently pay the most in tax from an FTT. The greater the frequency of the transactions, the greater the tax bill. Most particularly the FTT will have an impact on High Frequency Trading (HFT)[5], which is regarded as a good outcome by many economists who believe HFT is disruptive and risky and should either be regulated against or considerably reduced in size.

Could financial institutions, especially banks, pass on the cost of the FTT indirectly, to ordinary customers by raising fees on financial services, such as ATM withdrawals, loans, or mortgages?

This is highly unlikely. Firstly, legislators could regulate against such practices by simply prohibiting financial institutions from passing such costs on in this way. Secondly, the financial sector is highly

[4] European Tax Commissioner, Algirdas Semeta (2012)
[5] High-frequency trading (HFT) is the use of sophisticated technological tools to trade securities like stocks or options. It is highly quantitative, employing computerized algorithms to analyze incoming market data and implement proprietary trading strategies. Investment positions are held only for very brief periods of time - even just seconds - rapidly trading into and out of positions, sometimes thousands or tens of thousands of times a day. By 2010, high-frequency trading accounted for over 70% of equity trades taking place in the US and was rapidly growing in popularity in Europe and Asia (source: Wikipedia). Some finance experts believe the development of HFT is unhealthy and potentially destabilising. "Rapid increases in high frequency trading (HFT) have created a dangerously unstable web of computer-driven trading that spans global stock markets, putting them at risk of a system-wide 'flash crash'." See: Financial Crisis 2: *The Rise of the Machines*, (R. Gower, 2011): http://www.ubuntu.upc.edu/docus/Robin_Hood_Tax_Rise_of_the_Machine.pdf

competitive, which makes it less likely that institutions will pass on the costs to customers because they will lose business to others who don't. For instance, some banks engage in financial activity that would attract the FTT far more than others. If they were to, for example, pass on their FTT costs by introducing a fee at their ATMs or charging more for their mortgages, but other banks didn't, this would place them at a competitive disadvantage with the consequent risk of losing market share. There is a mantra trotted out to scare which is 'the banks will always pass on the costs to their customers' but in a competitive market place this may not always be as simple as it might first appear or as the financial sector would have us believe.

Myth 4: Pensioners will pay

Pensioners will not bear the costs of an FTT. Compared to other investors (such as hedge funds of High Frequency Traders), pension funds (anywhere in the world) are long-term investors pursuing buy-and-hold strategies. The vast majority of their capital is invested over long time horizons, where a micro-tax applied at entry and exit from the market would be negligible compared with other costs and benefits.

The key consideration when speaking about the impact of the FTT is the holding period. The cost of the FTT is disproportionately high for short term trades (buying and selling a security every hour, every trading day over a year), marginal for medium term trades (buying and holding a share over a 1-year period) and becomes negligible for long term trades (buying and holding say a 10-year bond until maturity).

Pension funds turn over their portfolio only once every 2 years. A high-frequency trader on the other had turns over its entire portfolio in a day and would therefore pay 1666 times more in transaction taxes than the average pension fund (Persaud, 2012).

A further important distinction needs to be explained. There are broadly two pension systems: those funded by public transfers (pay-as-you-go, tax-financed) and those funded by pre-funded capital investments (pension funds). The FTT could *only* impact the latter, as those funded by public transfers are not invested on the financial markets and thus not subject to the tax.

Public transfers account for well over 50% of retirees' income in all European countries (with the notable exception of the Netherlands, the UK and Finland). By contrast, pre-funded schemes account for less than 10% in 11 EU countries (France, Greece, Belgium, Spain, Portugal, Italy, Hungary, Austria, Poland, Slovakia & Czech Rep), 15% in Germany, and are a substantial source of income (above 20%) for 6 countries (Finland, Netherlands, UK, Denmark, Ireland, Sweden). Unsurprisingly it is in the latter list of countries where concerns on this issue have been raised by business groups and the financial lobby.

Finally, by reducing the systemic risks associated with high-frequency trading, the FTT would contribute to market stability, improving pension value over the long-term. The banks and hedge funds tend to benefit disproportionately from complex, highly volatile markets and high volume of trading – skimming off the transaction fees and trading profits and exploiting their extra computing and technical firepower, while passing much or even all of the risk onto their clients. An FTT could reduce the chance for the banks to profit in this way at the expense of savers.

Myth 5: An FTT would reduce economic growth, causing unemployment and damage to the economy

On the contrary, an FTT would increase economic growth and help create jobs. In the UK, a broad-based FTT (as proposed by the EC) would raise £8.4 billion a year and boost GDP by 0.25%, or the equivalent of 75,000 new jobs (Persaud, 2012).

Moreover, many of the countries that currently have FTTs display strong growth, such as: South Korea, Hong Kong, India, Brazil, Taiwan, South Africa and Switzerland. Indeed these are some of the fastest growing economies in the world.

The biggest threat to long-term growth is not an FTT, but an out of control financial sector. By the end of 2009 the crisis had cost the most advanced G20 countries 6.2% of their GDP - $1,976 billion (IMF, 2010).

Attacks have been levelled against the FTT taking figures out of context from the recent Impact Assessment (IA) by the European Commission, where a figure of a 1.76% reduction in GDP was cited. This -1.76% figure is referred to in the IA as a 'worst-possible' case scenario and is not the finally concluded figure. It is argued that should the FTT be designed in the way the EC is proposing to implement it, the impact on GDP would be a total long-run loss of 0.53%, which would be a tiny amount if projected annually. And yet opponents have used this -1.76% figure to misleadingly extrapolate impacts, such as the loss of hundreds of thousands of jobs.

Even the -0.53% figure is an over-estimate. There has been a recent updating of the model used by the Commission prepared by the same authors who undertook the original (Lendvai and Raciborki, 2011). This updated model attempts to reflect more realistically the way investment is financed and concludes that the negative impact of the FTT on GDP falls significantly to -0.2%.

However, the Commission estimates are based on a model that even in this revised form is incomplete. This is because the IA has only factored in the negative implications of the FTT and none of the positive ones. Critically excluded is how FTT revenue could be invested in measures that would have a beneficial impact on growth, such as job-creation, infrastructure investment and poverty reduction. It is highly disingenuous of any analysis to look at the cost to an economy of a tax and not factor in any of these potential positive benefits. The EC Tax Commissioner Šemeta has recognised that the IA is inaccurate conceding that it was the first attempt at modeling the impacts of a broad-based FTT on an entire region of the world and is very much a work in-progress. The EC is carrying out further analysis on this subject and will shortly produce a paper which will account for the positive effects on growth from FTT revenue.

A recent study by Griffith-Jones & Persaud (2012) specifically examines the impact of FTTs on decreasing the probability of economic crises. They conclude that the impact of introducing an FTT on the level of GDP would be positive, at around +0.25% (as a minimum). This overall positive impact would be even higher if it were combined with smart and progressive use of FTT revenues, which could help boost employment and rebalance the economy towards more sustainable and equitable growth.

Improving the allocation of human resources towards more productive sectors
Extremely high remunerations in the financial sector contribute to attract some of the brightest graduates to financial activity, instead of to industry or commerce, or research on innovation. Should as a result of the FTT, the income of some of the highest paid employees in the financial sector be relatively lowered, then it could encourage some of these very bright minds to sectors such as engineering and manufacturing, helping to rebalance the economy towards more fundamental long-term growth.

More equal growth
There is strong evidence (including in the EC Impact Assessment) that the FTT would be more progressive than other taxes. Therefore if the FTT replaces (or reduces) another tax, meaning it is fiscally neutral, this could imply that a higher proportion of households income would be consumed, as relatively poorer households spend a higher proportion of their marginal income than do relatively richer households. If revenues from an FTT allowed a country to lower its income tax or VAT, aggregate demand would rise, as would growth; this effect would be especially valuable in the current context where most economists see lack of aggregate demand as an important factor in slow growth or recession.

Myth 6: The FTT would result in job cuts

No, as illustrated above, an FTT would generate 75,000 new jobs in the UK alone (Persaud, 2012). The revenues raised, if used in a smart and progressive way, could be invested to help stimulate the labour market and increase employment in specific sectors such as manufacturing. This would help rebalance the economy, which especially in the UK had become over-reliant on the financial sector. The FTT may cause a relatively small reduction in the amount of people working in the specialist field of High Frequency Trading but this would be more than compensated by the increase in jobs in other areas of the economy, leading to a net increase in employment.

Myth 7: The FTT sounds like a nice idea, but no-one really takes it seriously

In fact, the FTT has gained substantial backing over the last two years. Extremely prominent advocates have declared support, not least the founder of Microsoft, philanthropist, Bill Gates, whose report to the G20 Leaders in November 2011, specifically recommended FTTs[6]. Other big names include: George Soros, Al Gore, Ban Ki Moon and Kofi Annan. The FTT was endorsed in 2011 by 1,000 leading economists, including Nobel prize winners Joseph Stiglitz and Paul Krugman, and 1,000 parliamentarians from 30 countries. Momentum built up through 2011 and at the G20 Summit, Argentina, Brazil, France, Germany and South Africa declared their support.

Presently, there is a strong initiative for an FTT in Europe. FTT legislation has been tabled by the European Commission (EC) and 9-EU countries are pushing for this to be fast-tracked: France, Germany, Spain, Italy, Portugal, Greece, Austria, Belgium and Finland. France has been prepared to put its money where its mouth is by passing unilateral FTT legislation in February 2012 modeled on the UK's stamp duty on shares.

Finally, please refer to the Global FTT Map (appendix 1) to see the extent to which FTTs have already been adopted around the world.

Myth 8: FTTs would reduce market liquidity, raise costs of capital and hurt the wider economy

Some argue that an FTT of the size being considered by the EU would, by increasing transaction costs and subsequently reducing trading volumes, reduce liquidity and raise the costs of capital, ultimately lowering investment and slowing economic growth and in the end not raise much revenue (Rogoff, 2011). This argument is disingenuous.

The most obvious reason for scepticism is that the increase in transaction costs implied by the tax would actually only raise them back to the levels they were 10 years ago, when markets were if anything more robust than they are now. There were certainly no problems of liquidity (Persaud, March 2012).

Turning to the cost of capital. If Rogoff is correct, in that a small increase in transaction costs would have a measurable impact on the cost of capital, we would expect large growth gains over the last few decades as a result of the sharp decline in transaction costs (due to advances in computerisation and deregulation). Yet the data does not back this up – growth was actually better during periods of high transaction costs, even before the crash (Baker, 2011).

Lastly, as previously stated, those most affected by the FTT will be those engaged in High-Frequency Trading. High-frequency traders argue that they provide critical liquidity to markets, but this is deceptive. During calm times, when markets are already liquid, high-frequency traders support liquidity. But during times of crisis, they try to run ahead of the trend, draining liquidity just when it is needed the most – as was seen with the Flash Crash in New York in May 2010. If FTTs limit high-frequency trading it may even provide a bonus in improving systemic resilience. (Persaud, 2012). As Kapoor (2010) argues it is far better then to have lower transaction volumes which provide more robust liquidity. Imposing financial transaction taxes will help remove the superfluous transactions from the market which serve no economic purpose and will ensure that the transactions that remain are driven more by fundamental economic motives.

Myth 9: Sweden's failed FTT experience proves that FTTs don't work

Opponents of the FTT often cite the negative experience of the Swedish transaction tax on equities that was in effect from 1984 to 1991 as proof that FTTs do not work. However, the existence of successful FTTs in many other countries proves that the Swedish experience is the exception and not the rule. It is now widely acknowledged that the problems with the Swedish FTT were related to design flaws, not the general concept of financial transactions taxes.

[6] "FTTs already exist in many countries, where they generate significant revenue, so they are clearly technically feasible" Bill Gates report to the G20 Summit, November 2011, p.13: http://www.stampoutpoverty.org/?lid=11510

A report by the International Monetary Fund to the G20 in September 2010 highlighted two major problems.

1. The equities tax was only levied on trades conducted through registered Swedish brokers, making this tax easily avoided by using non-Swedish brokers. As a result, much of the trading of Swedish stocks moved to British brokers. In contrast, the UK Stamp Duty falls on the purchase of shares in UK-registered companies wherever they are traded in the world, because it's payment is connected to the legal transfer of ownership, and can therefore not be avoided. Most investors are willing to pay a modest tax to ensure legal title to their asset.

2. The tax on fixed-income trading activity, in effect from 1989-1990, resulted in a shift to other financial instruments that were not subject to the tax, such as corporate loans and swaps.

The IMF's conclusion from the Swedish experience was not that FTTs should be rejected, rather they advise that the tax base "should be set as comprehensively as possible in order to deter avoidance, and should also take advantage of legal and administrative handles ... to ensure compliance."[7]

Myth 10: The FTT is a Brussels tax designed to fill EU coffers

No, this is not the case. FTTs, like all taxes, would be collected nationally. It is therefore up to each individual country how they spend the money. Both France and Germany, the countries most pushing the FTT, are against using the revenue for the EU budget. Civil Society, comprising Trade Unions and NGOs, do not favour the money going to Brussels, but instead support the revenue being used to meet domestic priorities such as the protection of public services and the honouring of international commitments to development and climate change.

As illustrated in appendix 1, FTTs are commonplace rather than unusual, and are raised at a national level. There is, however, precedent for the cooperative use of tax to be spent by cooperating countries on commonly agreed outcomes. A good example of this is the use of Air Passenger Duties to pay for UNITAID, a fund that purchases HIV/AIDS, TB and malaria treatments. The tax is collected nationally, pooled at the World Health Organisation in Geneva, and disbursed to great effect internationally, mostly in developing countries. FTTs collected by a number of countries could be used in a similar way, by using a proportion of the new money raised to meet international health obligations, such as to finance the Global Fund[8] or in respect of climate change, to finance the Green Climate Fund.

Myth 11: If the FTT is implemented, politicians will not increase spending in poorest countries on development or climate change.

In the present economic climate, ensuring that FTT revenue is spent on international commitments as opposed to domestic needs, is indeed a challenge. However, it is important to point out that this particular proposal owes more than most to the work of civil society to have become a seriously considered policy option. A poll published in January 2011 found that Europeans are strongly in favour of a financial transaction tax by a margin of 61 to 26 per cent. Support for an FTT, in the UK, is 65 per cent. Another survey published earlier suggests that more than four out of five people in the UK, France, Germany, Spain and Italy think the financial sector has a responsibility to help repair the damage caused by the economic crisis.[9]

The consequences of the financial crisis have been serious in Europe but they have been even worse in developing countries. Economic meltdown has left a $65 billion gap in poor country budgets and the World Bank estimates that globally an additional 64 million people have been forced to live on less than $1.25 a day. Foreign aid has suffered its biggest fall in 15 years, migrant remittances are dramatically reduced and climate change is putting millions of people at risk of hunger and homelessness. Last year the Global Fund to

[7] Austrian economist Stephan Schulmeister has produced a more detailed analysis of the Swedish experience, which he contrasts with a much more effectively designed transaction tax in the United Kingdom – the full report can be assessed here http://www.wifo.ac.at/wwa/servlet/wwa.upload.DownloadServlet/bdoc/S_2008_FINANCIAL_TRANSACTION_TAX_31819$.PDF
[8] The Global Fund on HIV/AIDS, TB and Malaria
[9] Eurobarometer and YouGov polls, cited in Wikipedia

fight HIV/AIDS, TB and malaria had its funding round suspended with potentially devastating consequences for people who require life long treatments to survive. It is only just that an FTT redistributes some of the money from those who caused the financial crisis to those who had the least to do with it but are suffering its effects the most.

FTT advocates have consistently asked of Governments that a fair proportion of new revenues be spent on domestic needs, but with the remainder split internationally between development and climate change. Politicians to date have responded favourably. Both France and Germany have stated that revenue from an FTT should, in part, be used for development and climate change purposes. In a speech to the G20 in November 2011, President Sarkozy said that *"France considers that a share, to be defined as - sizeable, majority or total - of the proceeds of the FTT must go to development."* Similarly German Chancellor Angela Merkel, in a statement to the Development Committee of the Bundestag in November 2011, stated *"one could discuss the use of a part of the revenues from the Financial Transaction Tax for development and climate adjustment."*

Myth 12: VAT on financial services or a Financial Activities Tax (FAT)[10] is preferable to an FTT

No. The FTT is the strongest option for a number of reasons. Firstly, unlike the FAT or VAT[11] alternatives, the FTT would reduce the amount of harmful economic activity that caused the crisis in the first place. By increasing the costs of transactions in financial markets, an FTT would discourage high-frequency trading and help to reduce excessive volatility and systemic risk. In contrast, whilst the other options would also generate revenue, they do not have a direct impact on the trading behaviour in financial markets and therefore fail to bring the same regulatory benefits as the FTT.

Secondly, in terms of revenue generation, the FTT has the potential to raise greater amounts of income than these alternatives, particularly if the market in foreign exchange (FX) – the trade in money itself – were to be included. The EC estimates an EU-27 wide FTT (excluding FX) would bring in €57 billion and if rolled out across all developed countries (including FX) would generate almost $300 billion (Spratt and Ashford, 2011).

Thirdly, compared with the FAT, the FTT is the stronger candidate as it is extremely hard to avoid since it is collected automatically when a deal is settled. A FAT, which is a type of extra corporation/income tax, is prone to avoidance through the use of tax management strategies, such as moving funds offshore, regularly employed by wealthy corporations and high net worth individuals to reduce the amount of tax they pay.

Fourthly, there is the political dimension. The FTT is a stronger candidate because it has the backing of countries such as Germany, France, Austria, Belgium, as well as the European Commission. There are many ways that the financial sector could be taxed, none are perfect, and a consensus (such as in the EU 27) is extremely unlikely. It is therefore important not to make the perfect the enemy of the good. If countries would like to see the financial sector pay a greater contribution in tax to compensate for the ongoing costs of the crisis they caused, it is critical to choose an option and pursue it through to implementation. The fact that the FTT has such strong backing is important in the context that no option to tax the financial sector, including the FAT or VAT option, will receive a consensus. Because of this it is important to single out and concentrate on the FTT since it is the stronger option, both in terms of revenue potential and its stabilising effect economically, and not be distracted or delayed by the other options. It is important that proponents of the FTT are not drawn into endless discussion of possible alternatives. Opponents of the FTT use this tactic as a means to slow down or, if they are successful, permanently postpone implementation. In this scenario, the winners are the banks and the hedge funds, whilst the losers are all those who would benefit both from the greater economic stability the FTT would bring and the much needed revenue the FTT would provide that could protect jobs in developed countries and save lives in the developing world.

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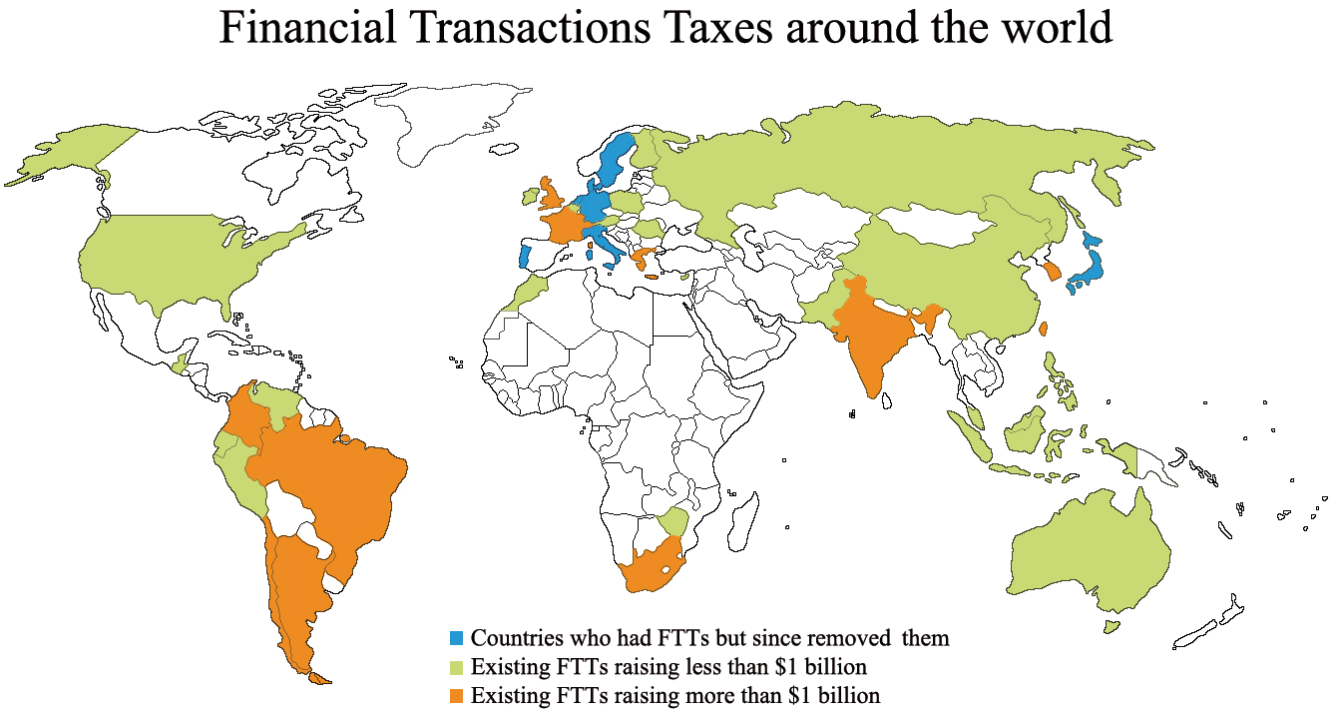
[10] The Financial Activities Tax (FAT) is a tax on excessive profits and remunerations.

[11] It is worth noting that the financial sector is currently exempt from VAT. According to the EC Commission the sector enjoys a tax advantage worth approximately €18 billion a year due to this exemption. Some argue that this tax advantage is one of the reasons the financial sector ought to, and can afford to be, taxed more.

Appendix 1: The Global Experience of FTTs



Country	FTT type	History	Annual Revenue Raised ($billions)	Revenue year	Source of revenue figures (cited in)
Argentina	0.6% on stocks, corporate and government bonds and futures.	Present	3.9	2001	Beitler (2010)
Australia	0.3% on stocks and 0.6% on corporate bonds	Present			
Austria	0.15% on stocks and corporate bonds	Present	0.107	2005	Schulmeister et al. (2008)
Belgium	0.17% on stocks and 0.07% on corporate and government bonds.	Present	0.049		
Brazil	1.5 % on equity issued aboard, 1.5% on bonds, 0.38 % on forex and 2% on capital inflows to stocks and bond markets	Present	15	2010	Brazil Ministry of Finance (2011)
Chile	18% VAT on trade costs on stocks and corporate bonds	Present	1.5 – 2.0	1992 – 1996	Beitler (2010)
China	0.5 or 0.8% on bonds	Present			
Colombia	1.5% on stocks, corporate and government bonds	Present	1.37	2004	Beitler (2010)
Denmark	0.5% on stocks and corporate bonds	Removed 1999			
Ecuador	0.1% on stocks and 1% on corporate bonds	Present			
Finland	1.6% on stocks (only on HEX electronic	Present	0.3-0.6	2010	Finland Ministry of Finance (2011)

	exchange), 4% tax imposed on real estate and 1.6 % tax on shares in housing				
France	0.1% on stocks	To be introduced 2012	1.3		Guardian (2012)
Germany	0.5% on stocks	Removed 1991	0.93		Matheson, 2011
Greece	0.6% on stocks and corporate bonds	Present	2.335	2005	Schulmeister *et al.* (2008)
Guatemala	3% on stocks and corporate bonds	Present			
Hong Kong	0.3% on stocks + $5 stamp fee	Present	2.79	2009	Persaud (2012)
Indonesia	0.1% on stocks	Present			
India	0.5% on stocks and corporate bonds	Present	1.22	2008	Persaud (2012)
Ireland	1% on stocks	Present	0.55	2009	Darvas and von Weizsacker (2010)
Italy	1.12% on stocks	Removed 1998	1.35		
Japan	0.1 – 0.3 on stocks and 0.08 – 0.16 on corporate bonds	Removed 1999	12	1980s	Beitler (2010)
Malaysia	0.5% on stocks and corporate bonds, 0.015% on government bonds and 0.0005% on futures.	Present			
Morocco	0.14% on stocks (+ 7% VAT) and 7% VAT on trade costs of corporate and government bonds	Present			
Netherlands	0.12% on stocks and corp bonds	Removed 1990			
Pakistan	0.15% on stocks and corp bonds	Present			
Peru	0.008% on stocks, corp & govt bonds (+18% VAT on trade costs)	Present	0.11	2004	Beitler (2010)
Philippines	10% VAT on trade costs of stocks	Present			
Portugal	0.08% on stocks, 0.04% on corporate bonds and 0.008% on government bonds	Removed 1996	0.015		Schulmeister *et al.* (2008)
Russia	0.2% of value of new share and bond issues	Present			
Singapore	0.2% on stocks	Present			
South Africa	0.25% on stocks	Present	1.41	2008	Persaud (2012)
South Korea	0.3 % on stocks and corporate bonds	Present	6.08	2007	Persaud (2012)
Sweden	1% on stocks	Removed 1991	0.05	1992	Beitler (2010)
Switzerland	0.15% on stocks, corporate and government bonds	Present	2	2007	Persaud (2012)
Taiwan	0.3% on stocks, 0.1% corporate bonds and 0.05% on futures	Present	3.3	2009	Persaud (2012)
Turkey	0.2% on stocks, 0.6 – 0.75% bond issuance charge	Present			

UK	0.5% on stocks	Present	5.86	2008	Persaud (2012)
US	0.0013% on stocks	Present	1.09	2000	Beitler (2010)
Venezuela	0.5% on stocks	Present			
Zimbabwe	0.5% on stocks	Present			

Notes: Some sources give revenue figures are given as % of GDP. Here FTT revenue has been extrapolated from country GDP data (source: IMF Economic Outlook Data). Countries where revenue figures were not attainable have been included in the category of $1 billion and below.

Appendix 2: more on pensions

Pension funds make a one-time transaction to the asset manager so the FTT cost is marginal

Broadly speaking, there are two categories of financial investors: (i) asset owners – which include pension funds but also insurance companies and sovereign funds – and (ii) asset managers (or fund managers) – including banks' asset management branches, money market funds, hedge funds and private equity.

Asset managers (say a hedge fund) trade on behalf of asset owners (say a pension fund). A pension fund makes a one-time transaction to the asset manager when the pension fund attributes the investment mandate to the asset manager. Mandates span over a year, if not several years. As the holding period is long, the cost for the pension fund is therefore marginal.

Asset managers will pay the bulk of the FTT. As noted above, the cost for the asset manager will depend on their investment strategy: high cost for a short term holding period, low cost of a long term period. Opponents to the FTT believe that 90-100% of the cost borne by asset managers will be transferred on pension funds. But there is no evidence that this will happen but rather be shared all along the investment chain. There is competition in the market place and asset managers will want to keep their clients.

Pension funds are heavy users of derivatives to hedge pension liabilities, so would they have to bear heavy costs if they were taxed?

It is true that pension funds are key investors in the USD+450tr interest-related derivatives market. But what matters is the holding period. In essence OTC derivatives are insurance schemes. Pension funds buy them because they have a legitimate need to insure a portfolio against the risk that it does not perform as strongly as has been predicted. If it doesn't perform strongly enough the shortfall is covered by the derivative. They are therefore bought in order to manage risk, not for the purposes of speculation. Accordingly they hold OTC derivatives until they reach maturity, which can span over several years. As a result the small FTT they pay which very slightly increases the cost of the derivative is of no consequence in the context of a long term business strategy.

Will the FTT reduce the return on investments on pension funds and limit their ability to manage market risks?

It is undeniable that the FTT will have some impact on the portfolio composition of pension funds and their risk management policy. But that is in fact the objective. There is a wide consensus that pension funds currently under-invest in "patient" and "productive" capital (infrastructure, green initiatives, SME finance) and are excessively reliant on external asset managers' short termism. The FTT will encourage pension funds to reduce exposure to short term trading and to increase pension money in long-term investments.

FTTs should be part of a package of post-crisis reforms that can significantly reduce volatility and systemic risk in financial markets. Long term investors like Pension Funds lose out from these risky markets while banks and hedge funds profit from the casino turnover. An FTT will contribute to reducing the level of risk posed by opaque and unstable markets.

An FTT would benefit pensioners in the long-term.

Global pension fund assets in the 11 major pension markets fell by $5 trillion during the 2008 financial crisis, a fall of 19% which took assets below 2005 levels (Reuters, 2009). The FTT would - by reducing the systemic risks associated with high-frequency trading - contribute to market stability and therefore

improve pension value over the long-term and reduce future risk of such substantial losses to pension funds.

Finally, FTT revenues would be invested in key public services, including health care, which pensioners depend on.

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