Opinion of the European Economic and Social Committee on 'Financial transaction tax' (own-initiative opinion)

(2011/C 44/14)

Rapporteur: **Mr NYBERG**

On 18 February 2010 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on

Financial transaction tax.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 23 June 2010.

At its 464th plenary session, held on 14 and 15 July 2010 (meeting of 15 July 2010), the European Economic and Social Committee adopted the following opinion by 121 votes to 55 with 7 abstentions.

1. Summary and conclusions

1.1 The total value of all financial transactions has increased from approximately 15 times the value of world GDP in 1990 to approximately 70 times in 2007 [1]. There has been almost no change in the value of spot transactions in relation to GDP which means that this fourfold increase in financial transactions consists almost entirely of derivatives, mainly interest rate derivatives. There was a fall in the trade in derivatives during the second half of 2008 but the volume increased once again during the first half of 2009. The behaviour of the financial sector does not seem to have changed much.

1.2 In 2007, the financial sector – whose main task is to support the real economy – accounted for 40 % of all corporate profits in the USA whereas its share of GDP was only 7 %. There has also been a concentration towards a few marketplaces – particularly London and New York – and a concentration towards a few very large financial institutions. Enormous amounts of money have been pumped into this sector in order to save these institutions from collapsing, giving rise to unprecedented budget deficits.

1.3 A financial transaction tax (FTT) could have a decisive impact on the behaviour of the financial institutions by reducing the number of very short-term financial transactions, which are often also risky.

1.4 The EESC in principle endorsed the idea of an FTT in its opinion on the de Larosière report: [2] 'The EESC believes that there is need for a transition from a short-term to a long-term horizon, with bonuses not linked to speculative activities. In this spirit, the EESC supports the idea of a tax on financial transactions'. With the present opinion the EESC wants to take part in the ongoing discussions on this tax and elaborate further on the objectives and effects of such a tax.

[1] Bank for International Settlements (BIS) data.
[2] Report of the de Larosière Group - OJ C 318/11, 23.12.2009, p. 57.

1.5 The initial proposal for a securities transaction tax was formulated by J.M. Keynes in 1936. His aim was to reduce destabilising speculation in equities and to strengthen the long-term fundamentals for stock prices. During the 1970s this was further developed by James Tobin. His aim was to slow down the speed of the financial market and align it more with the real economy by a tax on international currency spot transactions. Its objective was the same as one of the objectives currently under discussion – to reduce short-term transactions.

1.6 Tobin suggested sending the revenues from the tax to the IMF or World Bank, but revenues were not his main objective: 'The more the tax succeeds in the economic objectives that primarily motivated me … the less revenues it collects …'.

1.7 The idea of a tax has once again come to the forefront since the 2008 financial crisis, now for all financial transactions between financial institutions.

1.8 According to the EESC, the primary objective of an FTT should be to change behaviour in the financial sector by reducing short-term speculative financial transactions. In this way the activities in the financial sector can work through the price mechanism of the market. Some of these transactions have even been named socially useless by Lord Turner (British Financial Services Authority). The desired effect could be reached as the FTT hits the most frequent transactions the hardest.

1.9 If an FTT considerably reduces short-term trading in securities and derivatives, it will also reduce the profits in the financial sector, which could lead to a reduction in bonuses but also to lower profit tax revenues. Traditional banking, based on loans to businesses and households, and funded by deposits, and whose profits are generated by the difference in interest rates, will not be affected. This type of banking could once again be the main aim of the financial sector, where savings are allocated to their best use for investments. The new financial

difficulties during 2010 and the IMF and EU search for methods of financing for future financial crises should not make us lose this window of opportunity for financial sector improvements away from short-termism.

1.10 The second objective of an FTT is to raise public money. This new source of revenue could be used to support economic development in developing countries, to finance climate policies in developing countries or to alleviate the burden on public finances. The last of these also implies that the financial sector will pay back public subsidies. In the long-term, revenues should provide a new general source for public income.

1.11 The FTT would have a progressive character as the customers of the financial institutions, as well as the institutions themselves, when they are trading on their own account, represent the wealthiest parts of society. Moreover the financial sector is considered as not contributing its fair share of tax payments.

1.12 The FTT should have as wide a scope as possible and preferably apply to both national markets and foreign exchanges. The EESC recommends, for a global system, a tax rate for an FTT as low as 0.05 %. With a European system a lower rate would be advisable in order to ensure that it does not distort the functioning of the financial market.

1.13 The introduction of a tax always reduces the value of assets, but does it affect where the trade takes place if it is not a global tax? A study has found that the current stamp duty in Britain has reduced turnover by 20 %, hardly driving business away from London.

1.14 The introduction of this tax would involve virtually no administrative, technical or economic costs as these transactions are already computerised. There is, however, still no computerised market for OTC (over the counter) transactions but it is in the pipeline for EU legislation. The need to include all transactions, thereby also the OTC market in an organised exchange shows that regulation and taxes such as FTT are complementary, not alternatives.

1.15 With a changed behaviour in the financial sector relying more on long-term fundamentals and at the same time increased public incomes the FTT has what is called a double dividend. But it is also evident that the higher the tax rate the larger the effect on the traded short-term transactions and from this – the smaller the revenues. Therefore, a tax rate has to be searched which leads to a balance between the two objectives of the FTT – change in behaviour and tax revenues.

1.16 If applied across Europe, the tax receipts would amount to around 1.5 % of GDP, with the bulk of it coming from the British financial market. Applied worldwide, the tax receipts would amount to approximately 1.2 % of world GDP. The results are also approximately the same for Europe as for the USA.

1.17 At its meeting in Toronto on 26-27 June 2010 the G20 did not propose a global Financial Transaction Tax. The EESC considers that a European system still should be kept on the agenda for financial reforms.

2. **Background**

2.1 Many reasons have been put forward for the financial crisis, which dramatically exploded following the bankruptcy of Lehman Brothers [3] in 2008. These include cheap money through low interest rates, the spreading of high-risk securities through securitisation, failures of regulation and supervision, the availability of economic resources for speculation through a long-lasting redistribution of income from labour to capital, the global nature of the financial market, etc.

2.2 The financial sector in relation to GDP has increased almost beyond imagination. In 1990 the value of financial transactions amounted to around 15 times world GDP. By the time of the 2008 crisis they had increased to 70 times world GDP [4]. Spot transactions represent almost the same percentage of world GDP as in 1990, so the fourfold increase in financial transactions consists almost entirely of derivatives. These are mainly 'over the counter' transactions (OTC), direct agreements between a customer and a financial institution, and most of these concern interest rate related derivatives [5]. Even long-term transactions like mortgage bonds have been drawn into the short-term market as they often shift owners. The reasons for much of the new trading can be as well risk-hedging as speculation.

2.2.1 The evolution of the derivative market is a new aspect of the economic system, which is not always connected to the real economy in the same way as traditional capital is. There are many sorts of derivatives, like options, futures, forwards and swaps, and they can be based on for example different goods, foreign exchange, interest rates but also pure gambling.

(3) Global financial service firm.
(4) Stephan Schulmeister, A General Financial Transaction Tax, WIFO Working Papers 344/2009.
(5) Bank for International Settlements (BIS); in: Davas/ von Weizsäcker, Financial Transaction Tax: Small is Beautiful, 2010.

2.2.2 Statistics reveal that there was a fall in trade in derivatives during the second half of 2008. However, the fall was not particularly large, only a reduction to the level of three years ago. Furthermore, during the first half of 2009, the amount once again started to increase (6). Again, these changes primarily applied to interest rate derivatives. From this we can conclude that not very much has changed in the behaviour of the financial sector. On the other hand, securitisation, the main trigger of the financial crisis, has almost been wiped out of the market (7).

2.2.3 In 2007, just before the crisis, the financial sector, accounted for 40 % of all corporate profits in the USA, whereas its share of GDP was only 7 % (8). When the financial sector takes 40 % of the profits it has deviated from its role as a financial intermediary. In this respect, the oligopolistic character of the financial sector in some countries is not efficient in its funding of the real economy.

2.2.4 There has also been a concentration towards a few marketplaces – especially London and New York At the same time there has been a concentration in a few very big financial institutions. Their size created the slogan 'too big to fail', which in turn made it necessary for many governments to save some banks to prevent the financial sector from collapsing. Enormous amounts of money were pumped into this sector, giving rise to unprecedented budget deficits.

2.3 In the de Larosière report, many proposals were put forward to change the financial system so as not to allow crises to develop in the future (9). This was quickly followed by four proposals for regulations on macro and micro supervision of the financial sector from the Commission (10) as well as several proposals to change the rules in the financial sector (11). Parallel to this there is also an intense discussion in the USA.

2.3.1 Proposals for new legislation have mainly been on supervision and on regulating certain financial institutions, partly replacing some of the self-regulation of the financial sector. Only minor parts of the proposals have been aimed at changing behaviour in the financial sector. No proposals have emerged to regulate instruments in the financial sector, despite the fact that some of the real causes for the financial crisis can be found among these.

2.4 Neither have there been any formal EU proposals on a financial transaction tax (FTT), although a general discussion has gathered momentum during the last few years. Such a tax could, according to the EESC, have a decisive impact on the behaviour of the financial institutions and on instruments. This could be achieved through a reduction of some of the presently dominating short-term financial transactions.

2.4.1 At their meeting in Pittsburgh in September 2009, the leaders of the G20 asked 'the IMF to prepare a report for our next meeting (June 2010) with regard to the range of options countries have adopted or are considering as to how the financial sector could make a fair and substantial contribution toward paying for any burdens associated with government interventions to repair the banking system.' In the preliminary IMF report presented in April 2010 the emphasis was on measures to counteract future financial crises, mainly a financial stability levy in combination with a resolution scheme. In this opinion the EESC will not make any special comments on these proposals and will limit itself to the brief IMF discussion on an FTT for the present crisis.

2.4.2 The EESC has said yes in principle to an FTT in its opinion on the de Larosière report: 'The EESC believes that there is need for a transition from a short-term to a long-term horizon, with bonuses not linked to speculative activities. In this spirit, the EESC supports the idea of a tax on financial transactions'. In the present opinion the EESC wants to take part in the ongoing discussions and elaborate further on the objectives and effects of such a tax.

3. **Introduction**

3.1 The initial proposal for a securities transaction tax (STT) was formulated by J.M. Keynes in 1936 to reduce destabilising speculation in equities and to strengthen the long-term fundamentals for stock prices.

3.2 During the 1970s James Tobin proposed a currencies transaction tax (CTT), the 'Tobin tax', to reduce destabilising currency speculation. With free movement of capital, speculative attacks on currencies became easier. His aim was to slow down the speed in the financial market and align it more with the real economy and to strengthen the role of monetary policy. The tax was to apply to currency spot transactions and with a tax rate of 0.5 %. Although it was not aimed at all financial transactions (spot transactions are nowadays less than 10 % of world transactions), its objective was as one of the objectives currently discussed – to reduce short-term transactions.

(6) Ibid. footnote 5.
(7) H.W. Sinn at a presentation of the Economic report for 2010 of the EEAG group, 23.2.2010, Brussels.
(8) Helene Schubert, Austrian National Bank.
(9) Report of the de Larosière Group - OJ C 318/11, 23.12.2009, p. 57.
(10) Macro and micro prudential supervision- OJ C 277/25, 17.11.2009, p. 117.
(11) Credit Rating Agencies - OJ C 277/25, 17.11.2009, p. 117
'Prospectus to be published when securities are offered to the public or admitted to trading' and 'Harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market'.

3.2.1 Tobin suggested sending the revenues from the tax to the IMF or World Bank, but the revenues were not his main objective: 'The more the tax succeeds in the economic objectives that primarily motivated me … the less revenues it collects …' ([12]).

3.3 During the 2008 financial crisis the idea of a tax once again appeared, this time not only for currency transactions but for all financial transactions. It has to be stated that even with this wide scope it does not include financial transactions where households and enterprises are involved. It should be restricted to transactions between financial institutions. Among the proponents of an FTT we can find many types of civil society organisations, economists, persons in the financial sector such as Lord Turner, the chairman of the British Financial Services Authority and now also the European Council in its proposals for the G20 meeting of 17 June 2010 ([13]). Among those against the introduction of an FTT are the IMF, OECD and the World Bank.

3.4 What are the main objectives for such a tax? On what should it be levied? How high should it be? Can it be applied in one country or is it necessary for it to be applied in the whole of EU or globally? What results could we expect? We discuss these questions and give some figures, based on studies by the Austrian Institute of Economic Research (WIFO) ([14]) and the Center for Economic and Policy Research (CEPR) and the Political Economy Research Institute (PERI, University of Massachusetts, Amherst) ([15]).

3.5 A mechanism to influence the behaviour in the financial sector, following the discussions by Keynes and Tobin, is through the effects of the FTT on short-term transactions. Because of the frequency of short term trading, a FTT raises the cost of short-term transactions relative to long-tem transactions. The governments can in this way, by changed relative cost, steer the financial sector through use of the price mechanism of the market to rely more on the long-term fundamentals of the real economy.

4. **Objectives**

4.1 A detailed look at the financial market reveals that the increased volume mainly is made up of short-term transactions often of a speculative or risk- hedging character. In relation to the real economy many of those transactions are excessively large. As short-term fluctuations tend to build up to long term swings in asset prices, these may also deviate from the development of the real economy ([16]). Some of these financial transactions have even been named socially useless by Lord Turner.

4.1.1 Therefore, a first, objective of an FTT should according to the EESC be to change present behaviour in the financial sector by reducing short-term speculative financial transactions. Short-term transactions account for the bulk of the increase in financial sector activity during the first decade of the 21st century. The financial sector must again take on its permanent responsibilities for the real economy.

4.1.2 The IMF mentions the behavioural effects of an FTT in its report, but as something negative. Among the negative aspects mentioned it is said that it is not a way to finance a future resolution scheme. This has never been an objective of an FTT. Another objection is that it is better to tax directly those transactions which the aim is to reduce. This is exactly what is done with the FTT when it hits the short-term transactions hardest.

4.1.3 A reduction in the volume of short-term trading also reduces its share of the financial institutions' activities. This means an increased share of other activities such as acting as intermediaries between savers and borrowers. The financial sector is not an end in itself, but an instrument of achieving other objectives in the economy. An efficient financial sector will allocate savings to their best use for investments in the real economy.

4.1.4 Traditional commercial banking is based on loans to businesses and households, where the difference in interest rates generates the profits. To support their customers, banks also help them to raise money in capital markets, hedge and cover currency and commodity exposures linked to international business as well as hedging the commodity futures linked to farming. In providing these services, banks offset their own risks by transactions with other banks, generally in real time. Customer service can involve multiple very short term transactions. In addition, banks also profit from own-account trading of securities and derivatives. All of this should not be deleted from the financial market as it partly represents inter-bank trading to assure the liquidity. But if an FTT considerably reduces this short-term trading of securities and derivatives, it will also reduce the profits in the financial sector, following which the bonuses and profit tax revenues probably will be reduced. Traditional banking will hardly be affected and future profits of financial institutions will be lower and depend mainly on traditional banking activities.

([12]) Tobin, James: A Proposal for International Monetary Reform, 1978.

([13]) European Council conclusions, 17 June 2010: *'The EU should lead efforts to set a global approach for introducing systems for levies and taxes on financial institutions with a view to maintaining a world-wide level playing field and will strongly defend this position with its G20 partners. The introduction of a global financial transaction tax should be explored and developed further in that context.'*

([14]) Stephan Schulmeister, A General Financial Transaction Tax, WIFO Working papers 344/2009.

([15]) Baker, Pollin, McArthur, Sherman: The Potential Revenue from Financial Transactions Taxes. CEPR/ PERI, December 2009.

([16]) Ibid. footnote 14.

4.1.5 There are different views in the literature but one effect could be a reduction in the volatility of asset prices. With fewer speculative actions, asset prices may become more stable. An alternative view is that occasional trades can be very volatile and random without the dampening effect of volume.

4.1.6 Summarising the potential effects of an FTT on behaviour of different financial institutions we want to underline that such changes could reduce high frequency trading. The new financial difficulties during 2010 and the IMF and EU search for methods of financing for future financial crises should not make us lose this window of opportunity for financial sector improvements.

4.2 The other main objective of an FTT is to raise public money. An FTT would raise a considerable amount of revenue. The discussion about what this new revenue should be used for involves support for economic development in developing countries, financing climate policies in developing countries or alleviating the burden on public finances created by the financial crisis. Following the recent political discussions within the EU the most likely use will probably be as a source of public revenue.

4.2.1 According to the Commission financial support arising to 30 % of EU GDP has been approved. Excluding guarantees it amounts to 13 %. For the UK you have to double that percentage. When we consider this public cost of taking the financial sector through the crisis, one should note that about half of it has never been used and much of will eventually be paid back. The 13 % applies to capital injection (bank equity), purchase of assets and direct support. Much of the guarantees seems not be used at all.

4.2.2 FTT revenues could initially be used to pay for the remaining costs. Where the largest amounts of public money had to be used to save the banks the largest revenues also ought to be raised by an FTT due to the concentration of the financial market. But total public costs have been much higher including loss of social security contributions, costs of automatic stabilisers, higher interest rate payments on public loans etc. Even the IMF writes that 'the large fiscal, economic, and social costs of financial crises suggest a contribution of the financial sector to general revenues beyond covering the fiscal costs of direct support' ([17]).

4.2.3 In the future the FTT should instead be considered as a general new source for public revenue. Considering that financial services are exempt from VAT so that the users of bank services pay less tax for bank services than for most other services and also in the light of the high profits in the financial sector it seems especially justifiable to raise the taxes for this sector.

4.2.4 According to a study carried out by the OECD, the USA will account for almost half of the public deficit of all OECD countries in 2011. In the same year, the budget deficit as a percentage of GDP is estimated to be approximately 6 % in the Euro area. Its real challenges are not only in the euro countries such as Greece, but also in the UK, where it is estimated to be around 12 %.

4.2.5 An alternative to an FTT discussed in the preliminary IMF report is an FAT – Financial Activity Tax – which is levied on profits and remunerations. It is a simple way of taxing financial activities but the most important difference compared to an FTT is that an FAT taxes all kinds of activities with no differing effects on short- and long-term transactions. It is only a way of raising the tax incomes coming from the banks.

4.2.6 Even with a uniform tax rate the FTT would have a progressive character as the customers of the financial institutions as well as the institutions themselves when they are trading on their own account represent the wealthiest parts of society. Although it is important to concentrate on how an FTT could be as efficient an instrument as possible for the financial sector the incidence of the tax also has to be taken into account. In the Commission Staff Working Document ([18]) it is stated that 'innovative sources are often seen to have the advantage of finding higher political acceptance, in particular where the fiscal burden is imposed on groups or sectors which are perceived to currently not take on their fair share of the tax burden.'

4.2.7 The European Parliament asked the Commission to 'elaborate, sufficiently in advance of the next G20 Summit an impact assessment of a global financial transaction tax, exploring its advantages as well as drawbacks.' ([19]) Similarly, the EESC can see many technical aspects of an FTT which have to be studied The Staff Working Document put forward by the Commission ([20]) does not totally fulfil the proposals from the European Parliament. The EESC, therefore, wants to emphasise the need for a complete impact assessment in combination with a formal proposal for an FTT.

([17]) IMF, 'A fair and substantial contribution by the financial sector'. Interim report for the G20.

([18]) SEC(2010) 409 Final Commission Staff Working Document: Innovative financing at a global level.

([19]) PE432.992v01-00 Motion for a resolution.

([20]) SEC(2010) 409 final.

5. **Construction**

5.1 *General scope*

5.1.1 The tax base should not only consist of international transactions but all financial transactions. Even if the word 'all' is used, there is a limit in most calculations either for the type of transactions covered or for the value of the transaction to be taxed. In the CEPR/PERI- study different tax bases are studied. In the WIFO- study an all-inclusive variant is chosen.

5.1.2 A criterion for the choice of transactions to be taxed should be to focus on the most short-term ones. Another starting point is to have as wide a scope as possible. A third choice is whether it should be directed at national markets or include also foreign exchanges.

5.1.3 If both national and foreign transactions are included it covers all financial transactions. A desire not to distort the real economy could be an argument for excluding spot transactions.

5.1.4 Not to include all transactions will have some effects on the competitive situation for different transactions. Such effects are desirable if they put a higher burden on short-term speculative transactions than on long-term non-speculative transactions. This will in fact be the case, as the more frequent the transactions, the harder this tax hits those transactions.

5.1.5 The usage of the notional value of a financial transaction as the basis for an FTT has been criticised as being an almost imaginary basis. The money actually received by the financial institutions in trading of derivatives, the fee, premium or whatever is the cost for the customers, could be taxed as an alternative to an FTT. The development of financial transactions using notional values in relation to GDP is, nevertheless in the EESC's view, a useful measure particularly to show the changes over time of the volumes traded on the financial market.

5.2 *Geographical scope*

5.2.1 Should the FTT be national, regional (EU) or global? It is without doubt that a global tax is preferable. If not possible, there is definitively a case for an EU-wide coverage. But still there are examples which show that even a national tax is a possibility, particularly for countries with a large financial sector. You could expect this to have large effects on where the trade takes place. However, experience shows that this does not seem to be a problem ([21]).

5.2.2 The introduction of a tax on assets always reduces the value of the asset, but does it affect where the trade takes place? A study has calculated that the British form of a stamp duty of 0.5 % levied on equities and some bonds has reduced the turnover by 20 % and therefore cannot be said to have withdrawn the activities from London ([22]).

5.3 *Tax rate*

5.3.1 Different levels have been proposed for the tax rate, between 0.1 and 0.01 %. The one most often mentioned is 0.05 %. With a global system recommend a FTT with such a tax rate. It is so low that it can be introduced without a risk of having as big effects on short-term transactions as to distort the functioning of the financial market. If an FTT is introduced as a European system, anyhow, a lower rate ought to be considered.

5.3.2 With a changed behaviour in the financial sector relying more on long-term fundamentals and at the same time increased public incomes the FTT has what is called a double dividend. But it is also evident that the higher the tax rate the larger the effect on the traded short-term transactions and from this – the smaller the revenues. Therefore, a tax rate has to be sought which leads to a balance between the two objectives of the FTT – change in behaviour and tax revenues.

5.3.3 All real-world examples of taxes or other levies have always been levied on some financial transactions – not all. When it is levied on all transactions the effects cannot be known exactly in advance. Therefore, the tax rate should be reconsidered e.g. after three years to see whether it ought to be raised or lowered.

5.4 *Feasibility*

5.4.1 A question of another nature is how easily this kind of tax can be collected. Most transactions for which the tax is proposed are already computerised. This means that there is virtually no administrative, technical or economic cost of introducing this tax. Of course, a special computer program has to be developed. Some tests have already been carried out.

5.4.2 It is necessary to verify the creation and existence of innovative financial products that are not taxed or even deliberately created to avoid taxation. These have to be included into the tax base.

5.4.3 There is not yet a computerised market for OTC (over the counter) transactions. This is in the pipeline for European legislation. The need for including the OTC market in an organised exchange shows that regulation and taxes like FTT are complementary - not alternatives.

([21]) You can also find duties of the same sort in South Korea, Hong Kong, Australia, Taiwan and India, and some similar duties in Belgium, Argentina and Brazil).

([22]) The Institute for Fiscal Studies 2002: Stamp duty on share transactions: is there a case for change? Commentary 89.

6. **Effects**

6.1 *Reduction of short-term financial transactions*

6.1.1 There are no precise estimates of how short-term trading could be affected by an FTT. What we have are assumptions. This is a real problem when discussing the FTT. For the main purpose of reduction of short-term financial trading we therefore do not have any statistics. The only statistical estimates which we do have are for the possible amount of tax revenue.

6.1.2 One effect of an FTT is that it empirically reduces liquidity. But what is an optimal amount of liquidity? Had the economies been functioning better than they did in 1990 or 2000 with the extremely high liquidity which existed in 2007? Is liquidity equivalent to the total amount of financial transactions? The answer ought to be no when several of those transactions are based on the same securities so the total amount of transactions could not be an especially good estimate of 'real' liquidity. Coming back to the main purpose of the financial sector to be a financial mediator it seems relevant to align liquidity to the level of GDP. Without having an opinion on exactly how large the reduction should be, it is clear that the direction of change should be a reduction of liquidity from the 2007 level.

6.1.3 As an FTT would hit the most frequent transactions hardest there ought to be, as well as a reduction in the number- of transactions, a change between long-term and short-term transactions. A reason given against an FTT is that it could increase the opacity of the financial market as short-term transactions would be less frequent. Considering the present level of such short-term transactions even a large reduction would not eliminate all day-to-day transactions. It can hardly be said that this aspect of the financial sector was opaque in e.g. the year 2000.

6.1.3.1 As described in the WIFO study, the increased use of derivatives has led to an over-shooting in both short-term and long-term prices. Reduced use of derivatives with this background could reduce the volatility of prices on the financial market, not the opposite as sometimes said.

6.1.3.2 Financial trading is almost evenly distributed between banks and other financial institutions. No such figures exist for the distribution between short- and long-term transactions.

6.2 *The amount of public revenues*

6.2.1 The WIFO study assumes that the volume of transactions, which are taxed, will be reduced by 65 % if the tax rate is 0.05 %. A lower tax rate is calculated to lead to a smaller reduction of transactions, and a higher one to a greater reduction.

6.2.1.1 Applied only to the UK, according to this study, an FTT would lead to tax receipts of almost 7 % of UK-GDP. In the EU-country with the largest share of these financial transactions after the UK, i.e. Germany, this would be a little more than 1 % of GDP. If applied across the EU, the tax receipts would be around 1.5 % of GDP, where the bulk of the revenue would come from the British financial market. Applied worldwide, the tax receipts would be around 1.2 % of world GDP.

6.2.2 In the CEPR/PERI- study the alternatives for how much trading would be reduced are between 25 % and 50 %. To be comparable to the figures given for the WIFO- study, we only give figures for a 50 % reduction of the tax base. Figures are in this study given for separate types of assets traded. The US-dollar figures in the study are transformed into shares of US-GDP.

— Stocks and equities 0.75 %

— Bonds 0.18 %

— Options 0.03 %

— Foreign exchange spots 0.05 %

— Futures 0.05 %

— Swaps 0.16 %

— TOTAL 1.23 %

6.2.3 The two studies give about the same results for Europe as for the USA. From the CEPR/PERI study we can also see that spot transactions represent a very small part of total transactions.

Brussels, 15 July 2010.

The President
of the European Economic and Social Committee
Mario SEPI

APPENDIX

to the Opinion of the European Economic and Social Committee

The following amendments were rejected by the plenary session but received at least one-quarter of the votes cast:

Point 1.10 – Amendment 1 tabled by Mr SARTORIUS

Amend as follows:

"1.10 *The second objective of an FTT is to raise public money. This new source of revenue could be used mainly to finance a bank resolution or guarantee fund which would be used to meet the cost of future banking crises ~~support economic development in developing countries, to finance climate policies in developing countries or to alleviate the burden on public finances~~. The last of these also implies that the financial sector will pay back public subsidies. In the long-term, revenues should provide a new general source for public income."*

Reason

There are Member States which have not used public funds to save banks and where the banks have therefore not been a burden on public finances. Nonetheless, it would be advisable to make provision for future crises, and clearly financial institutions should contribute to this fund which would be used exclusively to ensure that the failure of an insolvent institution is managed in an orderly way and does not destabilise the entire financial system.

Point 4.2 - Amendment 4 tabled by Mr SARTORIUS

Delete the first, second and third sentences and replace them with the new wording proposed for point 1.10:

"4.2 *~~The other main objective of an FTT is to raise public money. An FTT would raise a considerable amount of revenue. The discussion about what this new revenue should be used for involves support for economic development in developing countries, financing climate policies in developing countries or alleviating the burden on public finances created by the financial crisis~~.* The second objective of the FTT is to raise public money. This new source of revenue could be used mainly to finance a bank resolution or guarantee fund which would be used to meet the cost of future banking crises. The last of these also implies that the financial sector will pay back public subsidies. In the long-term, revenues should provide a new general source for public income. Following the recent political discussions within the EU the most likely use will probably be as a source of public revenue."

Reason

See reason for amendment to point 1.10.

Point 4.2.3 - Amendment 5 tabled by Mr SARTORIUS

Add a new sentence to the end of the point:

"4.2.3 *In the future the FTT should instead be considered as a general new source for public revenue. Considering that financial services are exempt from VAT so that the users of bank services pay less tax for bank services than for most other services and also in the light of the high profits in the financial sector it seems especially justifiable to raise the taxes for this sector. However, this new source of revenue could be used mainly to finance a bank resolution or guarantee fund which would be used to meet the cost of future banking crises"*

Reason

It is generally accepted in relation to the management of public finances that, if the sole objective is to raise money, taxing transactions between companies is not to be recommended because of its potentially negative impact. It is better to tax the profit on transactions, as taxing the transactions themselves can have a cascade effect, driving up prices. There are more effective money-raising instruments.

These three amendments stated above were voted together.

Outcome of the vote:

For:	52
Against:	91
Abstentions:	9

Point 1.11 - Amendment 2 tabled by Mr SARTORIUS

Delete the final sentence:

"1.11 The FTT would have a progressive character as the customers of the financial institutions, as well as the institutions themselves, when they are trading on their own account, represent the wealthiest parts of society. ~~Moreover the financial sector is considered as not contributing its fair share of tax payments.~~"

Reason

This is an unsubstantiated assertion. The financial sector contributes to tax revenue like any other sector. Which sector is the rapporteur comparing it with? Where are the figures to support this assertion?

Outcome of the vote:

For: 65
Against: 102
Abstentions: 10

Point 1.16 - Amendment 3 tabled by Mr SARTORIUS

Add a new point after point 1.16:

"1.17 The EESC considers that this tax could have a negative impact on the final consumer, both businesses and individuals, by increasing the cost of loans and reducing the return on savings."

Reason

This is a fact which needs to be stated in the opinion. The tax will have a negative impact on the financing of the real economy at a very critical time.

Outcome of the vote:

For: 62
Against: 116
Abstentions: 4

Section opinion text that was rejected in favour of an amendment adopted by the assembly with at least one-quarter of the votes cast were in favour of retention of the section opinion text.

Point 5.3.1 - Amendment 8 tabled by Mr NYBERG

Amend the point as follows:

'5.3.1 Different levels have been proposed for the tax rate, between 0.1 and 0.01 %. The one most often mentioned is 0.05 %. With a global system we~~We~~ recommend a FTT with such a tax rate. It is so low that it can be introduced without a risk of having as big effects on short-term transactions as to distort the functioning of the financial market. If an FTT is introduced as a European system, anyhow, a lower rate ought to be considered.'

Outcome of the vote:

For: 102
Against: 52
Abstentions: 15