



Taxing international financial transactions

The uncontrolled increase in speculative transnational financial transactions brought about by economic deregulation and unregulated globalisation has led to an accumulation of wealth for a few privileged speculators at the cost of the real economy and society. In the wake of the global crisis, these uninhibited speculative movements have triggered, in particular, the collapse of some developing economies, thereby paving the way for greater inequalities by weakening the poorest nations. They have led to the overpricing of commodities, especially food and agrarian raw materials which has had devastating consequences for developing countries.

This situation demonstrates that there is a need to establish democratic, effective and fairly regulated financial systems. A redistribution of wealth via internationally coordinated taxation mechanisms will help to redress some of the imbalances caused by the explosion of financial markets and unregulated globalisation.

At a time when the FAO (Food and Agriculture Organization) estimates that over one billion human beings are undernourished, such mechanisms could successfully help reduce inequalities and go further towards achieving the Millennium Development Goals. However, introducing such mechanisms does not mean that the governments of developed nations would be exempt from providing substantially greater sums in public development aid, cancelling debt, combating tax evasion and even introducing substantial changes to world trade regulations.

We welcome the international debate on taxing financial transactions launched before the summer 2009. Recent statements by European ministers and heads of government on the matter have prompted the Leading Group on Innovative Finance to set up a task force on the taxation of financial transactions for development and have led to a report being prepared by the International Monetary Fund (IMF) on the taxation of the financial sector with a view to "*proposing mechanisms to ensure the financial sector helps alleviate the effects of the crisis*". In addition, a High Level Advisory Group on Climate Change Financing has been established in the wake of the Copenhagen summit on climate change.

We believe that the current economic and political climate should prompt the European Union and its Member States to adopt mechanisms to tax financial transactions.

Building on the EU commitment made at the December 2009 European Council meeting to encourage "the IMF to consider the full range of options including ... a global financial transaction levy in its review" and in line with the recent resolutions of the European Parliament's Economic and Monetary Affairs and Development Committee's, we therefore call for international tax mechanisms which meet the following criteria:

Goal:

These tax mechanisms should generate financial resources additional to the EU's commitment of contributing 0.7% of its GNI towards Overseas Development Assistance. They will also contribute to the stabilisation of financial markets and the economic sector. On the basis of tax justice it is justifiable and reasonable to tax activity that has so far remained untaxed. The EU could use a rate of around 0.05%.

Scope:

We support the introduction of a global tax on all financial transactions since it could reduce the harmful excessive liquidity in the financial markets that has contributed to the instability of exchange rates, as well as stock and commodity prices, as well as raise significant revenues. The feasibility of such a tax has been extensively studied and its effectiveness demonstrated by the likes of Stephan Schulmeister¹ Joseph Stiglitz² and many others.

In addition to playing a leading role at the upcoming G20 fora in support of a global tax on financial transactions, **we are calling for the EU to lead by example and as a minimum introduce a tax on currency transactions applied to European currencies worldwide** (Euro, Pound, etc.), The feasibility of implementing such a mechanism in the EU has already been extensively studied and proven. The technical and legal feasibility of a Currency Transactions Tax has, been widely demonstrated by a number of academics such as Rodney Schmidt, Bruno Jetin, Lieven Denys³. Countries like Belgium and France have both already adopted legislations introducing a tax on currency transactions provided other EU members implement the same system.

The European Union has a duty to lead by example as it has successfully done in the past on certain major international matters (ODA targets, Millennium Development Goals, etc.). Such a unilateral action by the EU would also have considerable symbolic value. It would send a message to the international community – and particularly to developing countries – that the Union is genuine in its ambitions to take action that would promote development. It would serve to strengthen the EU call to all other countries – whether industrialised countries, emerging economies or developing countries – to take strong and ambitious action.

Use of revenue:

We believe that international taxation should respond to international needs. The tax should provide **predictable additional sources for financing development and global public goods e.g. to tackle climate change as well as hunger, social justice and poverty**. The major part of the revenues should be used in developing countries. In any case the precise distribution of the revenues should be fixed in a democratic process under a legitimate international body such as the **UN**.

¹ Schulmeister, S., et al., 2008. *A General Financial Transaction Tax: Motives, Revenues, Feasibility and Effects*. Austrian Institute of Economic Research: Austria.

² Stiglitz, J., 1989. *Using tax policy to curb speculative short-term trading*, *Journal of Financial Services Research*: Vol. 3, pp.101-15

³ SCHMIDT Rodney, *The Currency Transaction Tax: Rate and Revenue Estimates*, 2007
JETIN Bruno and DENYS Lieven, *CTT Ready for Implementation*, February 2006