Will Europe ever get a Tobin tax?

The Tobin tax on financial transactions has been a popular ambition for over 20 years, and an actual political goal for eight.

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***Le Monde Diplomatique – English Edition*,** May 2016

The idea of taxing financial transactions, originally put forward by the US economist James Tobin (1918-2002), took root in European political circles after the 2008 financial crisis. In 2013 Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain, all in the eurozone, pledged to create a tax on financial transactions. This was a diluted version of Tobin's concept, but irritated the financial sector enough for it to seek allies in a number of European governments less anxious to control the sector than to ensure its competitiveness. Now the tax is in danger of becoming bogged down, according to *Les Echos* (8 March 2016). History repeats itself: though such a tax has been considered inevitable for 20 years, its implementation has been repeatedly put off.

Tobin first proposed his tax in 1972, to penalise speculation on the foreign exchange market, made easier by the new international economic environment. US president Richard Nixon had announced in 1971 that the dollar would no longer be convertible to gold at a fixed rate, ending the international monetary system based on the 1944 Bretton Woods agreement; in future the markets would dictate forex rates. The principle of the tax is simple: applied to every transaction, even at a very low rate, it would significantly increase the cost of the constant exchange that characterises short-term speculative flows. For long-term investment, involving few transactions, the tax would be almost painless (1).

The European monetary crises of 1992 and 1993, and the collapse of the Mexican peso in 1994, proved Tobin right: far from strengthening the monetary system, market forces were helping to destabilise it. Whole economies were threatened by massive forex speculation. The Tobin tax appeared on the political radar, and France's president François Mitterrand proposed the idea at the 1995 social development summit in Copenhagen. He was not optimistic: "It will be very hard to get it accepted, and I am under no illusions when it comes to financial transactions." The tax was mentioned again that year at the G7 summit in Halifax, and in Socialist candidate Lionel Jospin's manifesto for the French presidential election.

In 1996 Oxford University Press published a book in which experts on international finance were favourable to the Tobin tax and its potential impact (2). The idea also had the support of people who had not previously given the financial sector cause for complaint, such as Jacques Delors (European Commission president 1985-95), Boutros Boutros-Ghali (UN secretary general 1992-6) and Barber Conable (World Bank president 1986-91). Economist John Williamson was pleased that the Tobin tax would no longer be a footnote.

In an editorial for *Le Monde diplomatique* in December 1997, Ignacio Ramonet called for the financial sector to be disarmed, and for an Association for the Tobin Tax for Aid to Citizens (Attac). Established in 1998, it rapidly grew in popularity and by 2003 had affiliated organisations in 38 countries and more than 30,000 members worldwide (3). Tobin, interviewed in *Der Spiegel* shortly before his death, took pleasure at seeing his ideas centre-stage, but distanced himself from the "anti-globalisation rebels".

After the victory of the leftwing coalition in France's 1997 parliamentary election, Jospin, now prime minister, instructed his finance minister, Dominique Strauss-Kahn, to look into the tax; Strauss-Kahn considered it impracticable and ordered a critical official study to be included in a finance ministry budget document. During the next presidential election campaign in 2001, candidate Jospin told TF1 viewers he hoped to see France "propose that the European Union should take the initiative at an international level."

A new working group

Jospin lost the election, but Jacques Chirac, re-elected, took up the idea. He set up a "working group on new international financial contributions", in which Attac participated. The working group was headed by a high-ranking civil servant, Jean-Pierre Landau, and published its report in 2004. To counter rapidly growing global inequality, it proposed global taxes, including a Tobin tax, though it specified that "the taxes studied are intended purely to raise revenue to fund development". Tobin's initial goal of curbing speculation was set aside: the aim was now to "minimise the distortions created on the market". The financial sector didn't exactly quake in its boots.

The substance of the report was adopted, on Chirac's initiative, at the 2004 UN General Assembly. At a meeting of ministers in Paris in 2006, a number of countries pledged to adopt the international levy on air tickets (4) from the Landau report, and 30 countries (now 66) formed a "leading group on innovative financing for development" to promote global tax projects.

Taxing the financial sector, even lightly, did not appeal to Nicolas Sarkozy, president from 2007. As soon as he assumed office, he instructed his finance minister, Christine Lagarde, to cancel a tax on stock exchange transactions, a modest variant of the Tobin tax that dated back to 1893. Lagarde said: "This measure will make Paris more attractive as a financial centre" (5).

The 2008 crisis changed everything. Adair Turner, former director-general of the Confederation of British Industry and chairman of the UK's Financial Services Authority, admitted in 2009 that a lot of banking activity was "socially useless" (6), and favoured a Tobin tax. Also in 2009, the G20 summit in Pittsburgh mandated the International Monetary Fund (IMF) to put forward proposals for better regulation of the system. European leaders invited the IMF to examine all available options, including a global financial transactions tax (FTT) — a Tobin tax extended beyond forex, to all financial markets.

The US and Canada gave it a hostile reception. IMF director-general Strauss-Kahn's opinion had not changed since he was France's finance minister: he was opposed to a tax he saw as simplistic, and said it was probably impossible to prevent it from being avoidable (7). But there have been and still are stock market taxes. Extending them to transactions outside regulated markets would be feasible, just a matter of levying the tax on intermediaries such as clearing-houses (8). Nevertheless, the FTT did not feature in the IMF's 2010 report, which advocated two simple taxes on banks — to fund the rescue of failing banks. The IMF's modest proposals failed to win over the G20 at its 2010 summit and the FTT was not among its resolutions.

Help from Germany

Would the desire to make the financial sector pay have lasted? Not in Germany, where Chancellor Angela Merkel had warned that if the G20 did not adopt the FTT, she would propose it to the EU. She had secured Sarkozy's support at the Franco-German summit of 2010, shortly before the G20 summit.

The way seemed open for a European FTT project. It won the approval of the European Parliament in 2011, and of the Commission, which published a draft directive for a European FTT. This differed from Tobin's concept, as it did not apply to forex transactions, but its scope was still relatively wide, covering all other financial markets, market participants and instruments. Tobin had envisaged a rate of 0.5%; the Commission wanted 0.1% on stocks and bonds, 0.01% on derivatives. The estimated annual revenue of €30bn was to be shared among the budgets of the EU and its member states.

A few months before the 2012 presidential election, Sarkozy announced a French Tobin tax with a reduced scope; in fact it was a simple stock market tax, applicable to shares issued by 100 French companies, similar to the one he had abolished in 2007. The Socialist candidate, François Hollande, was not to be outdone. In a now famous speech, he declared war on his "true enemy": the financial industry. He promised to strengthen France's FTT and push through an ambitious tax on transactions at European level.

Once in office, his enthusiasm waned. The new majority government increased France's stock market tax rate from 0.1% to 0.2%, but the scope and rate were still more restrained than those of UK stamp duty. In 2013 and 2014 the government opposed amendments extending the French tax to intra-day trading and penalising high-frequency trading. At EU level, having failed to achieve unanimity, 11 member states under the leadership of France and Germany came together on the project, and the EU council of finance ministers formalised the process in 2013.

Since then, France has continually obstructed the creation of a European FTT. Finance minister Pierre Moscovici set the tone at the Paris Europlace financial forum in 2013, when he criticised the EC proposal as excessive, called on Brussels to be pragmatic and realistic, and promised to improve the proposal. This promise was kept: France blocked the European negotiations by demanding exemptions, especially on derivatives, a speciality of French banks.

Attempt at a compromise

In early 2014 Moscovici organised a Franco-German summit, aiming for a realistic compromise. He warned: "If we make it so that there are no more financial markets in Europe, no more stock markets in Europe, then the financial resources will go to London." But the French government's efforts were thwarted by its partners, especially Germany. Merkel had no intention of giving up: a broad European FTT figured prominently in the coalition deal she had made in 2013 with the Social Democrats. The Franco-German summit failed: Germany refused to accept the exemptions France proposed.

At the 2014 Paris Europlace forum, France's new finance minister, Michel Sapin confirmed that he would not accept "a project that would be imbalanced from the point of view of our financial industry." France's obstinacy did not pay off: the finance ministers of the member states in the European FTT project rejected its proposals. In 2015 France and Germany finally achieved a common position: a broad tax combined with low rates. "France will once again take the initiative to ensure that this tax is ready when the time comes, that is to say, by the time of COP 21" (9), Hollande pledged ahead of the UN climate conference in Paris.

The negotiations dragged out: some countries demanded exemptions; Estonia withdrew. This did not undermine the project, which required the participation of at least nine countries, but Sapin was concerned that the negotiations would remain frozen (10). Political problems in Spain and Slovakia may prevent those countries from giving their agreement by the next deadline, in June. The *Handelsblatt* wrote: "Financial Transaction Tax Dies Quietly" (11). German economist and pro-FTT activist Peter Wahl believes an agreement, even a disappointing one, is likely, since failure would have a serious political cost for Hollande and Merkel. Whatever happens will be a long way from Tobin's concept.