



FTT: The EU is manoeuvring

Commission gives up opposition to FTT, but adjourns its implementation till the cows come home

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The EU Commission has released on the 7th October 2010 an official communication on the *Taxation of the Financial Sector*.¹ The main message is:

- the Commission recommends a *Financial Transaction Tax* (FTT) at global level, whereas
- at European level preference should be given to a *Financial Activities Tax* (FAT).²

Responding to the pressure

With its proposal, the Commission responds to the pressure and gives up its general opposition to the FTT. But through linking the implementation of the FTT to a global agreement, the tax will remain a utopian project for the foreseeable future.

Because already at the G20 summit in Toronto in June 2010 the US, Canada, Australia and others, among them India, had refused the proposal. A change of this situation cannot be expected. And Brussels is of course well aware of this.

Therefore, the attitude of the Commission seems to be much more a political compromise than a sober economic analysis: Austria, Belgium, France, Germany and Greece are in favour of the FTT, at least the UK, Sweden, the Netherlands and the Czech Republic are against. Under these circumstances the Commission cannot afford to take openly a clear position. If big players like France and Germany are in favour of such a proposal, it is not possible to bluntly reject it. The Commission's manoeuvre is meant to reject de facto the FTT without making the proponents lose their face.

Repetition of the same old arguments

This impression is confirmed by a lecture of the details of the communication and even more of the staff working document, on which it is based.³ Although it is recog-

¹ http://ec.europa.eu/taxation_customs/resources/documents/taxation/com_2010_0549_en.pdf

² Unlike the FTT, the FAT does not tax financial transactions but profits of firms and remunerations of managers. It works like an income tax.

³ http://ec.europa.eu/taxation_customs/resources/documents/taxation/sec_2010_1166_en.pdf

nised that the FTT would have an impact on speculation and could yield considerable revenues, there is still a strong bias towards dismissing it. The paper continues to enumerate the old arguments against the FTT, as if there would have never been the respective counter arguments. For instance:

- *avoidance and dislocation*. Although the proposal to levy the tax at the point of settlement has been made since several years, the Commission ignores it. The highly centralized and safe settlement systems (CLS Bank, Target etc.) allow for an efficient and easy taxation independently from whether a transaction takes place in London, Hong Kong or the Bermudas.
- *unequal distribution of revenues*. As trade in financial assets is highly concentrated in few places, the distribution of revenues would be very unequal, if it would be attributed to the trading places. Taxation at the point of settlement, however, allows for attributing each transaction to its national origin. Thus each country could get the share according to what its firms or citizens are trading.
- *increasing costs for real economy due to the alleged impossibility to differentiate between harmful and useful transactions*. It is just one of the strengths of the FTT that it taxes heavily frequent trade, which is speculative, whereas the burden for trade, which is linked to real economy activities is neglectable. If stability increases, transactions linked to real economy even benefit, because hedging becomes cheaper.

The economic arguments of the Commission and the staff paper still reflect an ideological blockade. They still have not understood, that the financial crash is also the bankruptcy of the neo-liberal and neo-classic paradigm.

Time plays in the hands of the financial industry

For the further procedure they say that they will continue to explore the FTT at G-20 level and will work to promote an „*agreement with the most relevant international partners*.“ A comprehensive impact assessment will be undertaken envisaging proposals on policy actions by summer 2011.

The same is for the FAT, where further technical work on how it might be implemented will be done. As the momentum for financial reforms is fading away, the postponement of a clear decision works in the hands of the financial industry.

FTT can be kept on the agenda

Nevertheless, the position of the EU Commission shows, that they are sensitive to political pressure. In spite of their still negative attitude towards the FTT, their general approach to taxation of the financial sector has changed. They recognise that the financial industry is undertaxed, and they see the need to explore new sources of funding for fiscal consolidation as well as for financing measures against climate change and for development.

As both the *High Level Advisory Group on Climate Change Financing* and the *UN High Level Plenary Meeting on the Millennium Development Goals* have recently voiced their support for the FTT, the pressure for the FTT continues to increase.

Civil society should therefore continue to campaign for the FTT and in particular insist on the implementation of the tax at European level or in the Euro zone.