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The Robin Hood Tax: The Time is Now

A Financial Transactions Tax (FTT) is morally right, politically attractive and technically feasible. It could raise billions to fight poverty and climate change.

It has been three years since excesses in the financial sector drove the global economy over the brink. Today, as the poor struggle with the consequences of the banks' irresponsibility, we've seen a return to business as usual – bonuses and all. Yet, more than 80% of voters in Germany, France, Spain, the UK, Netherlands and Italy believe that the banks have a responsibility to clear up the mess they have created. A Robin Hood Tax on financial transactions is both fair and feasible. The European pioneers of the Robin Hood Tax have less than five months – running up to the G20 in November – to make it a reality. Action needs to start now. France and Germany must act on their promises and unite behind a common proposal, building on the model of existing successful financial sector taxes around the world, to implement an FTT. At the same time the rest of the G20, including the UK, needs to face down the vested interests of the financial sector and join the pioneers. New figures from Oxfam show that even a very limited first step could raise €18bn in France, Germany and Spain alone. A broad-based tax could raise €210bn in the EU and $400bn globally.

The impact of irresponsibility

As the global economy struggles out of the worst recession in a generation, the true costs of a financial sector built on irresponsible risk-taking are becoming clear. The poor have suffered the most. There is a $65bn hole in the budgets of the low-income countries as a direct result of the financial crisis[i], remittances have dried up, and investment, export revenues and credit have declined[ii]. And yet more pain is in the pipeline. Aid spending is set for dramatic reductions, particularly in continental Europe. The human cost of irresponsible behaviour by the few is immense.

If we look back a few years we can see what lies ahead. Five years after the 1997 East Asian financial crisis the number of Indonesians in poverty had doubled[iii]. Millions of Indonesian women working in the export industry were fired (before men), forcing them to go back to their villages, find work in the informal sector, or migrate. And this time round, direct economic impacts will be accompanied by likely falls in aid flows, meaning that vital social and health services will be lost at the same time.

The scale of the challenge faced by the poorest is thrown into even sharper relief when we consider that the impacts of climate change – a crisis caused largely by rich-world emissions – fall disproportionately on poorer countries, who are forecast to bear 75-80% of the costs[iv].

Even now, aid totals less than 0.3% of national income (GDP) in many rich countries. This is a tiny sum. **In Germany, aid spending is less than the wages and bonus pot of just one bank (Deutsche Bank)**[v].

Banking on short memories

And yet with the poor still counting the cost, the financial sector is back to making mega-profits.

France's big four banks[vi] turned in profits of €16.6bn in 2010, just one year after the financial crisis. Just 10% of this would be enough to provide free healthcare to the entire populations of Niger, Mali and Burkina Faso combined[vii]. As the banks return to business as usual, profits and bonuses continue to rise; the global pot for 2011 is likely to be between $600 billion[viii] and a $1,000 billion (one trillion dollars) worldwide[ix].

What's more, a significant amount of this profit is being made as a result of the help that governments provide directly and indirectly to the banking and financial sector. As Professor Jeffrey Sachs, Director of Columbia University's Earth Institute, outlined in an article for the Times[x] "*The big financial institutions… owe their financial rewards and lifelines to their proximity to central bank printing presses. The mega-bonuses flow year in, year out, rain or shine, boom or bust*". In 2010, the Bank of England estimated that UK taxpayers provide an implicit subsidy to the banks of up to £100bn a year[xi] because their 'too big to fail' status means they can borrow money more cheaply than any other business. As Mervyn King, Governor of the Bank of England, said recently, *"never in the field of financial endeavour has so much money been owed by so few to so many. And, one might add, so far with little real reform*"[xii].

Before the crisis, banking was the most profitable industry in the world, 26 times more profitable than the average industry[xiii]. The IMF has defined a proportion of these profits as 'excessive' and much of the activity generating them has been dismissed by Lord Turner, the head of the UK's Financial Services Authority, as 'socially useless'[xiv]. What's more, the volume of financial transactions is now significantly higher than it was before the crisis, and seventy times the size of the real economy[xv]. Global currency trading, for example, rose by 20% between 2007 and 2010[xvi].

Excessive risk-taking by the few cannot be allowed to ruin the lives of the many. The banking and financial sector should pay to clear up the mess they've created, and there is a simple way to ensure that they do so.

Turning the crisis into a huge opportunity

In this context, it is not surprising that such massive momentum is building behind a Robin Hood Tax.

A tiny tax of (on average) 0.05% applied to all financial transactions could raise approximately $400bn globally to fight poverty and climate change[xvii]. The impact would be incredible: applying the tax for just 1 minute could raise enough to vaccinate 1.5 million African children against meningitis[xviii]. Just five days would raise enough to create a Climate Risk Management Mechanism to insure nations against damages from climate-related natural disasters, and build capacity in developing countries for micro crop insurance.[xix]

For the world's poorest people, this is the biggest single opportunity since debt relief. It's another idea which has taken many years to progress from germination to fruition, and could now go on to save millions of lives.

Limited FTTs already exist in some form in several financial sectors, raising $6bn in both the UK and South Korea for example[xx]. They are hard to avoid and by expanding them we could place the costs of the financial crisis at the door of those who played a pivotal role in causing it.

New calculations for this report suggest that even just a limited first step by the pioneers (France, Germany and Spain), applied solely to transactions in shares and bonds, could raise €18bn. This figure could more than double if derivatives of these asset classes and currency transactions were included. Some estimates also suggest that simply extending the UK's existing tax to cover derivatives could double its revenue to more than $10bn[xxi].

Making FTT Revenue Projections

Existing revenue estimates suggest that approximately $400bn could be raised from a broad and globally applied tax, €210bn from a broad-based tax in the EU, and potentially more than £20bn for a broadly applied tax in the UK[xxii]. However, there are currently no specific estimates for the pioneer countries Spain, Germany and France. To produce the figures for this report, we follow a similar approach to the best-practice methodology developed by McCulloch and Pacillo (2010). First of all, the UK's existing model of stamp duty on share transactions is extended to the French, German and Spanish stock markets (making cautious assumptions about market shrinkage). A small tax of 0.05% is then also applied to trading in bonds in these countries (making similarly cautious assumptions). This limited FTT produces a total revenue estimate of €18bn. Extending the tax to derivatives and currency markets could more than double the revenue estimate[xxiii], and would also reduce asset substitution, increasing efficiency.

An ambitious and technically feasible tax...

Despite claims to the contrary, the technical feasibility of an FTT is absolutely beyond doubt: the IMF[xxiv], leading economists, academic researchers and financiers themselves have all clearly stated that a tax would work. Josef Ackerman, Chief of Deutsche Bank, has recognised that a regional FTT would be manageable[xxv].

In fact several countries already apply financial transactions taxes of various types: the UK, South Korea, Hong Kong and Taiwan all tax equity transactions. Taiwan and India also tax derivatives (futures and options). Switzerland and Taiwan include bonds[xxvi]. The success of these existing taxes exposes the false claims of some in the financial sector that suggest an FTT won't work. The reality is that it's already working in some places. As the IMF says, these taxes *"are certainly feasible as witnessed by their use in numerous developed countries"*[xxvii]. The UK and South Korean duties already raise $6bn a year each for their respective governments. Simply extending these duties to other European countries and asset classes (e.g. bonds, derivatives and currency transactions) would be a simple, but major step forward.

Furthermore, technological advances over recent years mean that the vast majority of trades are now settled through just a handful of electronic clearing houses, significantly increasing the ease with which an FTT could be collected. There is widespread academic consensus that taxation at settlement is both feasible and attractive[xxviii], and several existing financial transactions taxes are already levied in this manner.

An FTT could level the tax playing field...

It is also important to recognise that the weight of the bank lobby has allowed the financial sector to remain significantly under-taxed compared with other businesses[xxix]. An FTT could change this.

As highlighted above, large banks receive an implicit subsidy from taxpayers (which the Bank of England quantifies at up to £100 billion a year in the UK alone[xxx]) and financial services are also typically exempted from VAT[xxxi]. A further tax on the financial sector, far from unduly punishing one area of the economy, would in fact bring it more into line with taxes paid by the rest of the private sector.

The burden of an FTT falls primarily on those institutions and investors undertaking high-frequency trading (HFT), such as those using Tradebot in the US who hold a stock on average for just 11 seconds. The cost to long-term investors (like pension and insurance funds) would be tiny, whereas the cost to traders turning over their portfolios every few seconds would quickly add up.

This is ideal, since HFT is the very area that many commentators (including Lord Adair Turner, Head of the UK's Financial Services Authority) have accused of making no contribution to the real economy. This is illustrated best by the "flash crash" of May 6, 2010 when a trader sold 75 thousand stocks worth USD 4.1 billion in 20 minutes. The sudden drop in value spurred high frequency traders to go into a spiral of selling, causing US stock prices to plummet, some down to a cent, and then rebound within minutes.

And, this is why, in the context of recent serious increases in food price volatility, UN body UNCTAD has advocated applying a transactions tax to commodity derivatives markets[xxxii]. UNCTAD argue that it would slow these markets down, reducing the scope for misinformation.

An FTT would fall on the richest...

Another crucial argument in favour of an FTT is that it would be a highly progressive form of taxation.

The main players in the high frequency trading (HFT) market are a small group of hedge funds and investment banks, a separate business from the retail banking services that we use in the high street. As a result the tax should simply not affect the price of credit for small businesses or individuals. Furthermore, an FTT can also be designed to exempt particular kinds of transactions, if necessary.

Instead, the burden would fall largely on those who own and run the hedge funds and investment banks participating in HFT. And even if these businesses managed to pass on some of the costs to their customers, investment banks and hedge funds are used predominantly by the very wealthy. As the IMF state, *"in the United States in 2007, the top decile in terms of income owned 81 percent of bonds, 63 percent of stocks, 57 percent of investment funds... Dividing the population into deciles by net wealth, these shares are significantly higher."*[xxxiii]

In effect the FTT would, according to the IMF, be similar to a capital gains tax in terms of who would pay.

A cause célèbre – uniting experts, politicians and the public

With the economic, technical and political arguments stacking up in favour of an FTT - economic and financial experts, world leaders, influential thinkers and most importantly the public are increasingly lining up to support the tax.

French President Nicolas Sarkozy has made implementing an FTT a priority of his G20 Presidency. German Finance Minister Wolfgang Schauble has insisted that even if a global solution proves impossible "*the German government will push for a European solution*.[xxxiv]" The Austrian, Spanish, Belgian, Finnish, Luxembourgian and Hungarian governments also support a Robin Hood Tax, and the Finance Ministers of 28 Francophone Developing Countries have recently added their support[xxxv]. The idea is backed by Nobel Laureates and leading economists such as Paul Krugman, former World Bank Chief Economist Joseph Stiglitz, President of the EuroGroup Jean-Claude Juncker, financiers such as George Soros and Warren Buffet, plus charities, green groups, trade unions, religious leaders, celebrities, and hundreds of thousands of campaigners around the globe. The scale of common concern is breathtaking.

Recently, 1000 leading economists (a profession famous for disagreeing about almost everything) drawn from every G20 country[xxxvi], wrote to the G20 to show their support arguing that the FTT is "an idea that has come of age".

The European public are similarly enthusiastic. A recent YouGov poll in six European countries[xxxvii] found that more than 80% of voters in each country believed banks, hedge funds and other institutions have a responsibility to repair the damage caused by the economic crisis. This is true across the political spectrum, including 87% of Conservative voters in the UK for example. In the UK, Germany, France, Spain and Italy more than twice as many people support an FTT than oppose it[1].

Across the world campaigners are rallying behind an FTT, with a week of action in June 2011 expected to see millions of supporters make their voice heard in over 30 countries across the world.

Approaching decision time

But with momentum building, we are now fast approaching a critical decision point. France's Presidency of the G20 ends in November 2011 and we need to see clear action before then.

It's crucial that France, Germany and other European nations show real leadership ahead of this deadline, by agreeing to pioneer implementation of an FTT themselves. Only this level of leadership will coax a global coalition into being at the G20 in November. We urgently need European nations to align behind a joint proposal, which will deliver vital resources for poverty eradication and the fight against climate change. The time is now.

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[1] UK (51% v. 19%), Germany (53% v 24%), France (51% v 22%), Spain (67% v 15%) and Italy (59% v18%)

A European FTT is a feasible first step

Many opponents and sceptics have argued that an FTT at anything but the global level would be impractical. A global agreement would of course be ideal, but let's not forget, existing financial transactions taxes have been applied unilaterally, with no need for global agreement – and the banks have not fled the countries that have imposed them. In fact experience suggests that an FTT can be designed in such a way that it provides little incentive for relocation: the UK's successful tax on trading in UK shares applies to transactions wherever they occur in the world. If you want legal title to the shares of a UK company, you have to pay the tax.

Too much attention is being paid to the self-serving threats of some bankers and financiers. Recently, the Financial Times rightly said in an editorial that *"such threats should be faced down, not just because they are unreasonable but because they are of questionable credibility"*. In reality there are a multiplicity of reasons why financial institutions locate in Europe. These include network externalities (immediate access to information, support services, and trading partners), implicit government underwriting of 'too big to fail' institutions (which requires a country with a large economy and a willingness to take on this implicit guarantee) and the importance of time zones. Regardless of the prevailing tax regime, the major banks will need to maintain a significant presence in the financial centres of the American, Asian and European time zones.

Terry Smith, head of Tullett Prebon, a City broker, famously said in December 2009 that he would allow any of the company's 950 London-based staff to move overseas before the new 50p tax rate came into force. The Guardian reported on 14 April 2010 that so far *"none … have taken him up on the offer"*. We suspect that the financial sector's response to an FTT would be similar.

We mustn't allow disingenuous scare tactics to hinder such a historic opportunity.

150 days to get a Robin Hood Tax

The final pieces of the political jigsaw are beginning to fall into place. Technical issues have been ironed out and the need is absolutely clear.

When Heads of State emerge from the French G20 Summit in Cannes on Friday 4th November, a coalition of willing nations needs to stand committed to the rapid implementation of an FTT and the use of these resources to fight climate change and help the poorest. The European pioneers of the Robin Hood Tax have less than five months to make this a reality.

This urgently requires four things:

1. France, Germany, Spain, Austria and other supportive European countries must act on their promises and unite behind a single proposal, pressing ahead with domestic implementation and legislation.

2. At the same time, the laggards of the European Union, including the UK, need to face down the vested interests of the financial sector, and join the pioneers.

3. The G20 should then follow Europe's lead, agreeing to implement an international FTT when they meet in November. South Korea, Brazil and others already apply some form of FTT, they should broaden it.

4. Finally, vested interests cannot be allowed to capture this tax for their own ends. Regardless of the level at which FTTs are implemented – unilaterally, in the EU or by the G20 – the revenue must be used to fight poverty and climate change.

World leaders have an historic opportunity to turn the worst economic crisis in a generation to the advantage of those it has hurt the most. They should seize it with both hands.

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Notes

[i] http://www.oxfam.org/en/policy/impact-global-financial-crisis-budgets-low-income-countries

[ii] Dolphin, T., and Chappal, L. 2010. *The Effect of the Global Financial Crisis on Emerging and Developing Economies.* Institute for Public Policy Research. London, UK

[iii] M. Ravallion (2008) 'Bailing out the world's poorest', Policy Research Working Paper 4763, World Bank, http://econ.worldbank.org/external/default/main?pagePK=64165259&piPK=64165421&theSitePK=469372&menuPK=64166093&entityID=000158349_20081029084618&cid=decresearch

[iv] The World Bank Group, World Development Report 2010

[v] http://www.guardian.co.uk/business/2010/feb/04/deutche-bank-awards-pay-rises; Deutsche bank's wage and bonus pot totalled $17.8bn in 2009. German ODA was just $12bn in 2009 and $12.7bn in 2010.

[vi] Credit Agricole, BNP Paribas, Societe Generale, BPCE Group

[vii] The World Health Organisation (2010), 'Health Systems Financing'. This report finds that Low Income Countries would have required $44 per person to provide free universal healthcare in 2009.

[viii] McKinsey Whats in store for Global Banking. http://www.swissfinanceinstitute.ch/html/press/pdf/McKinsey_Global_Banking_2008-02-05.pdf. $600 billion is only a projection, and would be roughly equivalent to banking profits in 2006 ($672 billion in constant dollars). The McKinsey report from which this $672 billion figure is drawn was written pre-financial crisis and projected a doubling of bank profits by 2016. We have not used these increased figures but have instead assumed that bank profits will return to roughly their pre-crisis levels in 2011.

[ix] Estimates from Murphy, R, Taxing Banks, http://www.taxresearch.org.uk/Documents/IMFTaxingBanks.pdf and Kapoor, S. (2010) Financial Transaction Taxes: Tools for Progressive Taxation and Improving Market Behaviour, http://robinhoodtax.org.uk/files/ReDefine-FTTs-as-tools-for-progressive-taxation-and-improving-market-behaviour.pdf

[x] Jeffrey Sachs Op Ed in the Times, Rob rich bankers and give to the poor http://www.timesonline.co.uk/tol/comment/columnists/guest_contributors/article7055759.ece

[xi] Bank of England (June 2010), Financial Stability Report.

[xii] Mansion House Speech of Lord Turner, September 22nd 2009 http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2009/0922_at.shtml

[xiii] McKinsey Whats in store for Global Banking. http://www.swissfinanceinstitute.ch/html/press/pdf/McKinsey_Global_Banking_2008-02-05.pdf

[xiv] Mansion House Speech of Lord Turner, September 22nd 2009 http://www.fsa.gov.uk/pages/Library/Communication/ Speeches/2009/0922_at.shtml

[xv] See IMF, Taxing Financial Transactions: Issues and Evidence http://www.imf.org/external/np/seminars/eng/2010/paris/pdf/090110.pdf page 144

[xvi] http://www.bbc.co.uk/news/business-11148626

[xvii] See for example McCulloch, N., and Pacillo, G., 2010. The Tobin Tax – A Review of the Evidence. Institute of Development Studies. University of Sussex, UK and Tax Research LLP (2010) *Taxing Banks. A Report Submitted to the International Monetary Fund*, Norfolk: Tax Research LLP

[xviii] Source: http://www.guardian.co.uk/society/2010/nov/23/30p-meningitis-vaccine-millions-africa (accessed on 18th March 2011) and our own calculations based on a global tax raising approximately $400bn a year.

[xix] Munich Climate Insurance Initiative. 2009. *Climate Risk Management Mechanisms including Insurance, in the context of Adaptation to Climate Change.* Submitted to the on UNFCCC 24 April 2009, and own calculations based on a global tax raising approximately $400bn a year.

[xx] Matheson (2011), 'Taxing Financial Transactions, Issues and Evidence', IMF Working Paper, Washington DC, USA. Both the UK and South Korea tax transactions in equities, through application of a stamp duty.

[xxi] Robin Hood Tax Campaign (2011), 'There is an alternative'.

[xxii] See for example McCulloch, N., and Pacillo, G., 2010. The Tobin Tax – A Review of the Evidence. Institute of Development Studies. University of Sussex, UK; Tax Research LLP (2010) Taxing Banks. A Report Submitted to the International Monetary Fund, Norfolk: Tax Research LLP; Schulmeister (2008), 'A General Financial Transaction Tax: Motives, Revenues, Feasibility and Effects', Austrian Institute of Economic Research

[xxiii] McCulloch and Pacillo (2010) find that the revenue raised by currency and in particular derivatives would vastly exceed revenue from equities for example.

[xxiv] Claessens, S., Keen, M., Pazarbasioglu, C. 2010. Financial Sector Taxation. The IMF's Report to the G-20 and Background Material. International Monetary Fund. Washington DC, USA

[xxv] Berlin, 10th June 2010.

[xxvi] Matheson (2011), 'Taxing Financial Transactions, Issues and Evidence', IMF Working Paper, Washington DC, USA

[xxvii] Claessens, S., Keen, M., Pazarbasioglu, C. 2010. Financial Sector Taxation. The IMF's Report to the G-20 and Background Material. International Monetary Fund. Washington DC, USA

[xxviii] McCulloch, N., and Pacillo, G., 2010. The Tobin Tax – A Review of the Evidence. Institute of Development Studies. University of Sussex, UK

[xxix] Murphy, R, Taxing Banks, ibid.

[xxx] Bank of England (June 2010), Financial Stability Report.

[xxxi] For example, financial and insurance services in the EU are exempt from VAT.

[xxxii] http://www.guardian.co.uk/business/2011/jun/05/commodities-food-security?INTCMP=SRCH

[xxxiii] See IMF, Taxing Financial Transactions: Issues and Evidence
http://www.imf.org/external/np/seminars/eng/2010/paris/pdf/090110.pdf page 144

[xxxiv] Interview with Frankfurter Allgemeine Sonntagszeitung, 23th May 2010.
http://www.faz.net/artikel/C30923/wolfgang-schaeuble-im-gespraech-ich-werde-weiterhin-nicht-tricksen-30072531.html

[xxxv] http://robinhoodtax.org.au/2011/04/francophone-countries-endorse-financial-transaction-tax/

[xxxvi] http://www.guardian.co.uk/business/2011/apr/13/robin-hood-tax-economists-letter?CMP=twt_gu

[xxxvii] YouGov poll for Oxfam in UK, Germany, France, Spain, Netherlands and Italy; undertaken 7th – 14th March 2011.

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