THEROBINHOODTAX

Financial Transaction Tax
At the last G20 Summit (Pittsburgh, September 2009), world leaders tasked the IMF with drawing up an implementation plan for a Financial Transaction Tax (FTT), as one of a number of proposals to ensure the contribution of the financial sector both to the cost of bank bailouts and to the recovery from the global economic crisis.

The proposal for a FTT has received widespread support from European, US and African leaders and leading economists[1]. In February 2010 the team behind Make Poverty History is launching the 'Robin Hood Tax' campaign for a Financial Transaction Tax. The coalition spans domestic, green and development NGOs and is linked to similar campaigns across Europe and the US.

The campaign for a Financial Transaction Tax proposes:

- A FTT, applied globally, could raise billions every year. Experts suggest that at an average rate of 0.05%, revenues could be as much as $400 billion (£250 billion) every year, with tens of billions going to the UK.[2]
- Half of the revenue should be spent on domestic needs in the UK and other countries where it is raised.
- The other half should be spent on international priorities, such as the Millennium Development Goals and tackling climate change.

We would like the UK government to:

- Push the international community, particularly at the G20 meeting in April, to introduce a FTT and set out how it would work.
- Immediately and unilaterally introduce a small levy on the pound.

An idea whose time has come
The unprecedented bailout of the UK banking sector has created a budget deficit that threatens government commitments to end child poverty, fuel poverty, safeguard jobs and front line services. At the same time, the financial crisis has caused a widespread economic downturn, with growing unemployment and increasing demands on public spending.

The financial crisis and recession has also hit the poorest countries hard, massively increasing their budget deficits. This comes at a time when developing countries need extra support both to ensure they meet the UN's Millennium Development Goals and to meet the costs of the immediate and future impacts of climate change.

The FTT is a timely solution that can significantly address the major financing challenges we face while renewing the social contract between banks and society. Continuing public anger at the institutions that caused the crisis makes the introduction of the tax not just possible but popular.

Implementing the FTT
Financial products like foreign exchange, stocks, bonds and their derivatives are traded around the world in massive flows every day – the total value of these markets is around $3,260 trillion a year. Different rates of a FTT may be needed for different financial transactions but to give an indication, at an average rate of 0.05% a FTT could raise as much as $400 billion (£250 billion) a year.

Financial markets are now computerised and due to the efforts to stop money laundering and the financing of terrorism, heavily scrutinised. This would make the collection of revenue from a FTT automated, simple and inexpensive. Collecting the tax would in many instances simply involve the

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[1] Supporters of a FTT include the leaders of the UK, France and Germany, Lord Turner (Chair of the Financial Services Authority) President Zenawi of Ethiopia, Nancy Pelosi (Speaker of the US House of Congress), Joseph Stiglitz, Jeffrey Sachs, George Soros, Warren Buffet
[2] These figures are based on academic papers by Schulmeister (2009) and Baker et al (2009), as well as our own campaign research.

introduction of a couple of lines of software code. The cost and risk of evading the tax would not be economical given the very low rate at which it would be levied.

FTTs have been in existence at the national level for a long time, so we know how they work:

- In the UK a 0.5% Stamp duty on share transactions raises more than £3 billion each year;
- In the US a small transaction tax has already been implemented to fund the Securities and Exchange Commission;
- In Belgium a FTT on the transfer of shares, bonds and other securities, at a rate of 0.5-1.7%, raised Euro 147 million in 2005.

Spending the money
The Robin Hood Tax campaign proposes that proceeds from a FTT could be split 50/50 between domestic and international commitments, so an annual global revenue in the region of $400 billion (£250 billion) would provide something like $200 billion (£125 billion) for countries' domestic needs, $100 billion (just over £60 billion) for international development, and $100 billion (just over £60 billion) for climate finance, every year.

In the case of the UK's share this would be divided along the following lines:

- 50% towards domestic commitments would help tackle the factors behind more than 13 million people living in poverty in the UK. It is difficult to predict exactly what share of a global FTT would come to the UK, but it would be in the tens of billions of pounds. To give an idea of the kinds of needs that an FTT could contribute towards meeting: £4 billion could halve child poverty; £5 billion would fully insulate every home in Britain; a recent estimate put ending the benefits trap at £2.7 billion; and for every £1 billion invested, about 17,500 affordable homes could be delivered.

Half the proceeds should be allocated globally, to tackle poverty and climate change, according to individual countries' own needs. This is not simply 'aid' but also a way for us to fulfil our moral obligation to the world's poorest countries. This revenue must be additional to existing to overseas aid and climate change commitments.

- 25% towards international development to help meet the funding shortfall for initiatives such as the Millennium Development Goals. Raising $100 billion (over £60 billion) globally for development every year would mean a step change in international efforts to tackle poverty. We could start to talk seriously about ending poverty worldwide. The tax raised in just over one minute could be enough to provide a well-equipped school for 250 pupils, and in just under two minutes could pay for a basic health service for 100,000 people. Funds should be allocated according to developing countries' priorities in tackling poverty and in line with the 'Paris Principles' on Aid Effectiveness.

- 25% to tackle climate change, to help countries move towards a low-carbon economy and adapt to the worst effects of climate change. It is estimated that $500 billion[3] is needed annually to meet the costs of climate change adaptation and mitigation. A proportion of the revenue from an FTT would go a long way towards meeting this cost. It should be channelled through the UNFCCC mechanism as called for by developing countries.

Wouldn't an FTT wipe out the City, or at least grossly distort markets?
It will be vital to set the tax at the optimum level for revenue generation; damaging the markets would defeat this purpose. It is entirely possible to do this, for example the UK stock market already bears a 0.5% tax on the stock exchange yet it continues to be one of the most successful and vigorous markets for shares in the world.

A small shrinkage of the markets as the result of a FTT would largely affect the least profitable speculative financial activities – recently described by Adair Turner, head of the Financial Services Authority, as 'socially useless'. Such transactions cause widespread volatility as money races back and forth across the global economy, destabilising global markets.

[3] This is the latest and most thorough assessment of the UN Department of Economic and Social Affairs.

Won't the banks end up passing this on to consumers?
A FTT designed to be levied on the biggest and most risky trades would not affect ordinary people. This tax will not impact on personal banking or retail banking. It will focus on a distinct area of bank operations - the high-frequency large-volume trading of financial institutions in the 'casino economy'. Transactions such as exchanging money to go on holiday, sending remittances abroad, investing in a pension fund or taking out a mortgage will not be affected by this tiny tax.

Institutions such as hedge funds that speculate rather than invest will pay the highest proportion of the tax. The FTT would not directly impact on consumers in the way other taxes to pay for the crisis would, such as raising income tax or VAT.

Wouldn't every country in the world have to introduce an FTT at the same time?
The plan to tax the banking sector should be pursued at the global level, but there are steps that governments can take alone, both towards a broader FTT and as a show of leadership.

The UK Government alone, at a very low rate like 0.005%, could easily introduce a currency transaction levy. It would be quick to implement and would raise significant funds. Foreign exchange is the largest market in the world – worth $800 trillion a year, and yet it is the only area of the financial sector that has so far escaped any form of taxation. The UK could unilaterally introduce a levy on wholesale trades of sterling, no matter where in the world they take place, with the proceeds being captured automatically at the point of settlement. This would raise at least £3 billion a year and would not adversely affect UK trade, as a 0.005% FTT would be comfortably absorbed into margins of at least 10% (if not higher).

Isn't this the Tobin Tax?
The Tobin Tax was first proposed by James Tobin in the 1970s as a small but significant tax on currency trading. More recently the idea of a wider Financial Transactions Tax covering the full range of products traded in the financial markets, has gained ground. Unlike Tobin, the proposed tax does not have the limiting of speculation as its primary goal, but is focused on revenue generation. It could raise much larger amounts of money at a very low rate, because it would cover such a wide range of products.

The FTT and President Obama's proposal for a bank levy
President Obama has announced plans for an 'insurance levy' on banks to allow the US to recoup the costs of bailing out their banking sector. The levy would raise $90 billion over the next 10 years.

A FTT is compatible with Obama's proposals. However, a FTT would raise more money and would generate proceeds to redress the harm that banks' actions have caused rather than funds to insure banks themselves. An insurance levy simply protects bankers against their own mistakes in the future, creating a moral hazard for future irresponsible behaviour. Moreover, $90 billion over ten years is not sufficient to mitigate the damage that the financial crisis has caused the global economy and the huge challenges the world faces. A FTT has the potential to raise $400 billion (£250 billion) a year – much needed money that will protect not only jobs and frontline services at home, but lives and livelihoods in developing countries.