

# European Civil Society for the FTT

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“A good idea always goes through three phases:  
it is declared stupid in the first phase,  
it is fiercely fought in the second phase,  
and it is implemented in the third phase.”

Arthur Schopenhauer

Thank you very much for the opportunity to speak on behalf of European NGOs in this consultation process for the IMF report to the G20. I want to encourage the IMF to continue on this path and to listen regularly to civil society and those experts, which before the crash were considered as *heterodox* or *off-mainstream*. The open approach could be an element in the reform of the IMF and would contribute to democratise its decision-making. After all, the crash was not only a collapse of financial markets, but also the bankruptcy of an economic paradigm, which was based on the belief, that markets – left alone - would be efficient and could regulate themselves. Therefore, more pluralism in economic thinking could improve the IMF's performance.

## Strong support in Europe for the FTT

As a first message I want to tell you that there is an extraordinary strong support of civil society in Europe for the Financial Transaction Tax (FTT). This reflects a general trend in public opinion. Not only many politicians – Merkel, Sarkozy, Brown, Barroso – have supported the FTT, there is – like all opinion polls show - an overwhelming majority of people who after more than two years after the beginning of the crisis want to see finally some substantial steps towards a strict regulation of financial markets and towards making pay the financial industry - at least partly - for the damage they have caused.

Just two recent examples: within a few weeks a formal online petition for a hearing on the FTT at the German Bundestag passed easily the quorum of 50.000 signatures, reaching 66.000. At the international Berlin film festival *Berlinale*, which ended last weekend, a video with two famous German movie stars advocating the FTT was presented and reached the top ranking of *youtube* after only three hours ([www.steuergegenarmut.de](http://www.steuergegenarmut.de)). The FTT has left the narrow circles of some expert NGOs and has become a real public issue.

People understand, that the decisive problem with the FTT is not so much the technical feasibility, concerns for tax evasion, market efficiency and lack of liquidity, but a political problem: the power and influence of the financial industry on decision making.

*Keynes* was the first to propose a tax on trade with financial assets. Under the conditions of the thirties of the last century he had suggested a tax on currency transactions. The historical line goes via Nobel laureate James Tobin, his colleagues Stiglitz and Krugmann and other excellent scholars, and finally comes to Volcker and the works of Schulmeister, Jetin, Rodney Schmidt and other excellent scholars who already spoke in the context of this consultation process. Therefore, I do not want to repeat their arguments, which we support, but would like to focus on some dimensions, which are of particular interest for civil society

## **The mandate for the report requires a substantial amount of revenues and regulation**

The Pittsburgh declaration mandates the IMF to find out “*how the financial sector could make a fair and substantial contribution toward paying for any burdens associated with government interventions to repair the banking system.*” We want to stress two elements of this mandate:

- a. the **substantial** contribution
- b. **to repair** the banking system.

According to these criteria other instruments, which are under discussion, such as a bank levy and an insurance scheme or a combination of both, do not meet the requirement to provide substantial contributions. The levy on banks and insurance companies, proposed by Obama, would raise within 10 years only 90 bn. USD. This is even below the direct costs of the 117 bn. USD for the bail-out programme (TARP). Not to speak of the costs for stimulus packages and social cost of the crash. Even bonuses at Wall Street are higher. *Substantial contributions* look different. The FTT, however, generates such substantial contributions.

Furthermore, the bank levy has no regulatory effect, at least no positive one. It allows the financial industry to continue business as usual. With its focus on stability only at micro level it does not aim at systemic stability. Even worse, it will increase moral hazard, because the industry can count on being bailed-out again in the next crisis. This is even more true for the insurance scheme, as it is proposed among others - and not by chance - by the head of Deutsche Bank, Ackermann.

What is needed instead are revenues, which cover not only the direct bail-outs, but also the other costs, in particular the costs of the public debt. As the financial industry wants to make a lot of money out of the public debt – socialising losses for a second time while privatising profits - through fees interests and respective derivatives, there is the risk of new bubbles. Therefore, extra-profits stemming from public debts have to be skimmed.

Hence, the FTT would not only reduce at micro level a certain number of speculative deals, which has always been stressed as one of its big advantages, but it would also contribute to systemic stability by reducing profits.

Reducing profits would have another merit: the sheer mass of money creates a permanent pressure on the markets to generate profits, and it is a basic incentive to create what the bankers believe to be “innovative” instruments. This pressure is the core of what others call *overliquidity*.

In other words, the FTT is the only instrument under discussion which would contribute through multiple effects “*to repair the banking system*” and to conduct it to its useful function: serving the real economy, and this means in these times to finance the modernization towards an environmentally sustainable and socially just global society.

## **Taxes are more than just costs**

One of the last arguments against the FTT is the evasion. First of all it is interesting that this argument implicitly admits the irresponsible behaviour of the financial industry, which does not care for the common good.

But what is more important, taxes are more than just a cost factor. Modern political systems are based on two pillars: the state monopoly of power, as well as the state's ability to impose taxes and thus to finance the requirements of common welfare. It is not by chance that the famous declaration of human and civic rights of the French revolution from August 1789 contains two paragraphs on taxation. Article 13 deals with tax justice declaring that taxes “*must be distributed evenly among all citizens considering their property situation.*” And article 14 stipulates: “*All citizens have the right to determine, either themselves or by their*

*deputies, the necessity of the public due, to approve them freely, to evaluate their implementation and their amount, their disposition, their collection and duration.”*

Indeed, taxes are an integral part of a civilised understanding of society. They are a decisive tool to organize, to structure and to manage society. They are an indispensable contribution to the integration and cohesion of a society. If one talks about *corporate responsibility* or *corporate citizenship* this means first and foremost to understand the non-economic and societal dimension of taxation - and consequently to pay taxes properly. Therefore, the discussion on the FTT cannot be reduced to the economic dimensions of taxation, in particular to market efficiency.

### **Double standards in the talk on tax evasion**

The paragraphs on taxation in the Declaration on Human and Civic Rights refer of course to an evil which was very pertinent in the *ancien régime*: the ruling class, the aristocracy (and the clergy) was tax exempt. The entire tax burden was on the shoulders of the *tiers état*, the ordinary citizens.

This reminds very much the present situation, where the financial industry is totally undertaxed. While we have to pay a VAT for every slice of bread and every T-shirt, trade with financial assets is, with few exemptions, tax-free. The financial markets are a gigantic duty free shop for those who can afford to go shopping there. This is a heavy market-distortion. It is time to end with the neo-aristocratic privileges of the financial industry and to establish an appropriate playing level field for all sectors of economy.

A final word on tax evasion: there is no tax on earth which cannot be avoided. And indeed, all taxes are avoided. But have you ever heard that the VAT should be abolished, because it can be avoided? Or that the markets for butter and T-shirts would be inefficient because they are taxed? Apart from the fact, that the electronic trade platforms make evasion difficult and more expensive than the tax, evasion is no specific problem of the FTT but of all taxes. We hope that the IMF is not impressed by the double standards of these critiques of the FTT.

### **How to administer the revenues**

As trade in financial assets is highly concentrated in a handful of market places with New York and London on top, the revenues will at first instance be under control of the respective countries. But although the collecting points for the revenues are national, the tax base, the systemic effects of trade and the effects of the FTT are global. Therefore, the use and distribution of the revenues has to be international. The best solution would be to establish an international fund under the auspices of the UN, with a strong participation of stakeholders.

We know that there are people in the IMF who sympathise with the FTT, because they expect the Fund to administer the revenues. This would of course strengthen its position in the international arena. You will understand, that with the present governance structures of the IMF, civil society would not favour such a solution.

As for the distribution of the revenues and the respective quota – how much for the MDGs, how much for paying public deficit, how much for climate – this should be negotiated once the decision for the FTT has been taken. There is an old saying: don't distribute the skin of the bear before having shot him.

To conclude, we ask you, to make the superiority of the FTT over the other proposals very clear in your report.

Thank you for your attention.