Europe Dithers On 'Tobin Tax'

By Jaya Ramachandran
Global Research, March 27, 2010
IDN - InDepthNews 27 March 2010

Region: Europe
Theme: Global Economy

Brussels – The European leaders failed to agree on the introduction of a levy on financial trading to compensate taxpayers for bank bailouts at the Spring Council meeting of the European Union (EU), which concluded March 26. The Heads of State or Government of 27 nations stressed instead that they must reach an agreement before the G20 Summit June 26-27 in Toronto.

According to the President of the European Commission (EC), José Manuel Durão Barroso, "it is very important that the EU concludes its homework and is able to go to Toronto united, so that we are on an equal footing at world level".

The President of the Spanish Government and President-in-turn of the European Council, José Luis Rodríguez Zapatero, stressed that "the future of the economy in the EU is not going to depend solely on what we do as Europeans, but also on the general rules of the international economy".

In this regard, he advocated that the EU should take the initiative at forums such as the G20 (group of 20 industrialized and emerging nations), where it should strongly defend its positions regarding regulation and the fight against climate change.

The decision to postpone a decision to impose a levy on financial trading to compensate taxpayers for bank bailouts and plug public deficits came within some 15 days of an overwhelming majority of members of the European Parliament proposing such a decision.

The Europarliament adopted the resolution on a financial transaction tax (FTT) with 536 votes in favour, asking the European Commission to develop a plan for such a tax before the G20 summit. It further suggested that if a worldwide tax could not be agreed upon, the European Union should consider adopting it unilaterally.

The resolution urged the European Council and the European Commission to look at how the tax could be used to help developing countries to combat climate change and contribute to the EU budget.

However, members of parliament also stressed in the resolution that the tax must not harm the banking system's ability to finance real economy investments and must not encourage the migration of capital.

Algirdas Semeta, EU commissioner for taxation, said the Commission was considering such a tax but insisted that it is best tackled at global level to prevent capital flight.

Ahead of the Spring Council meeting, Dominique Strauss-Kahn, the managing director of the

International Monetary Fund (IMF), said March 17 that a tax on financial transactions to help pay for bailouts of failed banks would be difficult to devise and easy to avoid.

Strauss-Kahn will present the G20 group of leading countries his proposals on how to make banks rather than taxpayers pay for bailouts using either a tax on transactions or a levy on a bank's balance sheet.

Germany and France have pushed for a 'Tobin'-style tax on transactions, proposed by U.S. economist James Tobin in the 1970s as a way to raise money for developing countries and dampen volatility in foreign exchange markets.

Strauss-Kahn was initially sceptical of a transaction tax when the IMF was tasked in November 2009 to consider one. "Now several months on and just before he delivers his report, that scepticism appears to have taken root," notes the EurActiv.com from Brussels.

"I have been a big fan of the transaction tax in the 1970s but since then a lot of things have changed. What has changed is the technicality of the financial industry," Strauss-Kahn reportedly told the European Parliament. "What is obvious is it becomes more and more easy to build derivatives to avoid a transaction tax," he added.

According to EurActiv, The United States and Canada have said they will not introduce a financial transaction tax. UK Prime Minister Gordon Brown stated in February 2010 that the idea of a levy on banks was gaining ground, diluting his initial support for a transaction tax in 2009.

This leaves open some form of a levy on bank balance sheets, a step the United States is already planning, but only to recover bailout costs. Strauss-Kahn also warned leaders needed to be clear on what was the objective – finance development, rescue banks, or both.

"You can't do both with the same money. The question is what do you really want? A bigger levy? The money can only be used once," he added.

Disappointed

Criticising the outcome of the Spring European Council, the international alliance of Catholic development agencies (CIDSE) said it was deeply disappointed that European leaders had failed to agree on the introduction of an EU wide FTT.

CIDSE is of the view that a mini tax on short-term and high-risk transactions would stabilise the current financial system and generate millions of Euros badly needed to alleviate poverty and combat climate change.

"A mini tax of only 0.05 percent on each financial transaction would make the financial sector pay for a crisis they created without having an impact on European taxpayers," CIDSE's financial expert Jean Letitia Saldanha said. "The money generated could save the lives of millions of the world's poorest people who are hit hardest by the crises the world is currently facing."

A Financial Transaction Tax at a rate of 0.01 percent would generate income of about Euro 100 billion per year in Europe alone, according to CIDSE. It campaigned for the inclusion of an EU wide adoption of a FTT on socially unproductive and speculative trading on financial markets in the run up to the Council.

On March 25, while European leaders were arriving in Brussels to attend the Council, CIDSE, along with a coalition of development, environmental and health organizations, staged a 'tug of war'. It saw bankers on the one side and Robin Hood, the symbol of a massive ongoing popular campaign demanding the adoption of a FTT, on the other, with EU leaders in the middle to decide if money should go to speculators or to people and the planet.

CIDSE pointed out that the European Parliament had asserted unequivocal support for robust and properly resourced EU action to tackle poverty and climate change. "This support is crucial at a time when we fear these issues will be put on the back burner due to the current economic crisis many member states are in,' observed Bernd Nilles, Secretary General of CIDSE.

Despite broad public support and the backing of the European Parliament EU leaders have failed to come to terms on the FTT.

"The fate of their own political future is understandably a central concern for many European politicians during the current crisis. At the same time they must rise up to their responsibilities as leaders. Their failure will affect the chances of millions of men, women and children to live in dignity in the face of the hardship caused by the economic, financial, fuel and food crises as well as the threat of climate change,' concluded Nilles.

The original source of this article is IDN - InDepthNews

Articles by: Jaya Ramachandran