

The 'Robin Hood Tax' campaign

What is the 'Robin Hood Tax'?

A proposed tax on financial transactions. This would include currency, but also other types of financial trades, including the various different derivatives and other vehicles that were at the heart of the credit crunch and the current recession. Every day trillions of dollars change hands, in millions of individual transactions, and these have exploded over recent years – the volume of financial transactions is now an amazing 75 times global GDP. So far the vast majority of these transactions are not taxed. Because there are so many of these transactions, even at very low rates of between 0.005 and 0.05% tax per transaction, hundreds of billions of dollars could be raised each year. The 'Robin Hood Tax' is similar to the Currency Transaction Levy (CTL) discussed in RESULTS's action in December, but it would apply to a broader range of transactions – a CTL is just one type of financial transaction tax.

How much would it raise?

An absolute fortune. So far estimates are that at an average rate of just 0.05% applied globally the tax could raise \$400 billion every year – that's almost three and a half times the amount that was given in aid by OECD countries in 2008. We say an 'average rate' of 0.05% because it is likely that the tax would apply to different financial instruments at different levels – for example 0.005% on currency transactions as proposed under the CTL, averaging out with higher rates such as the 0.5% already applied to trade in shares in the UK. Estimates of how much money the tax would raise vary depending on the rate at which the tax would be applied, and also by how much the tax causes the market to shrink. However, credible estimates place the amount earned at anything from \$175 billion to \$400 billion.

How would the money be spent and who by?

This has not yet been fully negotiated of course, so nobody knows for sure. We do know that the money would be collected in the major centres where transactions take place. Therefore, the tax is very unlikely to be passed unless considerable revenues are:

- Available to the US and UK where most of the transactions take place
- Used at least partly to finance reducing the deficit in rich countries and preventing cuts
- Spread around the rest of the G20 to enable them to agree.

In one example scenario, looking at the money London would collect, the likelihood is that 50% would have to be shared out amongst the other members of the G20 to persuade them to agree to the tax. Of the remaining 50%, half could go for spending in the UK, and the remainder would be for Global Public Goods. Under the plan put together by the Robin Hood Tax campaign the section spent on 'Global Public Goods' would be 50% on the MDGs and 50% on Climate Adaptation.

Why is there a particular opportunity to establish a FTT now?

For several reasons. The first is that the public and political mood is in line with this campaign. The financial crisis has led to a widespread re-evaluation of how we regulate the financial sector and of the relationship between the financial sector and the general public. The crisis is having a big impact on the ability of governments in the developing world and also to a significant extent the developed world to pay for public goods such as health and education.

This means that there is political will to strengthen the link between the huge amounts of money passing through the financial sector and the achievement of global public goods like the Millennium Development Goals. This really is a unique opportunity: the chance of a generation to change our global system.

In recent months many political figures have come out in favour of a FTT. A selection of events is below:

- The French government were the first to seriously propose this tax, as far back as 2003. Recently they have renewed their calls for it as part of their drive to have innovative financial instruments to finance development.
- The Currency Transaction Levy (CTL) which is a form of FTT on currency only, was given a serious hearing as part of the high level taskforce on health financing that reported in September, and the French government's Leading Group on innovative financing is now seriously looking at it.
- In August Lord Turner, the chair of the UK's Financial Services Authority (FSA) that regulates banks came out in favour of a Tobin Tax, to reduce the size of the financial services sector that he felt had become top heavy and in part 'socially useless'. This was dynamite and made the front page of the Financial Times, as Lord Turner is a right wing financier by background and a huge proportion of the world's financial transactions happen in London.
- In September, on the eve of the G20 in Pittsburgh, the then German finance minister, Peer Steinbrueck, wrote an op-ed in the Financial Times supporting a broad FTT of 0.5%. His coming out in favour meant that Chancellor Merkel also had to then publicly support the FTT.
- At the G20 finance ministers meeting in St Andrews in Scotland in October, Gordon Brown gave a speech where he said that the social contract between the financial sector and society is broken, and that the UK now supported the analysis of different options for making the banks contribute more, which included looking at a financial transaction tax. This got huge media coverage.
- The same day the US treasury secretary, Tim Geitner, said in an interview with Sky news that he would 'not support a day to day tax on transactions'.
- The following week a US congressman, Peter Di Fazio introduced a bill to congress calling for a tax on financial transactions, to help pay for job creation in the US. This is supported by 25 other congressmen, and calls for 0.25 percent on every applicable transaction. It is described in the bill as a "small securities transaction tax" that would generate nearly \$150 billion a year.
- In response to this bill Treasury Secretary Geitner moderates his view, saying 'he has not seen a version of this tax that would work for the US'. • The French finance and foreign ministers, Lagarde and Kouchner, publish a joint op-ed in Le Monde saying they support an FTT to pay for development.
- The French environment minister calls for an FTT to help with climate finance to be included in the Copenhagen texts.
- In advance of the pre budget report in the UK, the UK government issues a report which again adds further support to exploring the FTT as one of a number of options.

- Sarkozy and Brown publish a joint op-ed in the Wall Street Journal calling for an FTT to contribute to climate and the MDGs.

What are the main arguments used against the FTT, and how should we respond to them?

- **The Unilateral Argument:** It's a great idea, but everyone would have to do it at once because otherwise financial transactions will just move to other countries where the tax is not applied, meaning jobs would be lost. The Americans would never implement this tax so it is impossible.
- **The Technically Impossible Argument:** It's a great idea, but it is fiendishly complicated to implement.
- **The Man on the Street Argument:** Normal people will end up paying this tax when they go on holiday or change currency, or else the banks will pass on the costs to their customers.

Responses:

To the Unilateral Argument

- Obviously it would be better if the world could do this together, or the G20 at least, as the maximum amount of money would be raised. But it doesn't have to be done universally and there are unilateral options, particularly with regards to currency transaction taxes. For example the Eurozone and the UK could do implement a CTL without America – people are not going to stop buying and selling pounds or euro because of such a small tax.
- The tax would be at such a small average rate (0.05%) that even for other forms of transaction there will not be a big movement off-shore. There is already a tax on share transactions in the UK stock exchange of 0.5% for example, ten times higher than the proposed Robin Hood Tax, yet the UK stock exchange is one of the world's largest. The USA and the UK are home to most of the transactions, so would take the biggest hit from reduced transactions, but would also gather the biggest amount of revenue from such a tax.
- There are supporters among the American administration, and a bill has been introduced to Congress, so it is not true that there is no possibility of the Americans implementing an FTT.

To the Technically Impossible Argument

- Given massive computerisation and the drive to make all contracts enforceable and transparent following the losses incurred during the credit crunch, it is definitely technically feasible to implement. The small number of electronic clearing houses through which transactions are processed means that automatic computerised collection will be relatively easy. Heavyweight academics such as Nobel prizewinning economist Joseph Stiglitz have underlined this.

To the Man on the Street Argument

- The CTL component of the tax would apply to wholesale currency transactions not retail ones- i.e. the trillions of dollars changing hands each day between investment banks and not the transactions between individuals such as withdrawing money when on holiday.
- The Banks will try and pass on some of the costs of this tax, but they will have difficulty doing this as it is a number of steps removed from retail banking, and this would also be hugely difficult politically (particularly in the current climate). As with all taxes there is a risk of it being passed on, but the risk here is certainly no higher than other forms of taxation, and probably lower.

- The tax could also be good news for pensions, even though many of them are invested in financial instruments that would be subject to such taxes. Pensions are long-term investments, and the Robin Hood Tax would help to reduce speculative, short-term trading. This will shift the entire market to take a longer-term view and build steady growth rather than boom and bust. Pension funds by their nature do far fewer trades than other kinds of funds, and will thus be affected far less than, say, hedge funds.