EU's Financial Transaction Tax not fit for purpose

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â€¢ What a difference a day makes.

In the rapidly unfurling madness that has gripped the Eurozone, the summer may prove to be a cataclysmic season. Yesterday European finance ministers gathered to thrash out plans for growth and investment ahead of an EU summit at the end of June. It was an opportunity for the new French President to bring to the table the concept of Eurobonds - a policy idea on the back of which he competently rode to election victory.

Yet the concept of drawing up co-liability between Eurozone member states for debt, as such becoming eachothers' guarantors, has never sat easily with the Germans. This is despite the fact that simply sharing in a currency is enough to allow economic contagion to rip through the continent like an Australian bush fire.

Last year, 25 of the 27 member states of the EU signed a fiscal treaty. Only the Czech Republic and the UK refused to be signatories. The treaty essentially outlined austerity measures that all member states agreed to in order to try to protect the fragile economic situation in Europe from further sharp blows. Yet also in this treaty was a proposition to add the Tobin Tax, or Robin Hood, tax, on financial transactions. The concept that the tax robs the rich (bankers) to give to the poor (Brussels) is a twisted distortion of what would likely be the outcome. As we all know, incurred costs are more often than not passed down to the consumer. In this instance, all members of the general public with bank accounts. The other potential repercussion is the mass exodus of the banking sector from the European Union to more liberalised financial sectors in other countries, such as Zurich or Hong Kong, This of course would result in a disproportionate blow to the UK, who houses more than three quarters of the banking sector of Europe in The City of London, as well as many corporations around the world. Were these institutions and multi-national conglomerates to up and leave, the impact on the UK economy would be substantial. The contribution to GDP of the financial sector in the UK is hugely significant, as well as the jobs it provides and the capital that flows to the country.

And so for this reason, in December last year, the UK vetoed the treaty. As a result of not being able to achieve unanimity, such a schismatic legal change could not be made under EU terms. In effect, the withdrawal of the UK ace should have brought the house of cards down.

And yet it hasn't. For yesterday the European Parliament voted 487 votes in favour, 152 against, with 46 abstentions for the Podimata report which paves the way for the Financial Transactions Tax to be levied.

An amendment to shoot down the report brought forward by the ECR group, to which the Conservative Party belong, was strongly defeated, leaving the UK Government with little room for manoeuvre. The question now is whether the UK Government can do anything at all to prevent the FTT from coming into affect.

The proposal is for both sides of the transaction to be taxed. Those who signed up to the treaty vetoed by the UK Government on the basis of this tax would benefit from a reduction in EU contributions. The UK veto has as such been rendered useless, placing the onus on the UK taxpayer to pay the tax on all transactions for member states who had signed the treaty, yet without receiving the benefit of a reduction in EU contributions.

The tax essentially allows the EU to finance itself directly from taxpayersâ€™ pocketsÂ - and yet without any recourse to a public vote. Giving the EU tax raising payers without any democratic scrutiny is utterly unacceptable and is also the final step in making the European Union a federalised super-state.

In theory the tax cannot be approved without the unanimous backing of the European Council. Surely the British vote would most steadfastly be against the introduction of the FTT. However the Parliamentary report calls for the implementation of the tax by the beginning of 2015 "even if only some member states opt for it".

Nine countries have come out in favour of the tax including Austria, Belgium, Finland, France, Germany, Greece, Italy, Portugal and Spain, with it being labelled as the main route of exit from crisis. Yet rapporteur Anni Poadimata's view that it would brung a "fairer distribution of the weight of the crisis" is utterly skewed. The majority of the weight of such a tax would be carried by the UK, and it would appear the intentions are to use the extra finances to shore up the single currency.

The FTT is not FFP

The Financial Transactions Tax is not Fit For Purpose

A report by the Institute of Economic Affairs [PDF] warns agains the dangers of a Financial Transactions Tax. In it, it is suggested that

â€¢ An FTT can be imposed with varying effects depending upon how many other governments do so at the same time. A purely EU FTT would see much trading leaving the EU, as happened to Sweden when it unilaterally imposed such a tax in the 1980s and 90s. A global tax would not have the problem of trading moving but would still have all of the other associated problems

â€¢ There would be no net revenue. While there would be revenue from the tax itself there would also be falls in revenue from other taxes. The net effect of this is that there will be less revenue in total as a result of an FTT

â€¢ The FTT simply means it would be the EU's own money to spend as they wish. The revenues from the FTT would be designated as the EUâ€™s â€˜own resourcesâ€™, that is, money which comes to the centre to be spent as of right; not, as with the current system, money begrudgingly handed over by national governments. The EU bureaucracy therefore has a strong interest in promoting such a change. Whatâ€™s in it for the rest of society is harder to spot.
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â€¢ It will be the taxpayer who carries the burdern. All taxes and any tax, means less money in the wallet of some live human being. The first and great lesson of tax incidence is that taxes on companies are not paid by companies. They are not, despite legal personality, live human beings and therefore cannot carry the ultimate burden of any tax. With the FTT the one place we know the tax cannot fall is on the banks. Banks are corporations and corporations cannot bear the burden of a tax; it has to be some human being. Some part falls upon capital, making raising capital more expensive. This, in turn will affectworkersâ€™ wages: more expensive capital leads to less of it being employed. Yet this does not mean bankers earning less: it is the workers who earn less as a result of less capital being employed. The second part is the incidence upon the users of the financial markets: a fairly obvious result of a transactions tax. Pensions would yield lower returns, partly as a result of lower share values as a result of the tax and partly as a result of paying the tax itself. The FTT would thereforeimpact upon all users of any financial instrument.
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â€¢ The loss in GDP as a result of the tax is larger than the revenues raised from the tax. The total incidence, the total lost from all pockets, is higher than revenues and thus the incidence of the tax is over 100%.
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â€¢ A transaction tax would increase, not decrease volatility. Since an FTT would decrease the size of the financial markets, prices would jump around rather more than they do at present - completely the opposite of what certain supporters of the FTT suggest.
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â€¢ The markets that do high volume, low margin tradesÂ would be affected by an FTT such as the foreign exchange (FX), futures, options and stock markets. None of these markets failed in any manner in the recent or current troubles. So the FTT doesnâ€™t even work as a way of avoiding the recent financial crash: for it taxes the things that did not cause problems and would not make much difference to those things which did.

The situtation in Greece is appalling, with drugs at an all time low as a result of deep austerity measures cutting healthcare budgets and forcing families onto the streets. The country is on the brink of a healthcare crisis, with panic spreading among high risk patients who fear they will have no access to life saving drugs. One healthcare profssional predicts that within two weeks, if the European Union does not grant Greece the loans it needs, chaos will erupt on the streets. Another healthcare worker, a cardiologist, has told the press of his horror at treating mean, women and children for sickness due to eating out of bins. A member state of the European Union is quickly degrading into scenes of a third world dictatorship.

Yet the money currently being dangled in front of Greece would not restock pharmacies.Instead it would be placed into a separate account, inacccessible by public service financiers, to simply pay off interest of Greek debt. In return for the loan, further cutrs would have to be implemented by the Greek Government - itself non-existent after dramatic election results left no one party with a big enough majority and 70% of Greek people voting for manifestos that promised an end to the crippling austerity measures.

It is without doubt a crisis situation in Greece, and the country desperately needs money. The causes of the problem, the finger pointing, the accusations of profligate waste during boom years, have been rendered vacuous. These are real people's lives. But what people must understand is taxing the banking sector is not going to directly resuce Greece. Far from it. It will line the pockets of Brussels and enable them to continue with their single currency project while using their new found security as a mallet with which to strike the Greeks into submission.Where they stand now, a Grexit could seriously harm the single currency, removing some of the might from Germany's arguments. Yet if the FTT is pushed through, Europe would be once again armed with power. And this time, not just the war-tanks of legilsation that have ridden roughshod over national interests. They would also have a constant and controlling source of income.An FTT will not reduce volatility, it will increase it. It would shrink those parts of the financial markets which did not in any manner contribute to these problems. It would increase revenue collected directly by the EU - as the Union's first tax raising power, while reducing total national revenues by shrinking the overall economy. Meanwhile those who would carry the economic burden of the FTT would be workers and consumers iplacing dependency straight back into the hands of the federalised superstate.

Over the next few days decisions made by financial and political leaders in all member states could have a profound impact on the future shape of Europe for all. With picture changing so rapidly on a daily basis, who knows what the autumn will bring.

John Bufton's blog