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Financial Transaction Tax from an Economist's Point of View

Center for Political Studies

FTT – Purposes and reality check

Stabilise markets and prevent crisis? ÷

Efficient revenue instrument? ÷

Make banks pay for financial crisis? ÷

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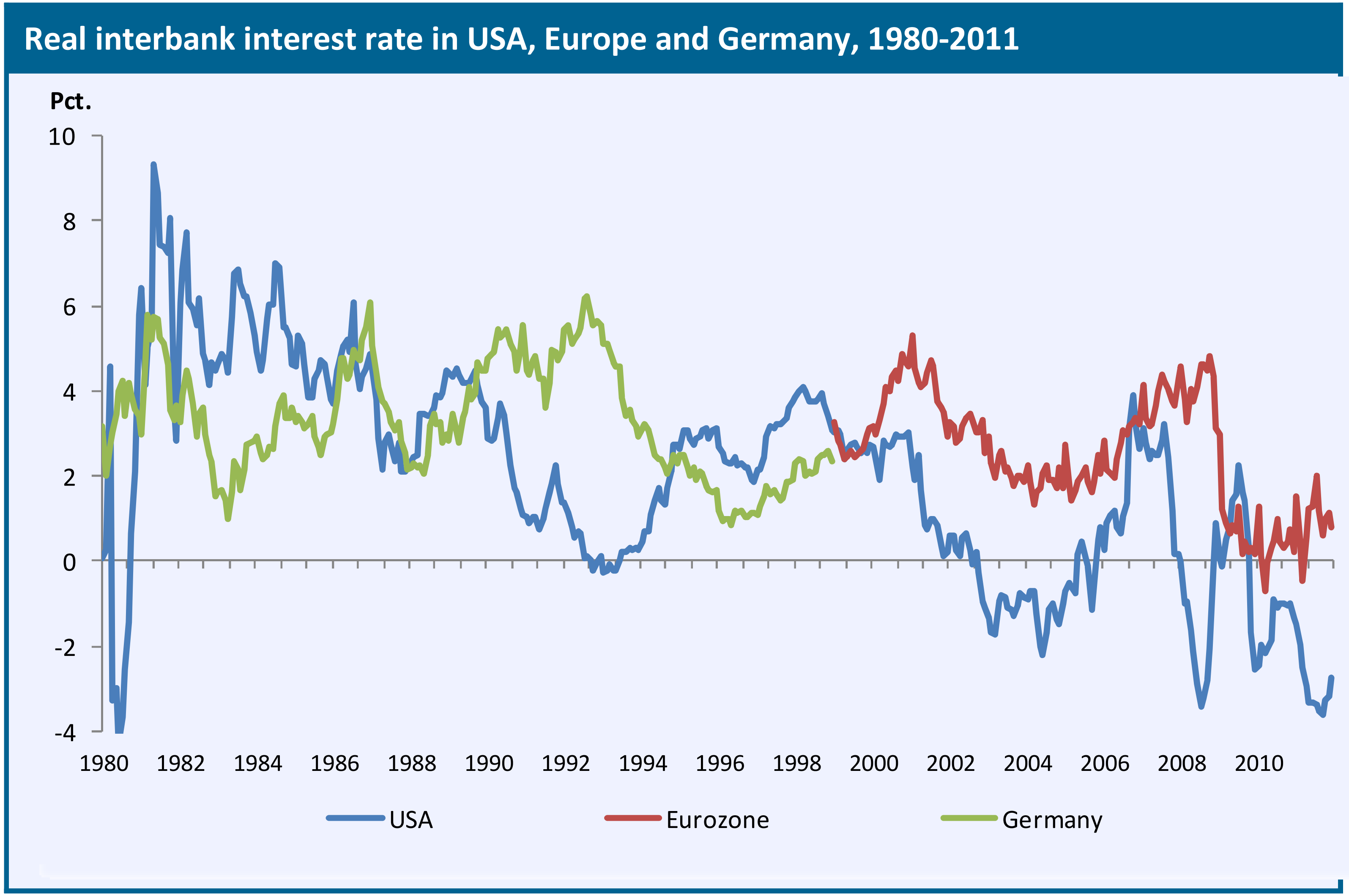
Could a FTT prevent financial crises?

Valuation of assets:

1. Risk premium
   - Access to liquidity
     - Risk assessment of assets
   - Interest rate

2. Cost of financing
   - Interest rate

Who to blame for the financial crisis?



Source: Federal Reserve Bank of New York, OECD.stat, Bureau of Labor Statistics, Deutsche Bundesbank

Will a FTT improve financial markets?

Reasons to be critical:

1) Circular reasoning in theoretical findings

2) FTT reduces stabilising trade

3) No empirical support for FTT as market stabiliser

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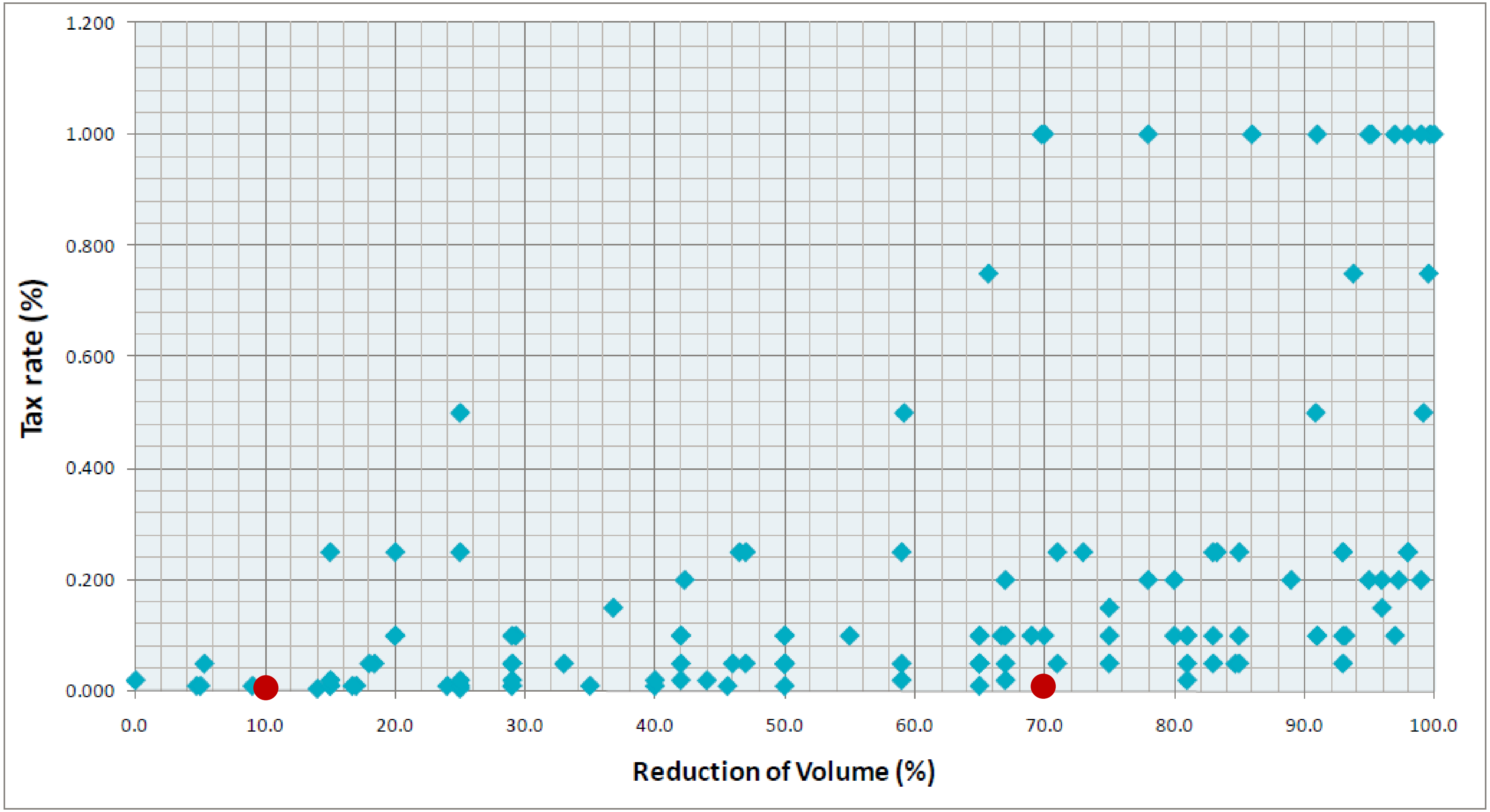
Do the researchers agree about the effects?



Source: McCulloch, N. & G. Pacillo (2011). The Tobin Tax: A Review of the Evidence, IDS Research Reports, Issue 2011 pp. 1–77.

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Could a FTT be an efficient revenue instrument?

	EC starting point
Revenue (pct. of GDP)	0,08
Growth effect (pct. of GDP)	-1,76
Wealth loss per EURO revenue	22,0

Alternative:
Proportional income tax
Danish wealth loss per EURO revenue: 0,3

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Evaluation of arguments from an economist

Is unable to prevent financial crises

May even make financial markets less stable

Affects financial markets - but no agreement on how much

Can create new tax revenue - but the cost is high

Taxes will always be borne by people – not corporations

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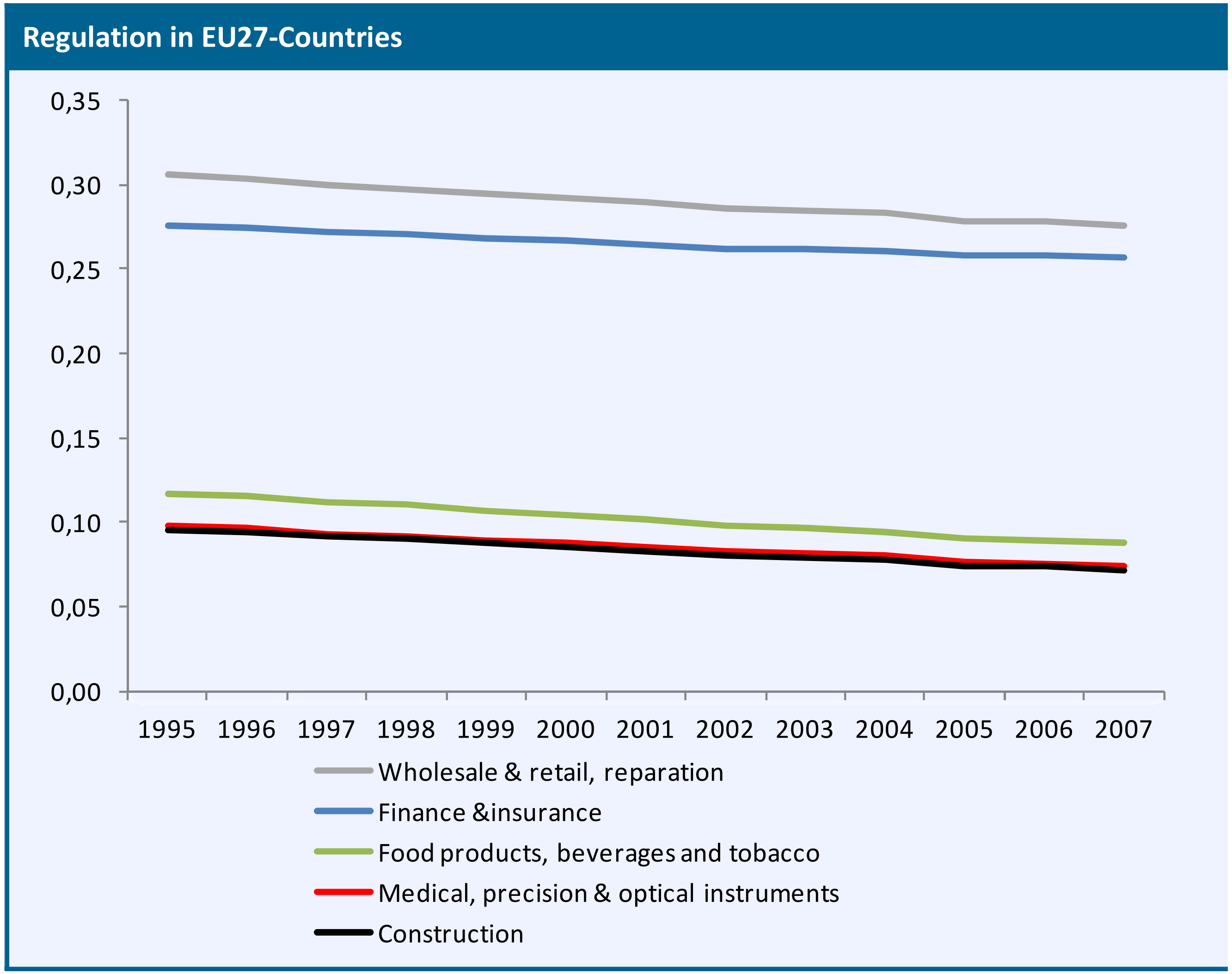
Extra: Regulation by sectors



Note: Regulation indicators for chosen industries. A higher score means that the industry is more regulated. A simple arithmetic average has been calculated for EU27-countries except Bulgaria, Cypress, Estonia, Latvia, Lithuania, Luxembourg, Malta, Romania and Slovenia as data was not available.
Source: OECD, Product Market Regulation

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