

**CEPOS**

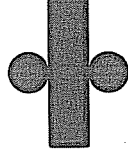
**Financial Transaction Tax  
from an Economist's Point of View**

**Center for Political Studies**

## **FTT – Purposes and reality check**

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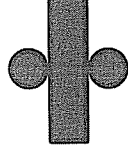
**Stabilise markets and prevent crisis?**



**Efficient revenue instrument?**



**Make banks pay for financial crisis?**



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## Could a FTT prevent financial crises?

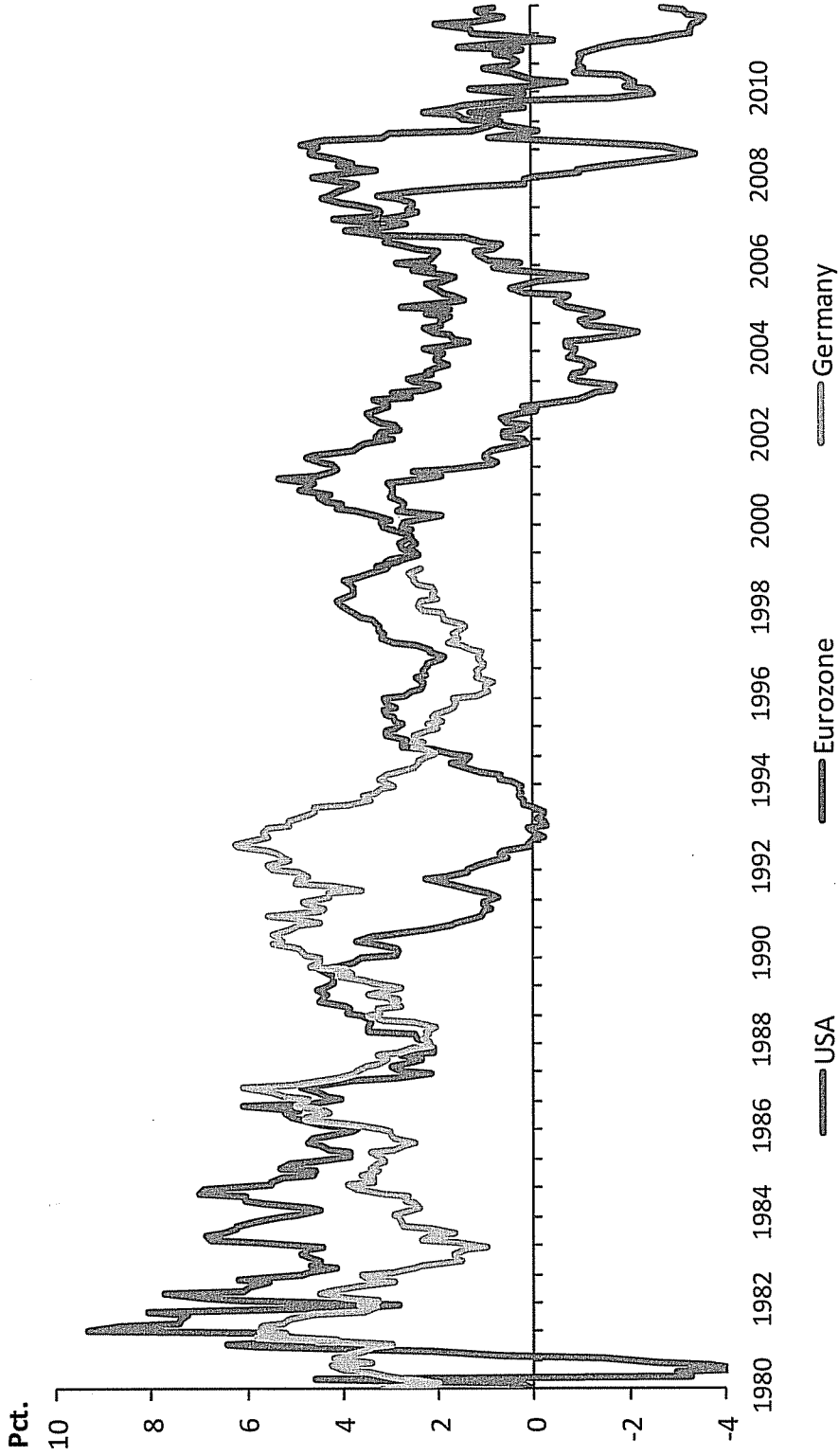
Valuation of assets:

1. Risk premium
  - Access to liquidity
  - Risk assessment of assets ↓
  - Interest rate ↓
2. Cost of financing
  - Interest rate ↓

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# Who to blame for the financial crisis?

Real interbank interest rate in USA, Europe and Germany, 1980-2011



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

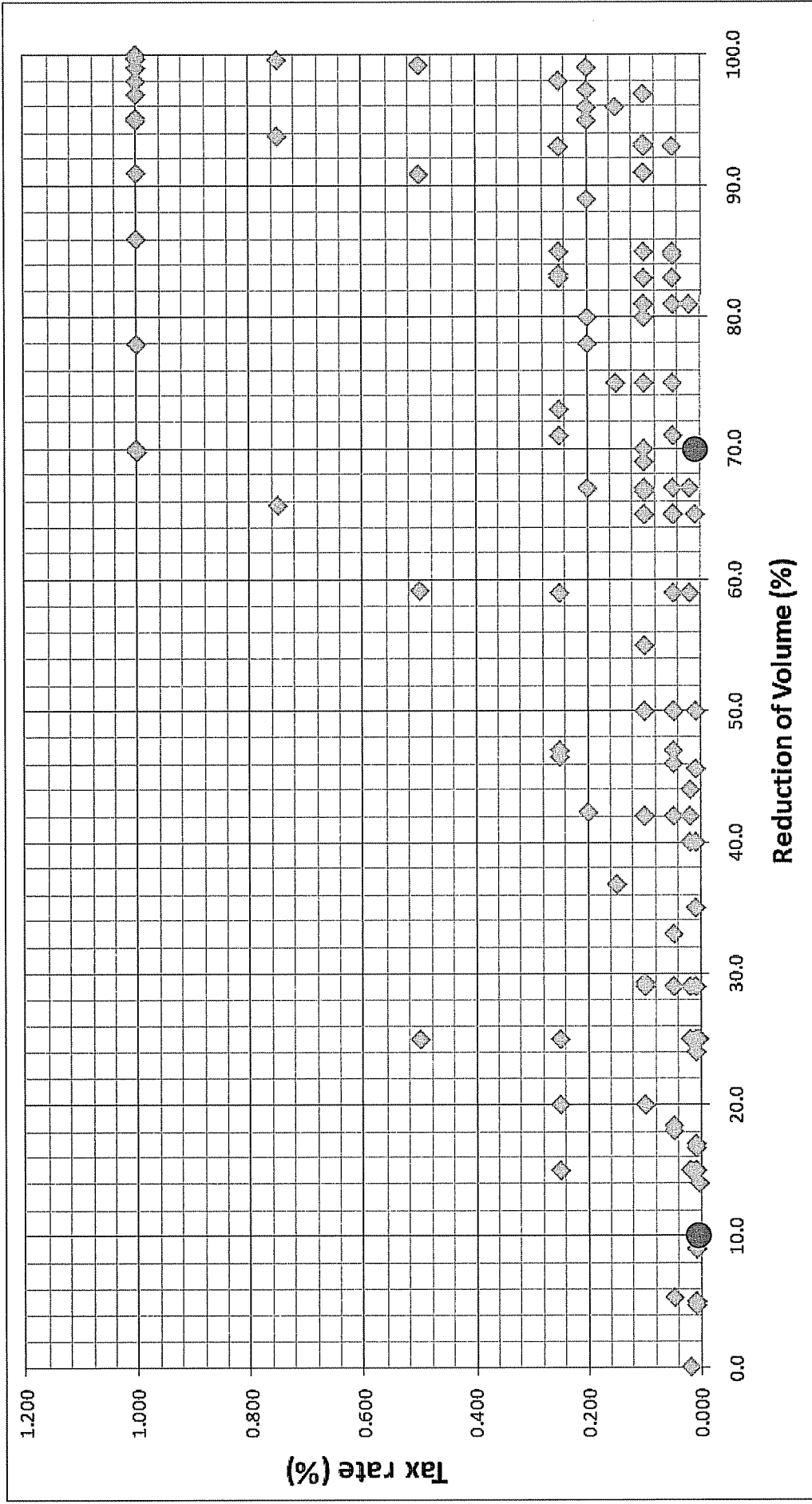
## **Will a FTT improve financial markets?**

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

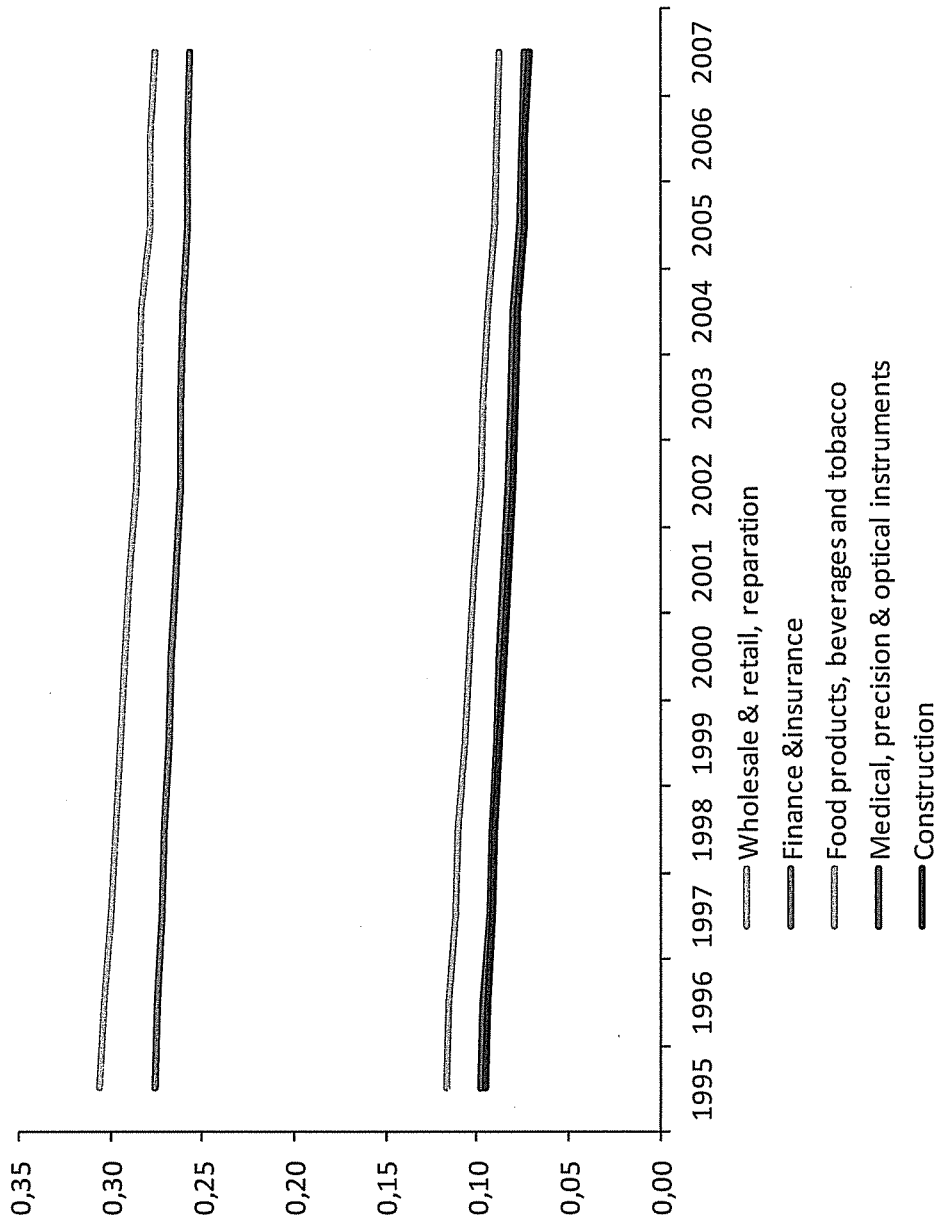
Taxes will always be borne by people – not corporations

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# Extra: Regulation by sectors

Regulation in EU27-Countries



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, Cyprus, Estonia, Latvia, Lithuania, Luxembourg, Malta, Romania and Slovenia as data was not available. Source: OECD, Product Market Regulation