

# CEPOS

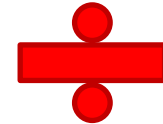
## **Financial Transaction Tax from an Economist's Point of View**

**Center for Political Studies**

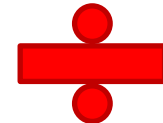
## FTT – Purposes and reality check

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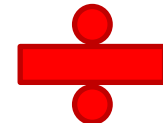
Stabilise markets and prevent crisis?



Efficient revenue instrument?



Make banks pay for financial crisis?



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# Could a FTT prevent financial crises?

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Valuation of assets:

1. Risk premium

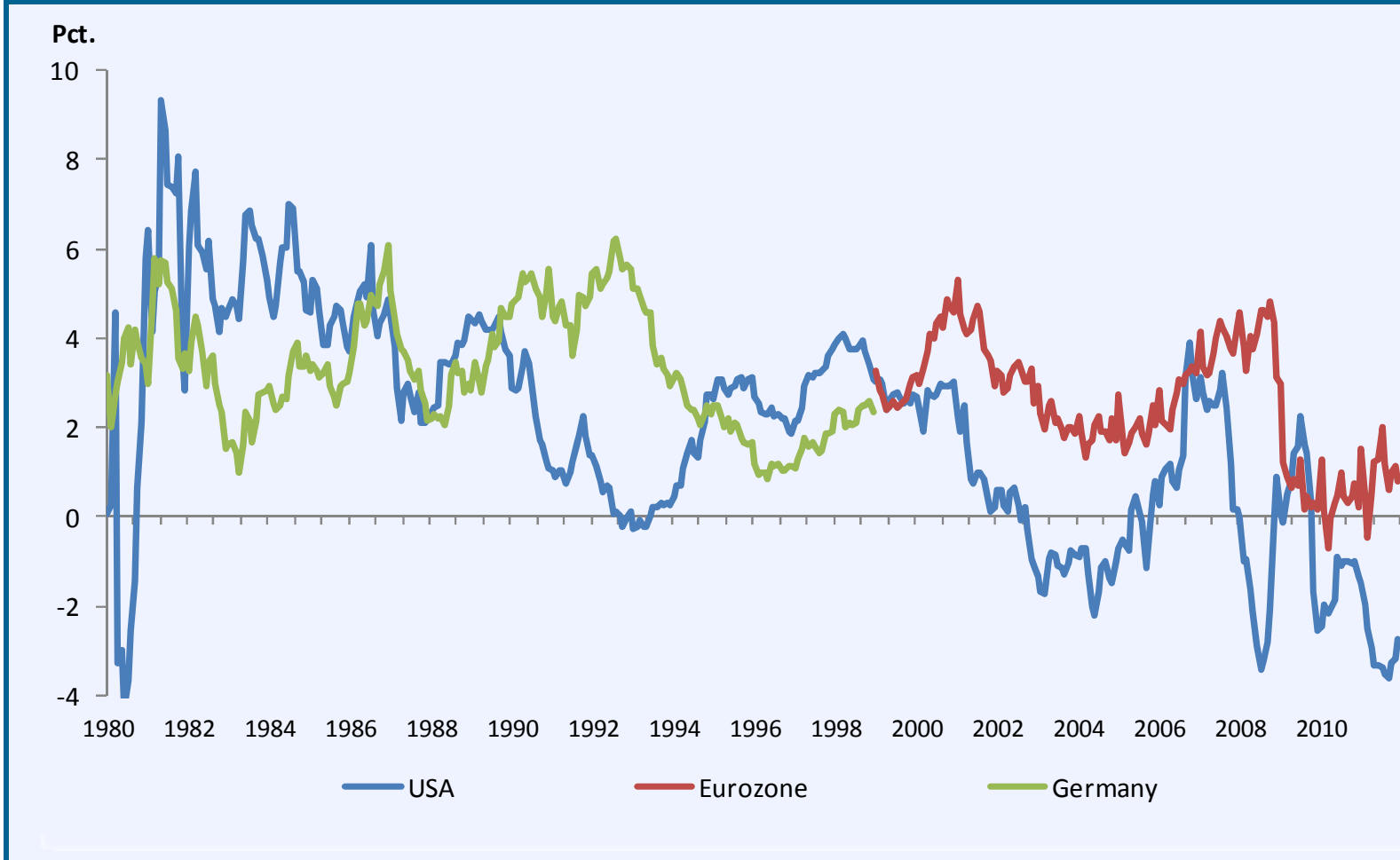
- Access to liquidity
- Risk assessment of assets 
- Interest rate 

2. Cost of financing

- Interest rate 

# Who to blame for the financial crisis?

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



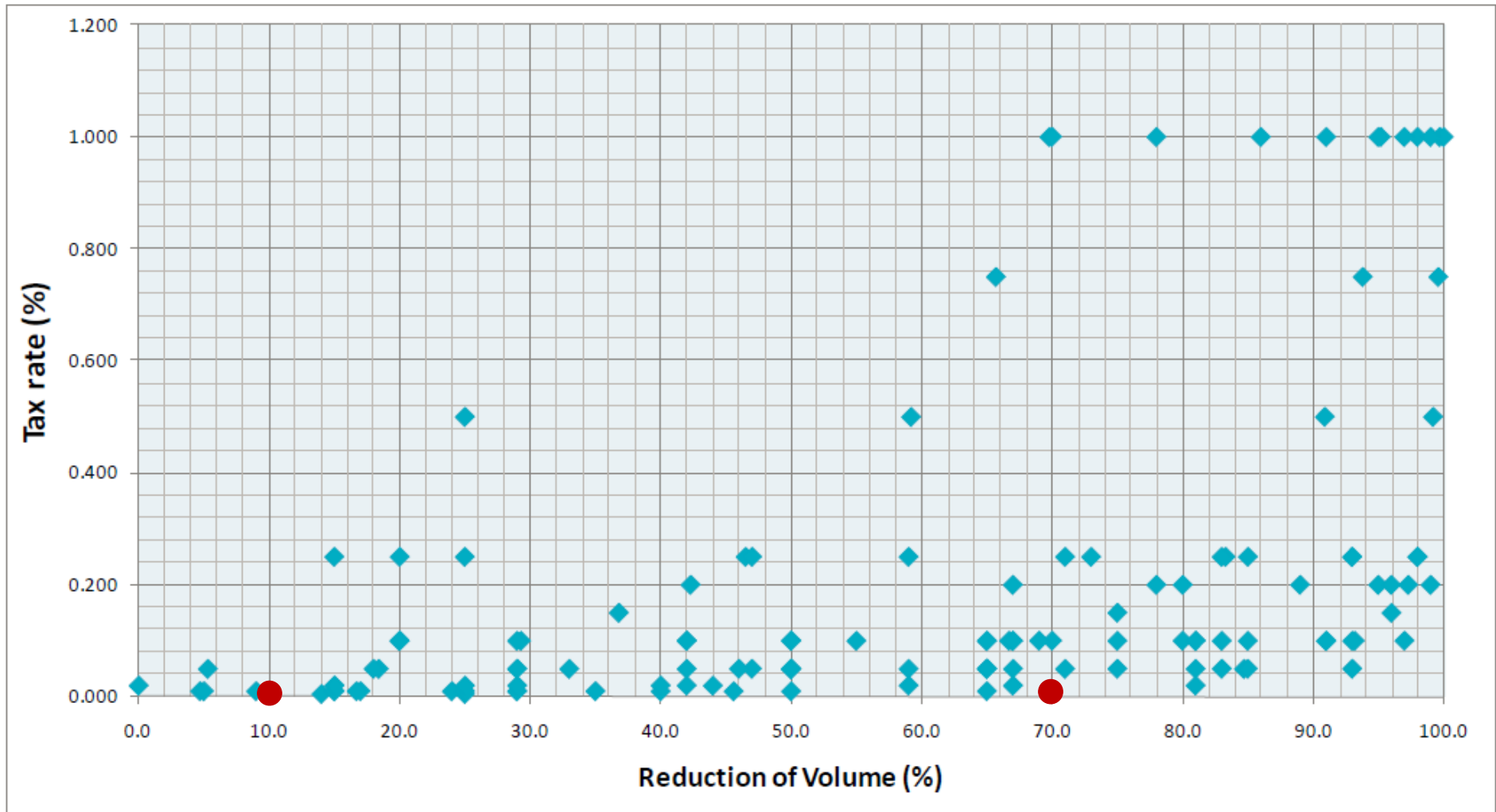
## Will a FTT improve financial markets?

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Reasons to be critical:

- 1) Circular reasoning in theoretical findings
- 2) FTT reduces stabilising trade
- 3) No empirical support for FTT as market stabiliser

# 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.

## Could a FTT be an efficient revenue instrument?

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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

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Is unable to prevent financial crises

May even make financial markets less stable

Affects financial markets - but no agreement on how much

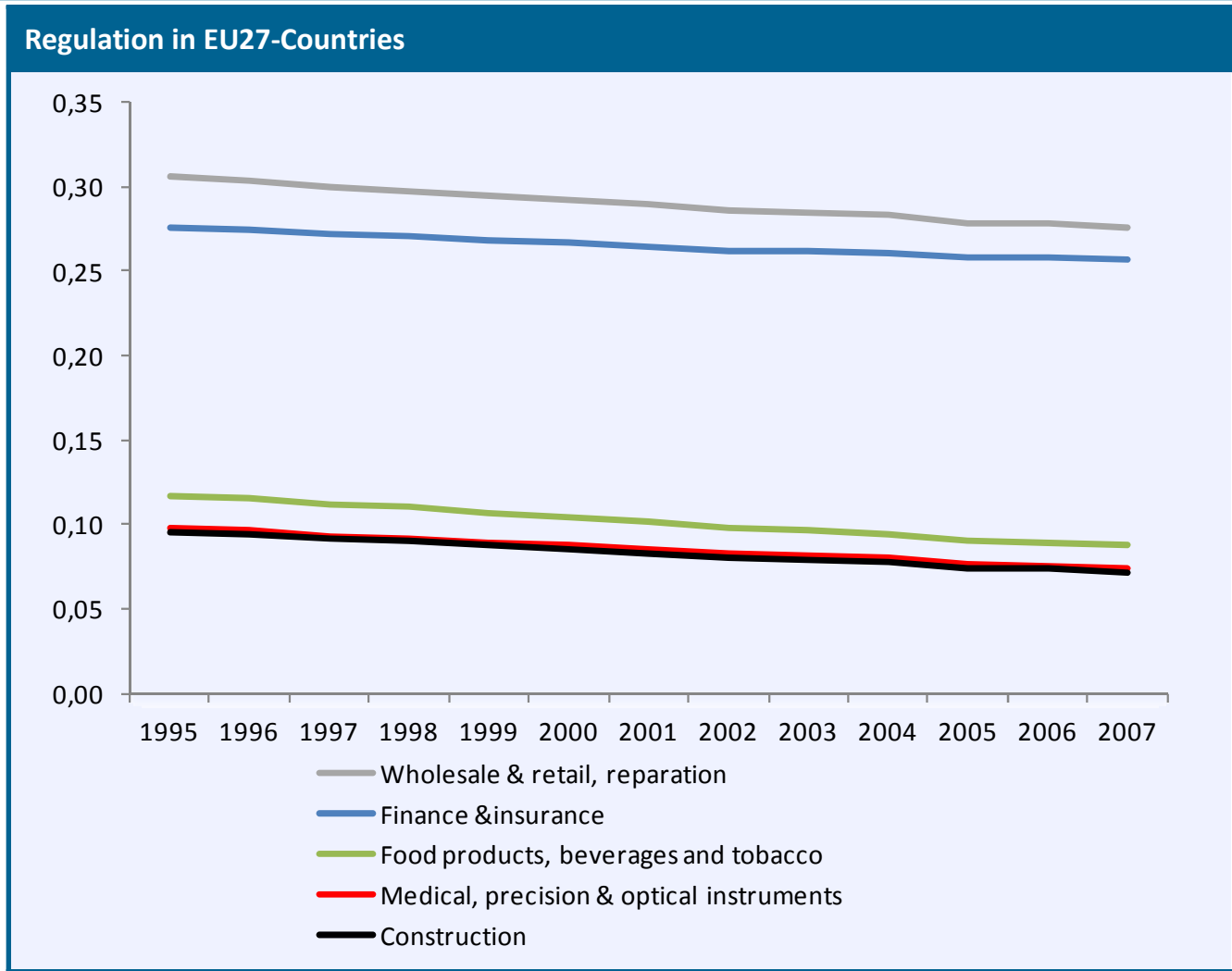
Can create new tax revenue - but the cost is high

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