



Save the Children

Financial Transactions Tax

Policy brief

The unprecedented economic recession is having serious consequences for millions of people around the world. Many of the world's poorest people - especially poor children - have been particularly severely affected. Save the Children believes that a Financial Transactions Tax is an innovative and equitable way of raising the substantial funds needed to address development goals, enable developing countries to adapt to the effects of climate change, pay off debts, and improve the state of public finances in many countries.

What's the problem?

The global recession has had a particularly severe impact on many poor children. In developing countries, reduced parental income and lower government revenues are leading to increased levels of child mortality, sickness and malnutrition, and higher drop out rates from school. This is happening at a time when the world is already way off course in relation to the Millennium Development Goals, and when climate change is making the realisation of these goals more challenging still.

Meanwhile in the UK, the percentage of children living in severe poverty is rising. The number of children living in severe poverty rose from 11% to 13% in the period from 2004 to 2008.¹

Meeting the Millennium Development Goals, tackling child poverty in the UK and helping developing countries to address the effects of climate change will require additional resources, over and above the aid pledges made by donors and the commitments made by the developing countries themselves. For example, to reduce maternal, newborn and child mortality in low income countries will require between £23 billion and £29 billion extra to be spent each year by 2015.²

What must and can be done about it?

The recession was brought about largely by the greed and reckless risk-taking of a small number of people in the financial sector, and the inability or unwillingness of governments to regulate this sector effectively. The solution must involve the financial sector too. A tax on financial transactions would both raise revenues and help to discourage volatility in the financial markets.

The economist James Tobin first proposed a tax on currency transactions in the early 1970s. He saw it primarily as a means of discouraging excessive volatility in the financial markets. In the decades since, the idea has been developed by academics, think tanks and NGOs, and the focus has shifted to its potential to raise revenue, particularly for development and poverty reduction.

More recently, as a result of the financial and economic crisis, there is a new surge of interest in the idea of a tax on currency and financial transactions, and it is winning support from major governments. The UK, French and German governments all favour some kind of tax on financial transactions. The International Monetary Fund is carrying out a study into the feasibility of different taxes to recoup the costs of the crisis and the issue is now on the agenda for the European Union and the G20 (a grouping of rich nations and international financial institutions).

How would it work?

The proposition is to impose a small tax (eg, 0.05 per cent) on the trillions of dollars that change hands each day. This would include currency, but also other types of financial trade, including the trade in derivatives that was at the centre of the financial crisis.

At a rate of 0.05 per cent, and applied globally, this could raise between £256 and £446 billion annually,³ roughly four to seven times the current level of overseas aid.

To introduce this tax globally, which is preferable though not essential, would require coordination between the major world economies. The response to the current economic and financial crisis has already increased cooperation, and the practical implementation of the tax would be less complicated than many of the actions that governments have been forced to undertake over the last eighteen months to rescue their banks and financial sectors from insolvency. Indeed, the increasing centralisation of the clearing and settlement systems within banks and foreign exchanges, and the electronic nature of financial transactions, mean that the tax would be relatively easy to collect.

Is it really feasible?

Critics of the Financial Transactions Tax idea suggest that the tax will only work if there is global agreement and that securing such agreement is highly improbable. Without global support, they say, trade will simply move to jurisdictions where the tax does not apply.

Global agreement would certainly be desirable, and this does not yet exist. But a number of influential countries – the UK, France, Germany and Brazil – have now come out in favour of the tax, and there is a growing sense of momentum behind the idea.

The position of the US is clearly important. To date, the Obama administration has supported the introduction of a levy on banks, but not a Financial Transaction Tax. However, the proposal for the tax is viewed favourably by some prominent US figures. For example, in December 2009, US Speaker of the House Nancy Pelosi referred to the idea of a Financial Transaction Tax as “a source of revenue that has, really, minimal impact on the transaction, but a tremendous impact on helping us meet our needs”.⁴

Next year’s G8 and G20 meetings will be important and shifts in the position of key governments are entirely possible. While global agreement is the ideal, we should not rule out the European Union states acting alone in introducing the tax, nor indeed unilateral action by individual countries such as the UK.

The fear that this action would trigger a flight of capital from the UK stock market is unfounded: the UK has levied a stamp duty on transactions of stocks and shares for many years now, which has raised significant amounts of tax revenue (0.7% of total tax receipts), without any obvious damage to the large UK financial sector.⁵ Many other countries have levied similar taxes, either on domestic financial transactions or capital inflows.

What should the revenues be spent on?

The resources from a Financial Transactions Tax should be spent on health, nutrition, sexual and reproductive health services and family planning, social protection, education, and climate change mitigation and adaptation, as well as on domestic anti-poverty programmes in developed countries such as the UK.

What we're calling for?

- The G8 and the G20 should agree to the early introduction of a Financial Transactions Tax.
- If it does not prove possible to secure global agreement to the Financial Transactions Tax within the next year, the Eurozone countries and the UK should introduce the tax within their own jurisdictions.
- At least half of the resources raised through a Financial Transactions Tax should be used for global public goods, including support for development and poverty reduction in the poorest countries and climate change mitigation and adaptation.
- A proportion of the resources raised should also be used for anti-poverty programmes in developed countries such as the UK.
- Resources should be allocated through existing mechanisms, rather than through new structures created to disburse the funds.
- Donors should reaffirm that resources generated by the Financial Transactions Tax are additional to their existing aid pledges and commitments, which should be honoured in full.

References

¹ Save the Children, *Measuring Severe Child Poverty in the UK*, 2010

² High Level Taskforce on International Innovative Financing for Health Systems *Constraints to Scaling Up and Costs*, Working Group 2 Technical Report: page 10, 2009

³ According to S Schulmeister, assuming that transactions would decline by roughly 65% with a 0.05% tax on all financial transactions, a Financial Transactions Tax would yield revenues equal to 1.205 % of global GDP. £446 billion is based on 2008 and 2007 global GDP (Current US\$) figures from the World Bank,. The lower range figure of £256 billion is calculated by the members of the Robin Hood Tax campaign, based on an average rate of 0.05%, but with lower rates on currency transactions and a higher tax on sales of shares and equities. <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf>

See also S Schulmeister *A General Financial Transaction Tax: A Short Cut of the Pros, the Cons and a Proposal*, WIFO Working Papers, No. 344, October 2009
[www.wifo.ac.at/www/servlet/www.upload.DownloadServlet/bdoc/WP_2009_344\\$.PDF](http://www.wifo.ac.at/www/servlet/www.upload.DownloadServlet/bdoc/WP_2009_344$.PDF)

⁴ N Pelosi Quoted in press release at <http://news.ph.msn.com/business/article.aspx?cp-documentid=3731372> 3 December 2009

⁵ S Schulmeister. op. cit.