BUSINESSEUROPE

LETTER TO FT EDITOR

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THE TOBIN TAX IS A POISONOUS MEDICINE

Sir, John Plender's suggestion (Insight, 28th September) that a Tobin tax would benefit long-term investors ignores the fundamental question of the overall impact of such a tax on European growth and competitiveness. As your report on page 3 notes, a Financial Transactions Tax (FTT) risks driving business away from the EU and raising the cost of capital at a time when Europe desperately needs policies to focus on jobs and growth.

The financial crisis has rightly led to a reassessment of the relationship between financial institutions and public authorities. Banks are already responding to more stringent supervision and prudential regulation which seek to address previous weaknesses. The global financial system is currently in a period of high stress in addressing many challenges, including raising $1.3 trillion of new capital, according to the Institute of International Finance.

What is most surprising is that the European Commission, in its paper last autumn considering the different options to tax the Financial Sector has already noted that that a FTT would ultimately be passed onto clients and a tax '*would increase the cost of capital for governments and companies*'. IMF research shows that a 0.1% transaction tax on a security held for a year increases the cost of capital by the same amount, if held for 6 months the cost would be 0.2%.

Moreover, with the introduction of a transaction tax, transactions are likely to shift to less regulated areas. As well as the direct impact on growth and jobs of the loss of activity within the EU, this may potentially lead to counterproductive outcomes in terms of decreased global financial stability. The Commission's own impact assessment assumes a decrease in trading volumes for some products as a result of the tax of between 70% and 90%, contributing to a long-term reduction in GDP of 1.76% and a loss of almost half a million jobs.

The Swedish experiment in the late 1980's serves as a good example. The revenue was expected to amount 1,500 million kronor per year, and it finally did not amount to more than 80 million kronor on any given year. It was a complete disaster and only resulted in a market shift from Stockholm to London and New York. Fortunately, the tax was quickly removed, although much of the trade never returned. The pros and cons of the Tobin tax have been discussed for nearly 40 years. The time has come to put it to rest and move on to genuinely sound economic policies.

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