NEXT ECONOMY

FTT - Financial industry groups highlight the societal costs of the proposed tax reform.

HOW THE FINANCIAL INDUSTRY MOBILISED AGAINST THE EUROPEAN FINANCIAL TRANSACTION TAX

by Lisa Kastner

Despite broad post-crisis support in Europe for a financial transaction tax, the financial industry successfully lobbied to water down proposals and delay its implementation.

2017 should be the year when the much-delayed and watered down European Financial Transaction Tax (FTT) is finally implemented – but this is looking increasingly unlikely.

After the 2008 financial crisis, a broad public coalition of civil society organisations, trade unions and some EU member states' governments was in favour of making the financial sector pay its fair share towards the economic recovery. In 2011 the EU Commission brought forward an ambitious and broad-based proposal for an FTT that would place a small levy on the transactions of financial institutions and thus raise tens of billions of euros each year. But six years on, the tax that may finally be implemented resembles a narrow tax with considerable exemptions for various financial instruments. How did this happen?

Highlighting undesirable societal costs

One effect of the increased public attention about financial sector reform post-2008 was that opponents of an FTT were reticent about making a public case opposing the tax outright in the early phases of the policy process when the memory of the crisis was still fresh. Yet despite chances of legislative success for an FTT being greatly improved after a second Commission proposal in February 2013, public interest slowly starting to fade and financial industry groups started to actively push back, launching a concerted attack against the FTT from March to June 2013. Industry representatives went public with warnings about the potentially harmful economic implications of the proposed reform and of societal costs. In early 2013, Goldman Sachs, Deutsche Bank, Citigroup, Morgan Stanley and their lobbying associations (the International Banking Federation and the European Fund and Asset Management Association) published a range of research reports presenting empirical evidence against an FTT. In its research report 'Financial Transaction Tax: how severe?', published in May 2013, Goldman Sachs claimed that the proposed FTT would lead to a massive tax burden for the banking sector, amounting to €170 billion. The report further claimed that 'the burden of the FTT would fall on retail investors'.

Financial industry groups were also careful to highlight the undesirable societal costs of the proposed tax reform. When arguing for exemptions from the scope of the tax, industry groups typically argued that the inclusion of certain financial instruments within the scope of the tax would lead to liquidity problems with detrimental consequences for the wider economy. In a research report from March 2013, Deutsche Bank stated its opposition to the proposed tax, presenting evidence that the FTT would raise the cost of capital 'for households, firms and even states' and therefore 'hurt the real economy'. Several more studies, press releases and commentaries in major newspapers including the Financial Times and Bloomberg Business brought arguments and evidence forward against the FTT.

Building coalitions with corporate actors

With their expertise and credibility discredited by the crisis, industry groups had to choose their coalition partners wisely, in order to be able to make convincing counter-arguments to the proposed policy reforms. Policymakers were not eager to publicly support the finance industry's arguments opposing regulatory reform, but they equally shied away from publicly supporting regulatory reforms that could be seen to negatively affect corporate activity and economic growth. So, in an effort to leverage their political influence, financial industry groups also tried to tie their interests to those of other private sector groups indirectly affected by the introduction of an FTT. These included a significant number of corporate actors who actively mobilised against the introduction of an FTT. In May 2013, German multinational companies including Bayer and Siemens voiced their opposition to the proposed FTT, highlighting its damaging effects for companies and the export-oriented German economy.

After the sustained range of public and private reports and lobbying by the financial industry had shed considerable doubt on the desirability of the tax, political support faded. In May 2014, German finance minister Wolfgang Schäuble declared that the options, interests and situation of the various participants were so divergent that states should start by introducing a limited taxation of shares and some derivatives. The industry's lobbying strategy using the high public concern about the FTT to their advantage had clearly paid off.

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