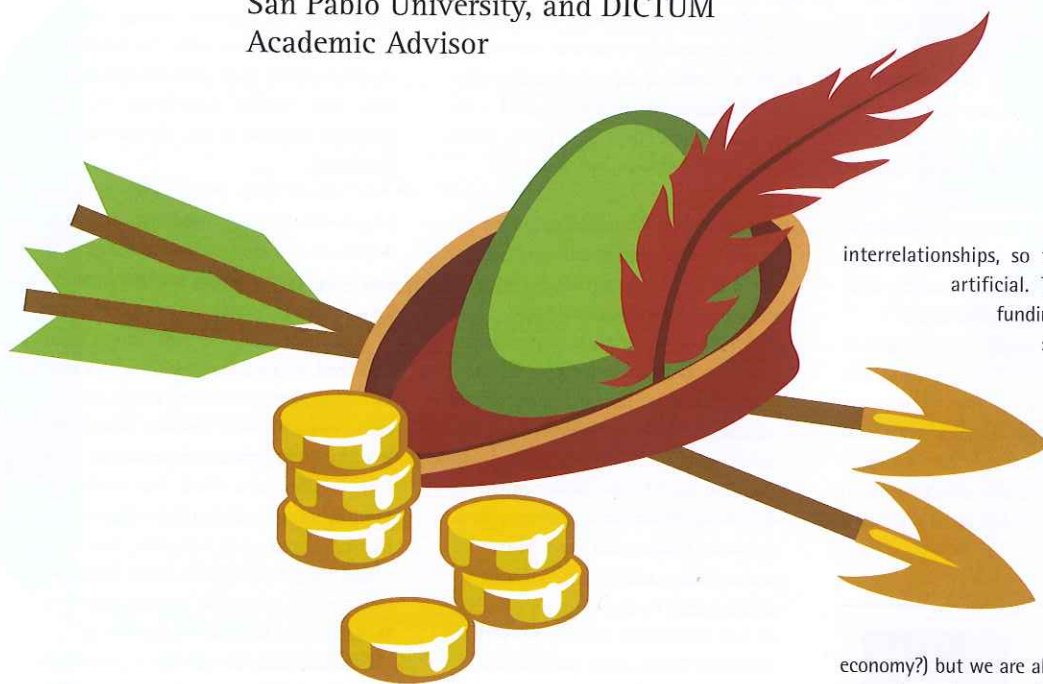


What's Behind the Tobin or 'Robin Hood' Tax Rate?

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James Tobin, winner of the 1981 Nobel Prize in Economics, bluntly stated that "the proliferation of financial operations does not always perform a task more economically but inflates the quantity and variety of financial exchanges, operations that circumvent a regulation and obtain private gain without the equivalency of social benefit". Specifically, this American academic initially proposed a tax to be levied on currency movements with the purpose of discouraging speculation based on exchange rate variations - hence originating the Tobin Tax concept.

His theory was reasonable, pointing to the eternal debate between separation and hypergrowth in the financial economy in comparison to the real economy, although this is for many debatable, since the economy is an 'all-in-one' with its multiple

interrelationships, so that segmentation may be decidedly artificial. There is no real product without the funding to produce it and without a financial system that provides and channels the same, because whichever way one looks at it, the economy is a social science of imperfectly defined profiles, with clear social and political components. To use a common example: an important football match can be considered economically viable as a 'service-spectacle', without manufacturing and creating anything (is this a real economy?) but we are all aware of the amount of revenue it can generate, and we can also discuss at length whether each player or human asset, humanly intangible in itself and in its risk, can top the equivalent value of the cost of each transfer (is it now a financial economy?).

Under the Tobin approach, in practice, several countries have proposed and tested various tax modalities on financial transactions during this decade. The European Commission approved the proposal for a Council Directive 2011/0261 relative to a common tax system on financial transactions and in the preamble it points to the financial sector as 'culpable' of the conscious planning of the economic and financial crisis that began in 2007 and that we are still suffering, holding that sector accountable for the high cost that its bailout has meant for the public.

At this point, citizens, (the true contributors to the economic wellbeing of countries), are fed with the idea that the unscrupulous banking system is to blame for the financial crisis; as



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if the saintly and enlightened politicians and supervisors had undertaken the task of protecting their tax payers (citizens) through the appropriate control of the financial system. As well as the European behemoth that lacks the appropriate mechanisms of prevention there are the recourse and powers assumed by the no less important and pompous behemoths of European institutions and the young and hungry autonomous and local leviathans. Over the past few decades they have exponentially increased the number of public employees (the best due to their high qualifications, although the majority of jobs were granted through cronyism) for the optimum control and quality of the operation of a huge and costly administration that still continues to grow and threatens to engulf everything in its path. This is at the disposal of a political breed that is increasingly isolated from its public and which calls for its citizens to make sacrifices, and that simply is set up as a mere 'votocracy'. An important part of this so-called 'extractive elite' is set up in that manner, as Jose Ramon Pin Arboledas recently stated in the financial press: "...it extracts from society more resources than corresponds to its value contribution".

This type of rate exists or has existed in other countries, generally known as FTT, Financial Transaction Tax (Venezuela, Mexico and other non-European countries) imposed by the state on financial institutions, but that also affect clients in diverse operations. It acts as an additional

cost to the end client in the same manner that an increase of VAT is experienced with outrage but with no choice in the matter except to submit to the will of each political legislation (every four years on average we can vote so that our representatives develop -with greater or lesser wisdom - the actions that the ruling party pledges or decides to keep under wraps).

In this debatable and heated context provoked by the crisis, a broad consensus has been reached within the European Union on the desirability of the financial sector contributing explicitly to cover the costs that their malpractice generate, taking into account VAT exemption on products and financial operations. And given that some states initiated divergent actions in this regard, the EU has sought to bring in a common treatment which may be more consistent as an internal market. This is *Transacciones Financieras (ITF)* or the *Financial Transaction Tax (FTT)*, which includes the following main features:

- 1) It is limited to financial institutions acting as employed or self-employed persons, excluding transactions with the central banks and national banks.
- 2) The residence principle is implemented (taxation in the Member State for the establishment of financial operators, regardless of where the transaction takes place).
- 3) Reduced tax rates are implemented: 0.01 % for derivative instruments and 0.1 % for equities and fixed income instruments; excluding transactions in primary security and currency markets, as well as financial transactions with the European Central Bank and national central banks. It would be applied in this manner, approximately at 85% of the financial transactions.

However, as with all taxation, it introduces a distortion that, in this case, would result in an increase of transaction costs and a repercussion of the same (directly or indirectly) on end clients (the aforementioned contributors or citizens, as well as banks and financial institutions without society being overly encumbered). This has been coupled with the loss of competitiveness of the European financial industry in favour of other global financial venues (or those closest to London) that would not be affected by this regime.

The proposed rate would be applied individually to each transaction, which would imply that if you cannot apply an intermediate exemption, the effect would be very significant as the operations become more complex, being also applied to all material modifications of each contract, in such a way that variations of the same actual operation would generate several successive bases, i.e., generate an unprecedented taxation cascading effect.

In order to reassure us, legislators inform us that the negative impact on the European Union GDP would be no more than 0.5% in the long term; and in return, they offer us great revenue estimates from this tax collection, around €80e,000m, which would be enough to turn around the budget deficit of the Union and its Member States and to enlighten their rulers with the brightness of the coveted euro and the possibility that this would contribute to the incessant appetite of the aforementioned leviathans.

In short, this noble and sublime argument-although populist, is to distribute the money from the rich and dastardly, as the exploits of Robin Hood demonstrated. It really sounds great to all of us; especially as we have been sensitised by the dubious actions of a long list of financial institutions, which are now being asked to make gestures and efforts to make up for past misdemeanours.

It is also true that the tool and mechanism of implementation appears to be viable and even harmless, but I am afraid that the jingle of coins from this bulging tax collection sounds better to those who are to benefit most from it.

Taxation rates are always a distortion and although the pros and cons argue the feasibility of their implementation and positive net effect, it should ensure that its application will be staggered over a period of time to mitigate its impact; that it is effective; and above all, that it clearly states the amount collected and how it is applied with efficiency and effectiveness in the true interests of society, in accordance with what all of us should expect. If it only partially serves to fatten the hungry leviathans and prevent the deficit from soaring, it is best that it is valued properly beforehand and audited later. As always, the economy requires fairness and efficiency, and in this case, it is not just a tax collection effort. □

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