# A well designed Europe-wide financial transactions tax could be a powerful source of revenue for the EU budget

Mar 31 2012

*What would be the implications of a financial transactions tax in Europe? While the French argue such a tax would help stabilize the debt crisis, the British believe that the instrument would prompt an exodus of financial activity to other parts of the world.* **Iain Begg** *argues that the latter argument may not hold, and that the tax could become a source of revenue for governments if introduced as a 'tax for Europe'.*

There has been much debate in recent months about a financial transactions tax (FTT), with some Member States, notably France, very keen to see its introduction, while others are more sceptical. Given the prominence of the City of London in its economy, the UK, not surprisingly, is opposed to the introduction of such a tax in the European Union because of fears that it would prompt an exodus of financial activity to other parts of the world. For the UK, the argument is that unless a global FTT (which it claims to support) can be introduced, imposing such a tax unilaterally in Europe would be tantamount to an own goal.

Separately, the European Commission has proposed the introduction of an FTT as a new own resource for the European budget. The rationale offered in the communication *A Budget for Europe 2020*, presenting proposals for 2014-20 and released last June, is that 'the time has come to start re-aligning EU financing with the principles of autonomy, transparency and fairness'. In a Commission background paper, a justification offered for the choice of FTT is that it would be popular 'which could facilitate its acceptance' and would be likely to be supported in the European Parliament. It is also argued that it would open up a new revenue stream, easing the burden on national public finances – a somewhat disingenuous assertion.

Three distinct questions arise in these debates:

- Can Europe go it alone on an FTT?
- Should new resources be used to finance the EU budget and;
- If so, is an FTT a suitable resource?

Recent research suggests that contrary to some fears, the fact that so many financial transactions go through electronic trading platforms means that they can be 'captured', reducing the likelihood of avoidance. Consequently, a tentative answer to the first question is that if it is well-designed and not set at too high rate, an FTT could work if imposed only in Europe.

The case for new EU own resources is one that is made time and again, yet has repeatedly been rejected by the European Council when it has to decide. Instead, the EU is financed largely by national contributions. Arguments abound about the strengths and weaknesses of the system that is in place, although its one unassailable virtue is that it ensures the EU has the revenue it needs to finance its expenditure. Equally, there are several options for EU taxes or revenues that would be perfectly serviceable. However, none is ideal and it is important to recognise that many criteria affect the choice. Alternative financing systems affect fairness, economic efficiency and differ in relation to a number of other effects, so that the underlying question becomes: what attributes do EU citizens and decision-makers want an EU tax to possess?

These are discussed at length in a paper I have had published by the Friedrich Ebert Stiftung. Among its conclusions is that although an FTT might work well enough for Europe as a whole, it would not be a good choice as a 'tax for Europe', principally because it would have too uneven an incidence across Member States. Germany and, above all, the UK would bear a disproportionate share of the cost…

*A more comprehensive report on the implications of the FTT is published here.*

*This article first appeared on* Budget in Perspective.

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Iain Begg is a Professorial Research Fellow at the LSE European Institute. His main research work is on the political economy of European integration and EU economic governance. He has directed and participated in a series of research projects on different facets of EU policy and his current projects include studies on the governance of EU economic and social policy, the EU's Lisbon strategy, the social impact of globalisation and reform of the EU budget. Other recent research projects include work on policy co-ordination under EMU and cohesion policy.

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