

Bank levies – tapping up the banks in the name of aid? A round-table discussion on new ways to fund development, with Neil McCulloch (Institute of Development Studies, Sussex), Chris Wales (FTI Consulting), Stéphane Voisin (Credit Agricole Chevreux), Sony Kapoor (Re-Define) and Mark Napier (Citi/DfID Development Fellow).

Held at on Tuesday, June 15, 2010, from 12:30-2:15pm at Watermen's Hall, 16-18 St Mary at Hill, London, EC3R 8EF.

Citi/DfID Development Fellowship Series

The round-table began with a reminder that James Tobin envisioned the use of the tax named after him as a frictional barrier to high speed trading and not as a means of raising revenue. It was also noted that James Tobin had once spoken at a CSFI round-table on that very subject in the CSFI's early days.

That said, one speaker pointed out that Tobin and Financial Transactions Taxes (FTT) had remained dear to many development economists but outside that circle many regarded them as, simply put, daft. To date, however, the debate had not been based on evidence and what one of the speakers had tried to do was to subject the tax proposals to the rigours of academic research. The speaker noted that he had found a number of surprises in the course of his research.

On the issue of reducing volatility (the initial motivation behind Tobin's proposals), most academic studies had concluded that the Tobin tax would smooth markets. However, the empirical evidence in the speaker's recent research actually supported those who were opposed to the taxes and indicated that increased transaction costs would not dampen volatility and could, in certain circumstances, lead to greater volatility. Other members of the panel, however, clearly felt that volatility would decrease following the introduction of new taxes.

On the issue of implementation, the speaker's research indicated that the taxes would not be overly difficult to implement, as had often been assumed. Given the increased centralisation of settlement, the use of such taxes had become more feasible. There were other questions to be answered regarding the effects of possible substitution (or re-engineering of products) and possible migration (moving to different markets), that would be highly dependent on the level of taxation proposed.

One panellist highlighted the Swedish case as an example of how not to implement FTTs and suggested that a large portion (30-50%) of trade had moved to London after the imposition of a tax on equity transactions. Another panellist noted that a small tax was unlikely to lead to large scale migration. One of the speakers felt that although it may be theoretically possible to implement FTTs, it would be mad to do so, particularly without international cooperation.

One speaker noted that estimates of the potential revenue that could be raised (which had been the emphasis of the Robin Hood Tax Campaign) varied greatly in the literature and, of course, depended on the markets and the instruments that were being looked at and on assumptions about changes in the post tax trading volumes. One study conducted by a panellist indicated, to his surprise, that many previous estimates had been quite conservative. His study showed that a .005% tax (applied to spot, outright forward and swap foreign exchange markets) could raise £7.5 billion if applied just in the UK. A broader financial transaction tax of around 10% had the potential to raise around £93 billion— significant sums.

Another important issue raised was the incidence of the tax, ultimately who would pay and would the costs simply be passed on to consumers. . One speaker felt that the literature on this question had been found wanting. The IMF, in its recent study, had not provided clear evidence on this issue. One might assume, however, given assumptions about the distribution of capital (being more unequal than income) that the tax would be largely progressive. Greater competition in the market, felt one speaker, would make it less possible to pass the cost of the tax onto the end user. One of the attendees, however, felt that the cost of the tax would filter down to the investor (and on downwards) and felt that it wouldn't have the desired impact (referring to UK Stamp Duty). She also noted that if the tax were too high, the impact would be too large and if were too small there would be no impact on behaviour.

One member of the panel also felt that depending on your objectives – raising revenue, addressing systemic risk or shrinking the financial services sector – that there may well be other, more suitable taxes that could be adopted. Systemic risk would be best addressed via changes in capital requirements, claimed another panellist and indicated that the revenue raised from new financial transaction taxes would be most likely be used to deal with large national deficits.

Another panellist felt that a flexible transaction tax regime [dash]applied at different rates across different regions [dash] could be implemented and that they could be viewed as a complement to the bank based regulatory changes being considered. FTTs, as in China, could be used to 'lean against the wind'.

One speaker felt that too much attention had been paid to the potential uses of the tax revenue rather than the design. Tobin taxes and FTTs were, at the end of the day, still taxes and he felt that the rationale for the tax proposals remained unclear (sand in the wheels, funding for development etc). He also expressed concern that the argument often started in the wrong place – with an emphasis on the amount that could be raised rather than an analysis of what tax capacity was available. Tax revenues were not free money and one had bear in mind that revenue would be coming 'out' of somewhere and give due consideration to the economic consequences of taxation.

The speaker also pointed to what he felt would be the high administrative costs of implementing FTTs, which would require new administrative systems. He felt that there were simpler ways of raising more money for development rather than inventing new taxes. One attendee claimed that a more straightforward and effective way to subsidise the developing world would be with direct transfers from the treasury, without the associated cost of collections and administration.

However, another panellist noted the positive impact the new administrative infrastructure required for taxing financial instruments had had elsewhere. In Brazil, for example, the information gathered from implementing FTTs was used to chase up tax avoiders and the speaker noted that it was a good tax for generating information.

The round-table ended with a brief discussion of why the financial sector should be expected to pay more towards development. One attendee felt that given the size of the financial sector that it was quite fair to expect it to pay more. It was noted that the financial crisis had resulted in a fiscal crisis that had seen a fall in spending on development. The poor in developing countries had suffered disproportionately as a result and that was the basis of the moral case for the financial sector to pay more.