



Financial Transactions Taxes and the Global South

FREQUENTLY ASKED QUESTIONS

1. What is a financial transactions tax (FTT)?

A very small tax on each trade of stocks, derivatives, currency, and other financial instruments. Such taxes have a dual goal of raising massive revenues for urgent needs while discouraging the type of short-term financial speculation that has little social value but poses high risks to the economy.

2. Would developing countries need to adopt FTTs for them to be effective?

No. While international coordination would be ideal, FTTs could achieve desired goals if introduced in the world's key financial centers or unilaterally. According to an [International Monetary Fund report](#) to the G-20, unilateral transactions taxes, "even if levied on fairly narrow bases, are certainly feasible as witnessed by their use in numerous developed countries."¹ In fact, according to a follow-up [IMF](#) technical paper, most G-20 countries, including Brazil, India, and South Africa, have already implemented some form of FTT.²

3. How would financial transactions taxes benefit developing countries?

Revenue generation: FTTs are one of the few available options that could generate the enormous financial resources required to pay for the continuing costs of the global financial and economic crisis, including reducing the high rate of job loss, and to achieve key development, health, education and climate change objectives in developing countries. This new financing is required in addition to official development assistance in order to meet the Millennium Development Goals. The exact amounts generated will depend on the design of the taxes, including what instruments are taxed and at what rate, as well as the response of investors. A [European Parliament report](#) suggests that a broad-based, low-rate FTT of 0.01% - 0.05% could generate revenues of nearly €200 billion a year at the EU level and \$650 billion at the global level.³

Financial stability: FTTs would not have prevented the financial crisis that originated in the United States and spread to the rest of the world. However, they are one tool for curbing the reckless behavior that drove the global economy into crisis, with devastating effects on the most vulnerable. Moreover, some forms of FTTs can be helpful in addressing foreign speculative investments into developing country markets. Take for example the case of Brazil, where these inflows have led to inflated currency that the government has sought to curb with a form of FTT (a tax on securities purchases by non-residents).

4. Would FTTs result in diminished FDI flows to the global South?

No. In fact, FTTs could actually encourage more long-term, productive foreign direct investment. FTTs make investments more costly the shorter the time horizon. Thus, they could raise the cost of highly leveraged derivatives trading, currency speculation, and stock-flipping enough to discourage excessive short-term financial activity, while making long-term investment more appealing.

5. Would FTTs affect migrant remittances to developing countries?

No. In a July 2010 [report](#), a group of international finance experts explained that a tax on currency transactions would hardly be noticed by those who send remittances to their home countries. They offered the example of a 0.005% tax on such transactions, which would amount to a tax of just 5 cents on a \$1,000 transfer. And this assumes the entire cost of the tax would be passed on to the retail customer, which, they say, is unlikely. Their report was commissioned by the Leading Group on Innovative Financing for Development, comprised of 60 national governments.⁴

6. Would banks and other financial institutions pass the cost of the FTT on to the poor?

The poor, whether in the global South or North, are highly unlikely to be engaging in the high-speed speculative trading activities that are the target of these taxes. Regarding concerns that banks would pass on the cost to the poor indirectly by raising fees on financial services, such as ATM withdrawals, loans, or checking accounts, the proper way to address such concerns is through responsible consumer protection regulations.

7. Are FTTs feasible?

Yes. Technological advancements have made such tax collection much easier than it would've been even a dozen years ago. In the [June 2010 report](#) for the G-20, the IMF confirmed the administrative feasibility of FTTs. The IMF [technical paper](#) which pointed out that most G-20 countries have already implemented some form of transaction tax also offered useful information on how to design the taxes to make them most effective. The paper also confirmed that such taxes can generate substantial revenues. The tax collection can be done by existing national or regional authorities, with no new supra-national institutions.

8. Who supports financial transactions taxes?

There is particularly strong support in Europe, including the leaders of France and Germany. On March 8, 2011, the [European Parliament voted 360-299](#) in favor of introducing financial transactions taxes at the European Union level. Meanwhile, French President Nicolas Sarkozy, current chair of the G-20, is continuing to push the FTT in that body. Among civil society, there is a strong and growing international campaign. On February 17, 2011, labor, environmental, development, and other groups in 25 countries carried out a [Global Day of Action in Support of Financial Transactions Taxes](#). However, the call for the world's largest financial centers to adopt FTTs has not received much attention in the global South, particularly among political leaders. The possibility of achieving this goal – and of having a portion of the revenues directed towards the needs of the global South – would be substantially strengthened with more developing country engagement.

— April 2011

Contact: Sarah Anderson, IPS Global Economy Project Director, sarah@ips-dc.org, tel: 202 787-5227.

Institute for Policy Studies

1112 16th St. NW, #600, Washington, DC 20036
(www.ips-dc.org)

¹ International Monetary Fund, “A Fair and Substantial Contribution by the Financial Sector: Final Report for the G20,” June 2010. <http://www.imf.org/external/np/g20/pdf/062710b.pdf>

² International Monetary Fund, “Taxing Financial Transactions: Issues and Evidence,” Chapter 8 of *Financial Sector Taxation: The IMF's Report to the G-20 and Background Material*, September 2010. <http://www.imf.org/external/np/seminars/eng/2010/paris/pdf/090110.pdf>

³ European Parliament, “MEPs push forward plans for financial transaction tax,” March 2, 2011.

<http://www.europarl.europa.eu/en/headlines/content/20110131STO12855/html/MEPs-push-forward-plans-for-financial-transaction-tax>

⁴ Report of the Committee of Experts to the Taskforce on International Financial Transactions and Development, “Globalizing Solidarity: The Case for Financial Levies,” July 16, 2010. <http://www.leadinggroup.org/article668.html>