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Restoring social justice through a tax on financial transactions

Report¹

Committee on Social Affairs, Health and Sustainable Development

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Summary

With the financial and economic crisis continuing across Europe, many countries are struggling to find the right balance between fiscal discipline, structural reforms, open markets and domestic social commitments. At the same time, the global financial market and its institutions appear to be largely disconnected from the needs of the real economy and society at large. Moreover, the crisis exposed numerous disturbing shortcomings in the functioning of financial markets, such as a propensity for excessive risk-taking and speculation, as well as distortions in the level playing field due to the under-taxation of many financial services and goods. Social justice is now becoming the next victim of the crisis, as more and more governments turn to austerity measures, undercutting social rights.

The report insists on the need for policy makers to draw lessons from the current crisis and to prevent such crises from reoccurring in the future. The responsibility of the financial sector towards society and the economy needs strengthening via appropriate fiscal and regulatory measures. Introducing a tax on financial transactions would not only be feasible, but also useful: it would help tackle tax evasion in the financial sector, improve public finances and restore social justice through an innovative approach to financing and solidarity.

The report welcomes the proposals of the European Commission and the European Parliament concerning the implementation of a financial transactions tax on the widest possible scale. Noting strong public support for this measure, the report underscores the political significance, long-term development goals and social motivations for launching a European tax on financial transactions. It then addresses a series of recommendations to the Council and the Commission of the European Union, member and observer States of the Council of Europe, as well as the Assembly's partner for democracy States.

1. Reference to committee: [Doc. 12759](#), Reference 3822 of 25 November 2011.



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A. Draft resolution²

1. The continuing global financial and economic crisis has crippled public finances and social welfare systems in many member States of the Council of Europe. It also revealed serious shortcomings in the functioning of financial markets: propensity for excessive risk-taking and speculation, inability to ensure long-term financial stability and adequate funding of the real economy, as well as distortions in the level playing field due to the under-taxation of many financial services and instruments.
2. Policy makers must ensure that lessons are drawn from the current crisis and that defences are raised to prevent any such crises from reoccurring in the future. The Parliamentary Assembly believes that all stakeholders of financial trading ought to act more responsibly towards society and the economy in which they operate, for the sake of public good and lasting development. It therefore welcomes proposals by the European Commission and the European Parliament concerning the implementation of a financial transactions tax on the widest possible scale.
3. The Assembly notes that many countries – in Europe and worldwide – already have in place or are about to introduce financial transactions taxes. Various such taxes on selected financial services and products generate substantial tax revenue, which proves that a more comprehensive tax on financial transactions is both feasible and pertinent as a further step. Although national experiments enable various formulas for taxing financial transactions to be tested and improved, a more harmonised, co-ordinated and global approach is desirable to achieve optimal effect.
4. The Assembly draws the attention of Council of Europe member States to the political significance, long-term development goals and social motivations for launching a European tax on financial transactions. It supports efforts to use this tax as a move towards stronger economic governance, conducive to a more cohesive society where every taxpayer contributes a fair share to public budget.
5. Moreover, the Assembly is convinced that the latest proposals for a European financial transactions tax have a strong potential to help close taxation gaps and tackle tax evasion in the financial sector, to break the vicious circle of self-reinforcing and growing financial speculation, to improve public finances and to contribute to restoring social justice through an innovative approach to financing and solidarity. It notes that, according to public opinion polls, a clear majority of Europeans supports the idea of a European financial transactions tax.
6. The Assembly welcomes in particular the agreement, in June 2012, of 10 countries to work together under the “enhanced co-operation” mechanism of the European Union and to move forward with introducing a financial transactions tax. It urges other European Union member States to join this mechanism at the earliest opportunity.
7. The Assembly is particularly concerned about the sprawl of derivative financial instruments, off-exchange transactions and the related high-frequency trading in modern financial markets. As these financial means largely escape regulation and taxation, the Assembly insists on the need for the proposed European financial transactions tax – together with other complementary regulatory and supervision measures – to cover these instruments.
8. In the light of the above considerations, the Assembly invites the Council and the Commission of the European Union to:
 - 8.1. ensure that the financial transactions tax deals with financial services, products and actors in a comprehensive manner, in particular as regards the derivative instruments and off-exchange transactions;
 - 8.2. work towards increasing the geographical coverage of the financial transactions tax and preventing the relocation of transactions to countries that do not apply such a tax;
 - 8.3. build partnerships with non-member States and relevant international organisations, in particular the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF), with a view to finding common ground for establishing a global tax on financial transactions;
 - 8.4. promote the use of the financial transactions tax as a complementary tool in addition to other regulatory measures concerning financial markets;

2. Draft resolution adopted by the committee on 7 September 2012.

- 8.5. consider making provisions to commit a substantial share of revenue from the financial transactions tax to repair the damage caused by the financial and economic crisis, in particular via priority funding of measures in favour of sustainable growth, job creation, social needs and global solidarity action, notably development aid;
 - 8.6. set up mechanisms for monitoring the implementation and assessing the effectiveness of the tax;
 - 8.7. better inform the public about the modalities of the proposed tax on financial transactions, the strategic goals pursued and progress made towards implementing the tax.
9. The Assembly invites the member States of the Council of Europe to commit in principle to the introduction of a tax on financial transactions and calls on non-European Union countries from among the member and observer States of the Council of Europe, as well as the Assembly's partner for democracy States, to examine ways to adopt such a tax on the basis of European Commission and European Parliament proposals.
10. Finally, with a view to optimising European efforts in favour of introducing taxation on a broad range of financial transactions, the Assembly asks national parliaments to support relevant activities of the European Union, to co-operate with relevant international organisations and to act at national level towards this end.

B. Explanatory memorandum by Ms Naghdalyan, rapporteur

1. Introduction: the challenge of making the financial sector participate adequately in social and economic development

1. During the financial and economic crisis, many European countries have experienced a rapid growth of public debt and strong pressure from financial markets to engage in more fiscal discipline. This led to drastic austerity measures – with often disastrous social and economic impacts – across the continent. Nearly all countries of the eurozone now exceed the benchmark criteria on public debt (which should be no more than 60% of gross domestic product (GDP)) and on annual budget deficit (which should not be higher than 3% of GDP) fixed in the Stability and Growth Pact, whilst the need for more social investment and economic stimulus is growing. Other countries throughout the continent are also undergoing difficult structural reforms and are struggling to find the right balance between open markets and domestic social commitments.

2. At the same time, many financial institutions³ which have been bailed out with public money⁴ are again reaping profits and paying out substantial dividends to their shareholders and bonuses to top executives. Moreover, as the authors of the motion for a resolution on “Restoring social justice through a tax on financial transactions” (Doc. 12759) point out, the volume of world trade in currencies nowadays exceeds at least 70 times the trade in real goods and services. The global financial market and its institutions appear to be largely disconnected from the real economy and society at large.

3. Could this connection be strengthened? Could stakeholders of financial trading act more responsibly towards the society and the economy in which they operate? We see a more and more widely shared conviction that at least part of the answer should come through taxation systems, such as a tax on financial transactions. Many economists believe that such a tax is not only feasible (technically and structurally), but could also help tackle tax evasion in the financial sector and thus help improve public finances, in addition to contributing to restoring social justice through an innovative approach to financing and solidarity.

4. On the basis of discussions in the Committee on Social Affairs, Health and Sustainable Development, written expert contributions,⁵ research studies and other information sources, the rapporteur reviews the potential benefits the Council of Europe member States could draw from the introduction of a tax on financial transactions and makes proposals for policy decisions with regard to the modalities of such a tax.

2. A renewed drive for introducing a tax on financial transactions

2.1. From the British “stamp duty” and Tobin Tax proposals to crisis-driven tax innovations

5. The concept of, and the first introduction of, a financial transactions tax dates back to 1694 at the London Stock Exchange with the tax payable by the buyer of shares (the so-called official stamp on documents for confirming the purchase – a stamp duty). This is the oldest tax which still exists in the United Kingdom. In place in its current form since 1986, this stamp duty – charged at 0.5% – is one of the highest in Europe among this type of tax (on share purchases) and generates about £3 billion (or close to €4 billion) a year to the United Kingdom Treasury.

6. Even some of the most ardent opponents of this tax admit that “[s]tamp duty is one of the easiest taxes to administer”⁶ and that it has never endangered the global position of the City of London as a major gateway to the low-tax environment. Stamp duty, however, does not cover the derivative financial products which contribute most to the speculative financial flows and which became increasingly popular among traders in the run-up to the global financial crisis of 2008 (only about 20% of transactions on the London Stock Exchange are subject to the stamp duty). Similarly, the United Kingdom’s neighbour, Ireland, collects a 1% stamp duty on stock exchange transactions on most types of securities (but not on derivatives) registered in that country.

3. Such as banks, credit unions, insurance companies and mutual funds which collect funds from the public and place them in financial assets or products.

4. The European Union member States alone have committed €4.6 trillion to help the financial sector during the crisis, in addition to the already low taxes in their respect in recent years.

5. Notably by Professor Dorothea Schäfer, Research Director at the German Institute for Economic Research (DIW Berlin), and Mr Manfred Bergmann, Director of Indirect Taxation and Tax Administration at the Taxation and Customs Union Directorate General of the European Commission.

6. LOWTAX (Global Tax and Business Portal), view expressed in the Web entry on “United Kingdom: stamp duty in share transactions” by Robert Lee. See www.lowtax.net/lowtax/html/offon/UK/UKgotaway.html for the full article.

7. Following the Great Depression of the 1930s, a highly authoritative economist, John Maynard Keynes, advocated the wider use of taxes on financial transactions as a means of curbing excessive financial speculation and increased volatility of markets. Later on, in 1972, a follower of Keynes, James Tobin, proposed a currency transaction tax aimed at stabilising global trade in currencies.

8. In the 1990s, the economist Paul Bernd Spahn revisited the Tobin Tax proposals and presented his own ideas for a two-tier approach to taxation of financial transactions so as to better distinguish between normal liquidity trading and speculative trading. This led to the adoption, by the Belgian Parliament in 2004, of the Spahn Tax, which will apply in Belgium once other members of the eurozone adopt similar measures. Belgium also has a securities tax which consists of a low-rate tax (0.07%) on selected ordinary financial market transactions (such as the distribution of investment company shares and public debt bonds) and a higher rate (0.5% and 0.17%) levied on transactions deemed to be of a more speculative nature.

9. In this context, we could also recall the UNITAID initiative that launched, in 2006, an innovative financing instrument for global solidarity in the form of a symbolic tax on plane tickets.⁷ Having started with five founding members (Brazil, Chile, France, Norway and the United Kingdom), UNITAID now counts 30 of its member countries committed to introducing a tax on airline tickets and 25 other countries as partners willing to contribute funds for financing the purchase of medicines for less developed countries. The success of this scheme has prompted ideas that it could be used as a model in other economic sectors directly concerned with globalisation, such as mobile telephony, Internet, tobacco, trade and financial transactions.

10. Many countries in Europe and across the world have experimented, more or less successfully, with unilateral forms of financial transaction taxes.⁸ According to an International Monetary Fund (IMF) working paper of March 2011,⁹ various types of such taxes are currently in place, including:

- taxes on equity shares in Austria, Brazil, China, Cyprus, Greece, Hong Kong, India, Indonesia, Italy, Poland, Portugal, Russia, Singapore, South Africa, South Korea, Spain, Switzerland, Turkey, the United Kingdom and the United States of America;
- taxes on debt finance in Brazil, Italy, Russia, Switzerland, Taiwan and Turkey;
- taxes on foreign exchange in Brazil;
- taxes on revenue from securities transactions in Hong Kong, India, South Africa, South Korea, Switzerland, Taiwan and the United Kingdom;
- bank transaction taxes mainly in Latin America and in several Asian countries.

11. Even if some of these taxes are at first glance small, they can generate substantial income. Thus, for instance, the United States has a very small tax (0.0034%) on stock transactions that is used to cover the operating costs of the Securities and Exchange Commission (SEC). In reality, the federal government manages to collect comfortable revenue from this fee – several times in excess of the annual operating costs of the SEC.

12. At the G20 Summit¹⁰ meeting in September 2009 (Pittsburgh, United States), the leaders asked the IMF to explore “the range of options countries have adopted or are considering as to how the financial sector could make a fair and substantial contribution towards paying for any burdens associated with government interventions to repair the banking system”. In its reply in April 2010, the IMF, on the one hand, recommended the adoption of levies on financial institutions to pay for the resolution of troubled and failing entities and, on the other hand, it reviewed options for raising revenue from the financial sector activities more generally, including through the possible use of financial transactions taxes. The IMF ultimately favoured the use of a “financial activities tax” on the total profits and wages of financial institutions, without ruling out the use of financial transactions taxes for other purposes.

7. In France, it consisted of €1 for all domestic and European flights and €4 for international flights.

8. For instance, from 1984 to 1991, Sweden had a tax on the purchase or sale of equity securities, with rates varying from 0.5% in 1984, the double in 1986 and from 0.002% to 0.003% in 1989. The tax was abolished after its design flaws became obvious.

9. “Taxing financial transactions: issues and evidence – WP/11/54”, by Thornton Matheson.

10. The G20 consists of a group of leaders from 20 major economies: 19 countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States of America) plus the European Union, which is represented by the President of the European Council and by the European Central Bank.

13. Assembly [Resolution 1833 \(2011\)](#) on the activities of the Organisation for Economic Co-operation and Development in 2010-11 encouraged the OECD “to explore the options for introducing a global tax on financial transactions”. Prior to this call, the OECD had on several past occasions opposed the idea of a general financial transactions tax, maintaining that such a tax could negatively affect turnover and liquidity in financial markets and lead to relocation of financial trading to countries not applying such a tax and an increase in the cost of capital. However, its own experts – and many independent scholars – admit that these possible effects can largely be mitigated by adequately designing a proposed tax on financial transactions.

14. At the same time, like the IMF, the OECD experts tended to favour the use of a financial activity tax. In a further development of its analysis, the OECD proposed to its member countries to consider establishing a tax limited to selected derivatives transactions (that is, the so-called over-the-counter derivatives) accompanied by other regulatory measures. Moreover, the OECD has been regularly pleading for improvements in national taxation systems and innovative financing at a global level.

2.2. Recent proposals by the European Commission

15. Although national experiments enable various formulas for taxing financial transactions to be tested and improved, a more harmonised, co-ordinated and global approach is desirable to ensure a level playing field. In summer 2010, the European Commission¹¹ aired its intentions to work on the various options as the G20 failed to reach an agreement. A year later, it published proposals based on an impact assessment¹² and unveiled a proposal for a Council Directive on “a common system of financial transaction tax and amending Directive 2008/7/EC”.¹³

16. The Commission proposed that a tax should be levied, from 2014, on all transactions on financial instruments between financial institutions when at least one party to the transaction is located in the European Union,¹⁴ with trade in shares and bonds to be taxed at 0.1% and derivative contracts at 0.01%, payable by both parties of a contract. Transactions thus covered would include transfers of financial instruments between group entities of the same company, but would not apply to private households and payments by small and medium-sized enterprises (SMEs), public borrowing, central banks’ operations and certain business transactions (for example, primary issuance of shares and bonds).

17. It is expected that such a tax could yield about €57 billion a year (mostly from derivative contracts – about €38 billion) that would be divided between the European Union and the member States. By the Commission’s own estimates, the intensity of market trading in shares and bonds could decrease by 15% and for derivatives by 75% (in volume terms). Moreover, comparative studies on tax increases show that the impact on GDP from launching the financial transactions tax would be the same (about -0.3%) as a similarly small increase in corporate taxation.

18. In March 2012, the Danish presidency of the European Union put forward some alternative options for taxation, such as taking a gradual approach by starting to tax a limited set of financial products – similar to a stamp duty – and a possibility to exclude temporarily the derivatives, launching a “bank tax” or a “financial activities tax” (as proposed by the IMF) and acting through direct regulation of the financial sector.

19. The Commission’s original proposals were not motivated by potential financial gains only. The Commission estimated that, because the financial sector was at the origin of the crisis and was considerably under-taxed¹⁵ in comparison to other sectors, it should contribute to the “reparation” of public finances. Moreover, a co-ordinated approach at European Union level would help consolidate the “Single Market” and finance growth-enhancing measures. On a global scale, as the European Union’s taxation commissioner, Algirdas Šemeta, put it, additional tax revenues could help address global challenges such as development and climate change.

20. The critics reacted immediately to these proposals. While the Austrian, Belgian, French, German (after some hesitation), Norwegian and Spanish authorities are in favour, the opposition is particularly vocal from the United Kingdom authorities due to concerns that a proposed tax would negatively affect the financial services trade in the City of London where about 80% of Europe’s financial transactions taxable under the

11. See also the Communication COM(2010)549 final of 7 October 2010 to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions.

12. Document SEC(2011)1103 of 28 September 2011.

13. See COM(2011)594 final of 28 September 2011.

14. European Commission press release IP/11/1085 of 28 September 2011.

15. For instance, in most cases, financial services are exempt from value added tax (VAT) as a result of difficulties in measuring the taxable base.

Commission's proposals is believed to be concentrated. Some experts note, however, that certain financial transactions would thus be taxed more, but others less. Moreover, unlike some countries' official authorities, most Europeans support the tax proposal.¹⁶

21. The eurozone is seen as a realistic starting point for building a coalition of States willing to introduce this multi-State tax arrangement. It could gradually become a strong advocate for broadening the reach to the OECD and G20 countries. Major personalities, such as financier-philanthropist George Soros and Nobel laureate in economics Joseph Stiglitz, as well as many parliamentarians across Europe, have publicly supported the proposed tax. Yet, amidst uncertainties over the outcome of current negotiations among the eurozone members, there are already signals that financial institutions are preparing to strike back by devising new instruments to avoid the proposed tax.

22. In the wake of the European Union finance ministers' meeting on 22 June 2012, 10 countries announced their intention to work together under the "enhanced co-operation" mechanism and push ahead with introducing a financial transactions tax. These countries include major European economies such as France, Germany, Italy and Spain, as well as Austria, Belgium, Bulgaria, Finland, Greece and Portugal.

3. What are the long-term goals and possible uses of the revenue from a financial transactions tax?

23. The rapporteur underscores the need to consider not only technicalities and obstacles, but also the political meaning, long-term perspective and value-driven motivations for launching a European tax on financial transactions. When a pan-European project emerged in post-war Europe, it looked first like a Utopia, then like a miracle, and now it is a reality despite all the hurdles. Likewise, the Single Market and the monetary union took shape and the euro was born. It is now time to give new breath to the European project through closer economic governance and a joint endeavour to streamline financial priorities, not least through more co-ordinated taxation across the continent and a European tax on financial transactions. The more divided Europe stands, the weaker its voice and influence in the world.

24. Although some would like to write down the European Union financial transactions tax initiative as cumbersome, unrealistic and of little added value, many opinion leaders argue the opposite. The latter notably maintain that such a tax would help reduce the volatility of financial markets, ensure more fair and equitable taxation, improve competition and macroeconomic governance, and, importantly, could help prevent tax evasion in the financial sector. A powerful financial sector lobby is at work to undermine the arguments in favour of the tax which they perceive as going counter to the trend of financial liberalisation seen over the last two decades which ultimately led to the financial crisis.

25. If a European Union financial transactions tax were implemented as currently proposed by the European Commission, it would be paid in the European country of origin of the financial operator (the so-called "residence principle", modelled largely on the British stamp duty): in this way all pertinent transactions by a given firm would be subject to this new tax, whether these operations take place in the European Union (or eurozone in a restricted version) or elsewhere in the world. This mechanism would therefore prevent financial institutions from escaping tax payments by moving their operations offshore or to tax havens.

26. The European Parliament has been pleading in favour of the tax for a number of years. On the basis of a report by its Committee on Economic and Monetary Affairs,¹⁷ it adopted, on 23 May 2012, a resolution¹⁸ commenting on the European Commission's proposal for a Council directive on a common system of financial transaction tax. This resolution calls for a change in the financial services business model, away from high-frequency trading to serving the real economy. The text adopted also asks that the proposed tax (FTT) should apply to financial operations by institutions situated outside the FTT zone but which trade securities issued within that zone (the so-called "issuance principle"). This approach would help increase the geographical coverage of the tax and would prevent the "leakage" or outsourcing of transactions to countries not applying such a tax.

16. A Eurobarometer poll of May 2012 showed that 66% of respondents were in favour of the various measures to reform the functioning of global financial markets, including via a tax on financial transactions. In January 2012, a survey by ComRes showed similar results.

17. See 2011/0261(CNS), rapporteur: Anni Podimata (Greece, S&D).

18. See document P7_TA(2012)0217 on www.europarl.europa.eu.

27. Moreover, the resolution in question advocates taking the United Kingdom stamp duty approach to link the payment of FTT to the acquisition of legal ownership rights and thus make evading the FTT far more expensive than paying it. That, together with a more centralised approach to the clearing of transactions at European Union level, would certainly help tackle tax evasion and would give countries beyond the eurozone and the European Union another good reason to adopt such a tax.

28. Under the European Union plans, revenue generated by the financial transactions tax could in part feed its budget – as a new own resource for the 2012-20 financial framework – for subsequent investment in priority areas, such as job creation, economic, social and territorial cohesion, vocational training, research and innovation, modernisation of agriculture and environmental safety. The other part of revenue would be redistributed to member States in the form of budget support. There is also a possibility of an external dimension for the resources use in partnership with non-EU countries. It is estimated that the tax – together with a modernised VAT resource – would help EU member States to considerably reduce membership contributions to the EU budget.

29. As discussions in the Assembly's Committee on Social Affairs, Health and Sustainable Development have shown, members share concern over the fallout of the global financial-economic crisis and the need to draw lessons. They are in particular worried about the propensity of financial markets to overuse and undermine stability which is seen as a public good.¹⁹ States then, as ultimate regulators, have good reasons to reclaim ground lost through financial deregulation, close taxation gaps, curb speculation, and thus ensure more sustainable, more stable functioning of financial markets for the sake of public good. Committee members therefore tended to agree that a tax on financial transactions – together with other indispensable regulatory measures – should help repair the damage to public finances and social systems wrought by the crisis, as well as raising defences to prevent any such crises from reoccurring.

4. Prospects for a harmonised and visionary approach to using a financial transactions tax for more solidarity and social justice in the greater Europe and beyond

4.1. Potential gains for European countries and their global partners

30. It is not by coincidence that proposals for an international framework for a financial transactions tax gained traction with the onset of the global financial and economic crises.²⁰ As we have seen in the earlier chapters, most countries have some sort of taxes on certain financial operations. However, it clearly appears that the most risk-taking and highly leveraged financial products – such as derivatives – essentially escape taxation and have, as a result, largely fuelled speculative trading to the detriment of operations relating to investment in the real economy. Moreover, the boom of speculative operations since the year 2000 contributed to creating bubbles in financial markets that finally exploded with the crisis – considerably hurting society at large – including the real economy, public services and vast segments of the population.

31. Those financial excesses were made possible because of an increasingly lax regulatory and taxation environment. It is high time to correct this distortion: for the free market to function normally, all players need a fair level playing field. There is no valid reason why the financial sector should be as under-taxed as it currently is when compared to other sectors of the economy. Moreover, there is no justifiable reason why an ordinary taxpayer should be penalised through painful austerity measures because of the fallout of excesses in the financial sector and the crisis. This is a question of social justice to which European policy makers and their counterparts in partner countries have a moral obligation to reply with tangible solutions.

32. One of those tangible solutions is a more adequate, fairer taxation of the financial sector: policy makers have to clean up the mess wrought by the financial crisis and to prevent future meltdowns. All countries and the whole population stand to gain from financial stability which can and should be secured via improved control and taxation. Together with other financial corrections and fiscal reforms, a financial transactions tax should serve as a stepping stone towards restoring a healthy balance between the taxes on revenue from capital and from work. Moreover, this process should trigger society to refresh the social contract that binds the State, citizens, enterprises and the market so that all parties act in a more responsible manner and work for more widely shared prosperity long term.

19. See Discussion Paper 1198, "Financial transaction tax contributes to more sustainability in financial markets", Professor Dorothea Schäfer, Deutsches Institut für Wirtschaftsforschung.

20. Ibid.

33. Just as Europe has long led the global battle for the respect of human rights, it can in a similar way show more courage, leadership and vision in embracing a proposed tax on financial transactions that would potentially generate substantive funds and could enable more innovative financing of solidarity mechanisms within greater Europe, but also in favour of pro-development action in respect of the neediest non-European countries. European negotiations, formulas and decisions on a financial transactions tax may become a model to follow for other countries in the world which will be anyway more or less directly concerned by the European position.

4.2. Strategic orientations

34. Although there is considerable public support for the launching of a European financial transactions tax, there is also a need to better inform the public about the modalities of such a tax and the strategic goals pursued. The population has to be reassured that the proposed tax will not have undesirable side effects on their routine banking operations. It also needs to have a say on how the new tax receipts should be used, once the tax is in place.

35. As the scope of the proposed European tax on financial transactions remains to be agreed, the Assembly should plead for the widest possible reach to capture the full range of the most speculative and most harmful financial transactions, in particular those with derivative financial instruments. The non-EU countries from among the Council of Europe member States could also adopt similar arrangements corresponding to their national context, development policies and strategic goals, including bilateral co-operation with the European Union and its member States.

36. The EU and non-EU countries across greater Europe should seek to work in close co-ordination so that the proposed tax could be introduced in a way that optimises the potential gains from combating tax evasion and avoidance and prevents the shift of financial transactions to other countries, in particular those with a lax regulatory environment. Efforts to launch a European financial transactions tax should be seen as a move towards greater economic integration and stronger economic governance, conducive to a more cohesive society where every taxpayer – an individual or an enterprise – contributes a fair share of taxes due to ensure the smooth functioning of States.

5. Conclusions and recommendations

37. The various forms of taxes that are currently in place or were in place until a few years ago in a number of Council of Europe member States clearly shows that those taxes are both technically feasible and economically useful. Even the staunchest opponents of the proposed European tax on financial transactions should bear in mind that a new arrangement would serve as a step in the right direction towards greater harmonisation of the rather disparate taxation in respect of financial institutions across Europe.

38. Moreover, the proposed rates of such a tax could actually diminish the overall level of taxation on certain financial operations in some countries (such as the stamp duty in the United Kingdom) but would have the advantage of covering the tax base more comprehensively – capturing the most risk-bearing and the most speculative transactions (notably derivatives) which expanded dramatically over the last decade and significantly contributed to the outbreak of the financial crisis in 2008. As the implementation of the tax requires adequate registration and central clearing of transactions, the overall transparency of the financial system would also increase as a welcome side effect.

39. The States, as the ultimate regulators – including of financial markets – should exercise their prerogatives fully in restoring their capacity to regulate and to tax financial markets more effectively in the name of public interest. This would strengthen their sovereignty, financial stability and the capacity to ensure social and tax justice. The States should, however, give more thought to envisaging alternative uses to the funds to be potentially collected through a tax on financial transactions. They could notably consider using them for attenuating or offsetting the effects of austerity measures on the population, financing growth-enhancing projects and supporting priority social investment in European competitiveness through human capital such as young people who are particularly affected by the crisis.

40. The rapporteur therefore recommends that the Parliamentary Assembly takes position in favour of a European tax on financial transactions – as currently proposed by the European Commission and the European Parliament, with possible adjustments to national circumstances to facilitate the implementation of this initiative in the greater Europe. Two reports and resolutions debated during the Assembly's June 2012 part-session, namely on the "Crisis of democracy and the role of the State in today's Europe" and on "Austerity measures – A danger for democracy and social rights",²¹ already make proposals in this direction.

21. Respectively, [Doc. 12955](#) (rapporteur: Mr Andreas Gross, Switzerland, SOC) and [Doc. 12948](#) (rapporteur: Mr Andrej Hunko, Germany, SOC); see also [Resolution 1888 \(2012\)](#) and [Resolution 1884 \(2012\)](#).