WRITTEN QUESTION by Ulrike Lunacek (Verts/ALE) to the Commission - 16 July 2009

Subject: Introduction of an EU-wide financial transactions tax

As a means of tackling the current financial and economic crisis and preventing further crises, the introduction of a general EU-level tax on financial transactions would constitute a significant step towards curbing the excess liquidity in the financial markets and the severe price fluctuations that go with it, as well as a partial deterrent to harmful speculation, thus making a major contribution to financial market stability.
Some European Union countries have already made legislative moves in this direction — France and Belgium, for example, have taken anticipatory decisions on the matter and the Austrian National Assembly voted unanimously in favour of the introduction of an EU-wide financial transactions tax as long ago as December 2008.
So far, we have seen no sign of any initiative by the European Commission to bring in such a tax. Why not? How far have discussions on the matter advanced and where does the Commission stand on the introduction of this type of tax? When can we expect to see a Commission proposal on the concept and what practical measures are being planned?

Original language of question: **DE**

P-3770/09DE
Answer from Mr. Kovács
On behalf of the commission
(3/9/2009)

The commission has already occupied itself with the suggestions for the introduction of an EU-wide financial transaction tax. However, the commission is critical towards the introduction of such a tax due to economic as well as legal considerations. This position is primarily based on economic arguments, and also on imponderability with regard to the legal feasibility.

From an economic point of view, the effect of a transaction tax is less clear than is described in the first paragraph of the request. The (positive) effects of a transaction tax named therein are not clearly documented and are disputed in the scientific literature. The described relationship between liquidity, price fluctuations, and speculation cannot be proven either empirically or theoretically. Authors such as Hau (2008)[1] or Baltagi, Li and Li (2006)[2] show that a tax on transactions and therefore on liquidity can, in contrast, lead to higher volatility.

So while the described positive effects of such a tax are at the least not definitive, the simultaneous considerable risks involved in the introduction of a transaction tax remain. The tax could increase the capital costs for companies, thereby increasing the price of urgently needed investments. The relocation of transactions to other markets or countries, which was observed in Sweden after the introduction of such a tax (Umlauf (1993))[3], could result in sustained damage to securities trading in the European financial centres.

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[1] Hau, Harald (2006) The Role of Transaction Costs for Financial Volatility: Evidence from the Paris Bourse. In: Journal of the European Economic Association, 4(4), pp. 862-890.
[2] Baltagi, Badi H., Dong Li and Qi Li (2006) Transaction tax and stock market behavior: evidence from an emerging market. In: Empirical Economics 31, pp. 393-408.
[3] Umlauf, Steven R. (1993) Transaction taxes and the behaviour of the Swedish stock market. In: Journal of Financial Economics 33, pp. 227-240.

In addition, empirical analyses (Bond, Hawkins and Klemm (2004)[4], Jones and Seguin (1997))[5] and in particular also the work of experimental economics (Pelizzari and Westerhoff (2007))[6], show that the effect of a transaction tax could depend on the structure of the individual markets. In the framework of the European discussion, this means that a more detailed analysis of the respective national markets would be required in order to evaluate the effects of such a tax. The effect of the tax can be very different depending on the traded products and the organisation of the market (dealer vs. broker). It can be expected that the tax would have a lesser effect in some member countries than in others. This would make it more difficult to achieve a political agreement on the introduction of such a tax.

Besides the economic arguments, the introduction of such a tax must be reviewed with regard to its compatibility with the 2008/7/EU[7] guideline from February 12, 2008. In article 5 (2) of this guideline it says that "The member states will not levy an indirect tax of any kind on... the trading of stocks, shares, or other similar financial instruments as well as the certificates of such financial instruments ... on borrowings including pensions."

The commission is therefore of the opinion that stabilisation and regulation of the financial markets should take place more effectively via an optimised international financial market oversight and has prepared corresponding suggestions in this regard.[8] At the current time, a transaction tax appears to be an unsuitable instrument due to the potential risks, the low degree of verified knowledge about its effects as well as the legal imponderability.

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[4] Bond, Steve, Mike Hawkins and Alexander Klemm (2004) Stamp Duty on Shares and its Effect on Share Prices. The Institute for Fiscal Studies, IFS Working Paper WP04/11.

[5] Jones, Charles M. and Paul J. Seguin (1997) Transaction Costs and Price Volatility: Evidence from Commission Deregulation. In: The American Economic Review, Vol. 87, No. 4, pp. 728-737.

[6] Pelizzari, Paolo and Frank Westerhoff (2007) Some Effects of Transaction Taxes under different Microstructures.Quantitative Finance Research Centre. Research Paper 212.

[7] ABl. L 46 dated 21/2/2008

[8] Press release IP/09/836.