INQUIRY INTO MINING TAX / CARBON TAX

Select Committee on the Scrutiny of New Taxes

Jubilee Australia Submission

On behalf of the *Robin Hood Tax* Coalition[1]

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INTRODUCTION

The *Robin Hood Tax* Coalition in Australia is a network of over twenty groups and thousands of individuals calling for a small tax on wholesale financial transactions to raise billions to tackle climate change, support poverty alleviation overseas, and fund social and environmental programs nationally. Globally, it is an alliance of groups in countries including Australia, the UK, the US, Canada, Germany, France and Belgium. Each of these groups is supported by dozens of their own national social and environment organisations, aid agencies, unions and church groups, and endorsed by academics, economists, and social commentators; including Jeffery Sachs, Paul Krugman, Peter Singer and Joseph Stiglitz.

This global movement recognises that international financial speculation is deeply under-regulated and is widely believed to be increasing volatility across global markets through an incredible volume of high frequency trades.[2] A financial transactions tax (FTT) of between 0.005% and 0.05% on trading of currencies, stocks, bonds, derivatives and interest rate securities would have a very small impact on each transaction, yet could raise billions of dollars annually. The aim is to generate funds to redistribute to where funds are urgently needed. In the contemporary global reality where the gap between the wealthy and the poor continues to widen, a progressive form of taxation such as FTTs can have a small but important redistributive affect.

Interest in FTTs has grown demonstrably in recent years with the following organisations investigating its potential:

- The United Nations High-level Advisory Group on Climate Change Financing (AGF) recognised FTT in their 2010 assessment of potential sources for long-term climate finance.
- International Trade Unions Congress made a critical reply to the International Monetary Fund (2010) report to the G20 on a “Fair and Substantial Contribution by the Finance Sector”.
- The International Monetary Fund issued a working paper on financial transactions taxes in March 2011.
- The European Commission is currently completing a period of public consultation into financial transaction taxes and financial activities taxes.
- The World Bank is collaborating with the IMF and Regional Development Banks to assess potential sources of climate finance, including financial transaction taxes.
- Bill Gates has been requested by the French Government to report on potential sources of finance for development, including financial transaction taxes.

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1 The Robin Hood Tax Coalition in Australia spans an alliance of aid agencies, green groups, think tanks, unions and faith-based networks, backed by leading Australian academics and economists. This submission has been prepared by the Jubilee Australia on behalf of the Coalition. See www.robinhoodtax.org.au.

2 See Schulmeister, S (2011) *A General Financial Transactions Tax: Motives, Effects and Implementation*. Summary of a presentation at the Brussels Tax Forum 2011 on March 29, 2011. Austrian Institute of Economic Research.

In April 2011, a thousand economists from 53 countries wrote to G20 Finance Ministers during their meeting in Washington to urge the adoption of a financial transaction tax. Economists wrote: "The financial crisis has shown us the dangers of unregulated finance, and the link between the financial sector and society has been broken. It is time to fix this link and for the financial sector to give something back to society."

1. Impacts of a FTT

The incredible growth of financial markets trading in recent years had led to the situation where the volume of financial transactions is now many times higher than nominal world GDP. While in 1990 financial transactions were 15 times higher than GDP, they are now 73 times higher (Schulmeister 2009: 5). The volume of foreign exchange transactions is around 70 times higher than world trade – almost entirely due to the enormous boom in the derivatives markets.

A FTT delivers important co-benefits: It could be a disincentive to individuals and financiers who seek to make fast money by 'outguessing' the market over a few minutes, hours or days. Under a FTT price runs could become less pronounced and the boom and bust economy that we have seen in recent years could become less marked, whilst the effect on necessary hedging transactions should be negligibly small (meaning that a FTT would not the reduce core transactions that play a key role in the market's price setting function). The UK's imposition of a tax on shares has not lead to market reduced functioning.

As Australia builds its profile as a financial hub, we need a stable and strong global economy in which to participate. Schulmeister (2009) has found that instead of improving the efficiency of markets in the 'price discovery process' the increased speed of trading exacerbates trends of asset prices and increases price volatility, corresponding to the increased boom and bust cycles we have experienced most recently in the Global Financial Crisis. Schmidt's (2007) study of the impact of a 0.005% currency transactions tax concluded it would reduce the volume of trading by 14%, which given the inflated size of the financial transactions sector would increase stability in what has been an exponentially growing sector. A tax such as the FTT that encourages longer-term opportunities for investment and increased market stability should increase the effectiveness and stability of markets (Baker 2010).

As clearly outlined above this tax is specifically focused on speculative transactions. It should have minimal if any bearing on the goods and services that the vast majority of Australian citizens use in their everyday lives. While the majority of middle class Australians are encouraged to build investment portfolios for specific purposes such as retirement, income on these investments is not generated from constant flipping of stocks and other assets. The tiny fixed cost of a FTT is spread over the long-term horizon of the purchase and sale of assets.

2. Estimated Revenue

The exact amount raised from a FTT depends on the size of tax, products excluded from its scope, and its dissuasive effect on transactions. The AGF report suggests that globally, between US$ 2 and 27 billion could be raised by a FTT annually by 2020. Schmidt (2007) estimates that a 0.005% Currency Transactions Tax on the four major currencies (US$, Yen, Euro and Pounds Sterling) would raise over US $ 33 billion per annum. Another US study has estimated that between US$ 117 and $353 billion could be raised annually through differentiated tax rates for different markets (Barker et al., 2009).

The IMF (2010) has estimated $200 billion could be raised through a one basis point or 0.01% FTT annually. Based on Australian "over-the-counter" and exchange traded market transactions between 2005-06 and 2008-09 as well as allowing for a two-thirds reduction in trade volumes, a FTT of 0.05% in Australia could yield approximately AUS$16 billion each year (calculations Professor Ross Buckley, Professor of International Finance, University of NSW, Jan 27 2011).

Now is the time to invest in a comprehensive Australian specific study of the potential yield of a FTT depending on variables of base, rate, location of the levy and socially appropriate exclusions. These are important issues that need to be carefully considered to ensure the effective and appropriate design of a FTT.

3. Meeting the need for additional resources

We believe that funds generated from a FTT should be directed to areas of international and domestic spending that are significantly underfunded and which require new and innovative funding sources to meet present and future needs, namely:

- 25% revenue allocated to climate finance
- 25% revenue allocated to overseas aid and development
- 50% revenue allocated to domestic environmental and social needs

Considering the competing demands on the national budget for domestic spending on education, health, and relief/recovery from several natural disasters such as drought and bush fires as well as the spate of devastating floods, a FTT would enable Australia to meet our international climate finance obligations, overseas development commitments and generate additional funds for domestic climate action.

Australia meeting its international climate financing commitments would be a significant and invaluable indication of our commitment to the UNFCCC and its objectives. Given the fragile state of international climate negotiations such action would contribute to restoring faith and trust between developed and developing countries to continue find solutions to climate change. Additionally, as the Government is determined to deliver an economic surplus by 2012 there is a real risk slowing momentum on incrementally reaching 0.7% GDP funding for overseas development. Therefore new and additional sources of revenue need to be generated to meet our international financial commitments, and national budget ambitions.

4. Geographic coverage and international comparison

Over the last few decades more than 40 countries, including Australia[3], have implemented some form of FTT either on a permanent or temporary basis. The UK stock exchange, one of the world's largest, has a small tax on share transactions. The rate of this tax, 0.5%, is between ten and fifty times higher than the proposals for an FTT, and yet the UK stock exchange remains one of the largest in the world – investors have not been deterred. Argentina, Brazil, China, India, Indonesia, South Africa, South Korea also tax sale of company shares (IMF 2011). Furthermore a study from the North-South Institute has found that a Currency Transaction Tax of 0.005% would not be disruptive to exchange rate volatility (Schmidt 2007).

Given the nature of this form of taxation, it is desirable to have a broader base than Australia to ensure the highest potential of a FTT. Therefore we urge the Australian government to support international proposals for FTT in the G20 and other international forums and note the international support for the FTT amongst political leaders:

- In 2010, the European Council was instrumental in ensuring that the IMF consider a FTT in their study of potential contributions from the finance sector to deliver to the G20.
- This year, the proposal for a collaborative FTT has garnered strong support in key European Union Constituencies.
- French President Nicolas Sarkozy and French Finance Minister Christine Lagarde are championing the proposal at the G20 this year.
- German Chancellor Angela Merkel and her Finance Minister have joined with France to promote the adoption of the FTT, with the French and German Governments winning agreement at the

3 Australia had a federal stamp duty on shares. This was abolished in 2001 as part of the taxation reform accompanying the introduction of the GST.

Eurozone Heads of State meeting in March 2011 to proceed with implementing a collaborative FTT.
- In March 2011, the European Union Assembly delivered a landslide vote in favour of the EU Commission passing legislation for a FTT. This is due to be debated in the European Council in coming months.
- Former British Prime Minister Gordon Brown has also announced his support, and the UK Government has recently agreed to support an FTT if internationally implemented.
- Two US members of congress have tabled bills to introduce FTTs in the US in 2010, as well as House Speaker Nancy Pelosi public endorsement of the tax.
- In April 2011, Francophone low-income countries (largely from Africa) met and announced their for support for financial transaction taxes.

Most compelling is the German Government's budget forecast of revenue from a FTT of €2 billion annually from 2012.[4]

5. Administrative implementation

> "A financial transaction tax would be easy to collect and administer, and would protect ordinary people saving for education and retirement. Such taxes were common in the past, so we know they can work well." **Professor Andrew McLennan, University of Queensland.**

The implementation of a FTT has been acknowledged by the IMF (2011) as practicably feasible. All international transactions are operationalised by central foreign exchange settlement systems such as SWIFT, and therefore traceable and ultimately taxable (Schmidt 2007). Compared to other tax regimes, a FTT can be efficiently collected at the point of trade as has been demonstrated in Japan and the UK (Baker 2010). FTTs are difficult to avoid or evade, given the tax can be captured at the point where deals are settled via centralised settlement systems. The tax would be collected by the government responsible for operating a trading zone. For example, taxes collected on the Australian Stock Exchange would be collected by the Australian Government, and would be an additional source of revenue for the government, to ensure domestic as well as global benefit.

The major obstacle is political will to tackle the policy-related issues of design, implementation and distribution of the FTT. To that end it is imperative that the Australian government commit to supporting international proposals for a FTT in the G20 to assist in international parity, as well as commit to the careful design and implementation of a FTT in Australia to see that required funds are raised whilst ensuring economic stability.

CONCLUSION

The Robin Hood Tax Coalition in Australia strongly recommends that the Australian government commit to supporting international proposals for a FTT, including contributing to resolving issues of co-operative implementation of a FTT internationally. The Australian government should also proceed at national level to investigate appropriate and effective design of a FTT of between 0.05 and 0.005% on all wholesale capital market and currency market transactions.

A Financial Transaction Tax:
- Is genuinely new and additional source of funds.
- Has socially and economically productive co-benefits of increasing market stability.
- Is able to generate a significant amount of money.
- Will enable Australia to meet international finance commitments and increase domestic revenue without jeopardising national budget ambitions.

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4 See German Finance Ministry website http://www.bundesfinanzministerium.de/nn_103388/EN/Topics/Fiscal-policy/Articles/20100816-Government-draft-2011-budget.html?__nnn=true

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