Global Issues

Thrilling like a Detective Story: The European Civil Society Campaign for the Financial Transaction Tax

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A Surprising Success Story

In February 2013, eleven member states of the European Union (EU) – among them the four biggest economies of the continent (Germany, France, Italy and Spain) – started formally to negotiate about the establishment of the Financial Transaction Tax (FTT). This is one of the rare success stories of civil society campaigning in these years. Although the tax has not yet been implemented, and although some watering down has to be expected in the end, it is very unlikely that the project as such will be stopped. The commitment of the eleven governments has gone so far that a point of no return has probably been reached. Nevertheless, the campaign is not yet over and pressure from below has to be kept up until a definitive victory can be scored.

A Long Pre-history

The initial impulse supporting a financial transaction tax did not come from civil society but from circles within the United Nations Development Programme (UNDP). In 1996, some leading figures of the UNDP published a book in which they presented, among others, the Tobin Tax (Haq, Kaul and Grunberg 1996*)*. This tax had been proposed by Nobel Prize winner James Tobin (1974) when the Bretton Woods system entered into its final crisis in the early 1970s. Tobin realised that the end of fixed exchange rates would lead to an increased number of transactions, increased volatility and the risk of speculative bubbles. His solution was to throw 'sand in the wheels', in order to slow down currency transactions. The basic idea is to tax each transaction at a relatively small rate – in the EU proposal 0.1% for shares and 0.01% for derivatives. As speculative business models rely on small margins but many operations (with high-frequency trade as an extreme), many transactions would lose profitability and dry up. But since the tax would normally generate revenues, he suggested using the tax income for development purposes.

The UNDP's idea spread slowly to development non-governmental organisations (NGOs). However, there was a certain reluctance to deal with it in depth, because development NGOs were not very familiar with taxation and financial market issues. The Asian crisis in 1997–1998, however, gave it new impetus. Also, the regulatory dimension of the tax drew the attention of some NGOs.

The Breakthrough

A breakthrough came when the French monthly *Le Monde Diplomatique* launched an appeal to 'Disarm the Markets' (Ramonet 1997). Derived from this first suggestion, ATTAC was born. ATTAC carries the taxation mandate in its name: *Association pour la Taxation de Transactions financières à l'Aide des Citoyens et Citoyennes* (Association for the Taxation of Financial Transactions for the Benefit of Citizens). ATTAC became a success. During that period, trade unions, political parties of the left, social democrats and Greens embraced the tax. In 2001, the president of the AFL–CIO, an American union, and its German sister organisation asked in a joint press statement for the control of financial markets including the taxation of currency transactions (DGB, 2001).

The events of 11 September 2001 led to a loss of momentum. Nevertheless, some partial successes were achieved. For instance, in 2004 the Belgian Parliament adopted a law for a currency transaction tax. However, it would only become effective if other European countries followed suit. Several parliaments, including those of France and Finland, adopted resolutions in favour of the tax. These declarations were non-binding. The issue was confined to the development community, whereas ATTAC and the global justice movement, which had emerged in Seattle in 1999 on the occasion of the World Trade Organisation (WTO) conference, broadened their agenda.

Those NGOs that continued to work specifically on the tax did it very much in the context of developing innovative sources for finance for development. At the same time, the idea of international taxation to finance global public goods (such as the environment, climate and development) was increasingly promoted, including taxes on carbon dioxide, sea transport, air traffic and even some unorthodox proposals like taxes on satellite frequencies (Wahl, 2005).

Financial Crash 2008 – A Game Changer

The financial crisis of 2008 changed the entire game. The final declarations of the G20 summits in London and Pittsburgh were relatively (self-)critical. The Pittsburgh Leaders Declaration, for example, mandated the International Monetary Fund (IMF) to prepare proposals '… as to how the financial sector could make a fair and substantial contribution toward paying for any burdens associated with government interventions to repair the banking system' (G20, 2009).

When the IMF released its report one year later, the feasibility of the FTT was acknowledged, although they gave priority to another instrument, the Financial Activities Tax (IMF, 2010). Another key event occurred in Germany during the federal election campaign in September 2009. The Social Democratic Party (SPD) – the party whose former finance minister had previously rejected the tax, put the FTT on the agenda. Some days later, Chancellor Angela Merkel declared that she, too, would be in favour of such a tax. France also joined the proposal. This gave new impetus to the civil society campaign.

Both governments tried to convince the G20 to participate in the project. However, during the Toronto G20 summit in 2010 it became clear that the United States, Canada, the United Kingdom, Australia and some emerging economies such as India were against the tax. This is perhaps the reason why, in spring 2011, Germany and France took on the lead and proposed that the FTT should be implemented in the EU if implementation was not possible on a global level. The European Commission, which in the past decade had spoken out several times against the tax, was charged to work out a proposal.

This move is of significance far beyond the FTT: it breaks with the argument that in times of globalisation financial regulation would only be possible if implemented globally. As it is practically impossible to reach a global consensus on financial regulation, the argument was always used as a pretext for inaction.

The EU Roller Coaster

Between February and April 2011, the European Commission launched a public consultation process, where both the finance industry and civil society could make proposals. The opportunity was used thoroughly, and more than one hundred civil society statements were sent.

In the meantime, opinion polls showed that a large majority in most EU countries was in favour of the FTT. At the same time, the European Parliament passed a motion in favour of the FTT. Although this vote is not legally binding, it has a certain political and psychological effect. In the following years, the European Parliament supported the process with several motions.

In September 2011, the Commission presented a draft directive (European Commission, 2011) which, to the surprise of many, was rather close to the ideas of the proponents of the FTT. Financial industries immediately started to lobby against the proposal. During the first half of 2012, it became clear that there would be no consensus in the EU-27. In particular the UK, Sweden, Luxemburg, the Netherlands, Ireland and the Czech Republic were strongly opposed to the draft. As unanimity is required in this area, it seemed as if the project had failed.

Then, in 2012 a new idea came to the fore, one which civil society strongly supported: the FTT could be implemented via the Enhanced Cooperation Procedure (ECP). This procedure allows a group of at least nine countries (which must represent at least 60% of the EU population) to implement a project even if not all the others participate.

Through active diplomatic efforts, a coalition of eleven willing countries finally came together – Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain. On 13 February 2013, the negotiation process among these eleven countries started. It was based on a draft of the Commission, which was very similar to the one presented to the EU-27. The annual revenues were now estimated at 32 billion Euros. Again to the surprise of civil society, the proposal went even further in regard to tax evasion: in addition to the 'home country principle', the 'issuer principle' was introduced. The former states that each bank or fund whose legal base is in one of the eleven countries is liable for taxation. The latter means that any share, bond or derivative issued in one of the eleven countries is taxed, wherever and by whomever it is traded. This demonstrates another aspect of the FTT which goes far beyond a simple tax. The issuer principle tackles an arch-evil of globalisation: the capability of investors to move capital by a mouse click within a split second to any corner of the planet, while nation–states cannot control or tax it. Thus the debate on the FTT has become the arena in which some governments try to break new ground in order to regain sovereignty over globalised financial markets.

Therefore, it is not surprising that the UK has filed a legal complaint against the Commission's proposal at the European Court of Justice. Parallel to that, an unprecedented campaign by the finance industry began, in which they released an overwhelming number of studies and statements to the media that predicted the ruin of the entire sector. According to these studies the regulatory effect of the FTT would go far beyond what its proponents had hoped for in their boldest dreams. For instance, according to Goldman and Sachs (2013), it would destroy the European repo markets[1] and reduce the profits of the forty biggest European banks by 92%.

Nevertheless, the adventurous process continued. An important success for the proponents of the FTT was its inclusion in the programme of the German grand coalition between Christian Democrats and Social Democrats. However, in the second half of 2013 the French government changed its position with regard to the design of the tax. They wanted all derivatives to be exempted. This would have meant that 80% of the revenues would have been lost, as well as most of the regulatory effect. The French move was due to a general shift in François Hollande's policies. Although he had declared the finance industry to be his 'enemy' during his election campaign, he now adopted a friendly position towards the business sector in general and finance in particular. As the crisis in the Euro-zone is increasingly affecting France, with unemployment above 12% at the beginning of 2015, the French government believes that they could master the crisis through a New Labour type of policies.

As a result of the shift in the French position, negotiations were stalled for several months and the project was again at the brink of failure. But a mix of pressure from civil society, strong media attention and lobbying from some sister parties of the French Socialists, in particular the Austrian SPÖ and the German SPD, led to a breakthrough and negotiations continued.

At the time of writing (early September 2015), a definitive decision point was fixed for the end of 2015. If this date is kept, a final directive could then be drafted by the Commission until spring 2016. As European directives have to be ratified by national parliaments the process will take probably another year. Hence, cash flow could start towards the end of 2017 or the beginning of 2018.

Concrete Goals of the Campaign

When the campaign for the FTT started in the late 1990s, its first goal was to sensitise public opinion to the problems of the financial system, not to implement the tax immediately. In this perspective the FTT was meant to open a broader debate on financial capitalism. Considerable progress in this respect was achieved with the breakthrough of the appeal to 'Disarm the Markets!' It was a success on the discursive front. Real implementation did not matter so much.

In addition, many active members of the campaign were interested in the revenue side and did not care about financial capitalism. The campaign always tried to find common ground by arguing that the two dimensions were not competing.

At the same time, the 2008 financial crash had changed the coordinates for the debate on the use of revenues within the EU. Given the unsustainable level of public debt in most European countries and the tremendous social problems that followed the crisis, the chances that even a part of the tax revenues would be used for development purposes or other global public goods like climate protection diminished. There is the risk that NGOs focusing on revenues will eventually be frustrated. In other words, the FTT campaign might end with a success for those who are mainly interested in regulation, while those who look to utilise the potential revenues might consider themselves as being defeated.

The campaign has acknowledged this challenge and increased its efforts to secure at least a part of the revenues for development and the environment. There are signs that this might not be in vain. The French government has indicated that a certain percentage of the revenues might go to development. Civil society is now trying to broaden this breach, but the outcome is still open.

Organising Strategies and Instruments

During the fifteen years of its existence, the FTT campaign has accumulated a large range of organisational capacities such as technical expertise, communicative capacities and lobbying tools. A campaign infrastructure has emerged, which gives quite some clout to the campaign.

From the beginning, the campaign tried to build broad alliances among development, environment and social NGOs, trade unions, faith groups, cultural groupings, social movements and so on. Also, links to political parties, and in particular members of national parliaments – in most cases informal links in order to maintain independence and partisan neutrality – are part of the alliance structures. An important precondition for keeping these alliances together is a political culture in which diversity and plurality are accepted as a common value by the partners.

In order to share expertise and information, develop strategies, prepare activities and coordinate action, an informal European network has emerged. Although the network has an informal character, without centre, leadership, common budget or headquarters, it is very stable and has worked continuously for over ten years. For common initiatives – like the production of fact sheets, sign-on letters, background papers and studies – a division of labour has been agreed. The implementation of the activities usually happens at the national level and can be modified according to need at the same level.

The European network is connected with a very loose global network, which essentially consists of a monthly conference call. Apart from the Europeans there are participants from the United States, India, South Africa, Brazil and sometimes other Southern countries. However, looking at the number of participants, most interest comes from the US, where the FTT is quite well anchored in civil society and where there have been attempts to push the country to introduce such a tax for at least five years. Additionally, the campaign benefits from new media and technologies of communication, information sharing and mobilisation provided by the Internet.

Another important condition for the success of the campaign has been the use of alternative or counter expertise. Already during the first phase of the campaign, reports and studies from heterodox economists were produced and used to back up the proposals. Studies and reports, such as the Spahn Study (2002), the Landau Report (2004) and the works of Schulmeister and his colleagues (2008, 2010, 2013) were widely used and had some impact.

Over the years the campaign has developed a wide range of tools to convey its message to the outside world. Besides traditional print media, such as fact sheets, information brochures, reports and studies, the Internet is used broadly. The national campaigns have their own websites.[2] These are not only used to dispatch information, but also in an interactive way – for instance, to collect signatures for petitions or sign-on letters, which are sent to decision makers.

As already mentioned above, the campaign also maintains permanent contacts with decision makers. The first purpose is to closely monitor the debate and the decision-making process in institutions. The second purpose is to influence the process itself.

Conditions for Success and Future Challenges

The first decisive factor is that, as a result of the financial crisis, parts of the elites in the industrialised countries were open to reforms. The G20 decision to see how the finance sector could contribute to alleviating the burden of the crisis, the determination of the German government and the readiness of France to join qualitatively changed the balance of power. However, without the continuity of the grassroots work in the years before, these governments would probably have chosen another project.

A second important factor for the success of the FTT is the fact that it met a certain mood or *zeitgeist.* In the late 1990s, there was an increasingly critical view of globalisation and its side effects, such as liberalisation, deregulation and privatisation. It became more and more obvious that globalisation would not be a win-win game – the tide would lift all boats, big tankers as well as small canoes. One could say that 'there was something in the air'. The merit of the appeal in *Le Monde Diplomatique,* the Seattle protest and the outreach of the World Social Forum resulted in giving voice to the diffuse feelings of dissatisfaction which had accumulated over years among many people. The FTT was part of this process. It was the flagship demand of the new Global Justice Movement.[3]

All the tools described above were combined in an overall strategy which tried to create as much synergy as possible between them and to use momentum coming from official processes and events. Also, different levels of intervention were used and combined with each other. These include:

- involving activists at the grassroots level by collecting signatures during street actions;
- providing material and organising at national level;
- influencing national decision-making processes through meetings with government officials;
- networking at international level and direct contact with the European Parliament and the Commission.

Finally, the Enhanced Cooperation Procedure was a completely new terrain for the campaign. The idea to choose this option did not come from civil society. But for once, when the first signs emerged that the process could continue through this channel, the campaign studied the complicated procedure and was able to flexibly adjust its strategy to the new conditions.

The Role of Trade Unions

Trade unions were not the initiators of the FTT campaign, but they were among the first to join. Nowadays, in almost every country where the campaign is present, trade unions are part of it. As mentioned above, already in January 2001 the AFL–CIO and the DGB made a common statement in which they advocated the FTT.

Before that, trade unions in the service and education sectors had included the FTT in their programmes, and some of them were actively involved in campaigning. For instance, in Germany the DGB is actively represented in the leadership of the campaign. The British TUC is involved, both in the UK Robin Hood Campaign and the European network, and the European Trade Union Confederation (ETUC) is closely connected to the European FTT network.

A special case outside Europe is the US nursing trade union, National Nurses United. This organisation has set up a special campaign for the FTT under the slogan 'Heal America – Tax Wall Street'. Through different instruments – including mass rallies and stunts at international summits – they have urged the FTT in the US to lobby activities in the American Congress.[4]

Conclusion

All in all, the FTT process gives a deep insight into the complexity of financial reform processes. Obviously, nation–states tend to defend the vested interests of 'their' respective financial industries under the auspices of competition against each other. This is true both on a global level (G20) and inside the EU. The lobby power of the financial sector functions across borders and can deploy enormous pressure. This reveals a considerable deficit in democracy, and gives finance an illegitimate influence over societies. In spite of the 2008 crash, the balance of power in favour of far-reaching financial reforms is still insufficient. On the other hand, as a result of the financial crisis, elites are split over the future of the financial system. Some sectors are ready to break new ground in certain areas.

Civil society, trade unions, NGOs and social movements can intervene successfully in the process, provided they have recognised the right moment in history and develop the necessary skills and tools to raise their voice efficiently. In that case they can become relevant actors who are capable of influencing the balance of power in favour of far-reaching changes. As a result, the FTT might become, at least in eleven EU countries, one of the few reforms – if not a unique one – which sets some limits to the power of finance. In that sense the significance of the FTT campaign goes far beyond a single tax as such.

NOTES

[1] Repo stands for Repurchase and Sale Agreement – credits among banks with a highly speculative component.

[2] Here are some links to national campaigns in Europe: Austria: www.steuergegenarmut.at; France: http://www.taxerobindesbois.org; UK:robinhoodtax.org.uk; Italy: www.zerozerocinque.it; Germany: http://www.steuer-gegen-armut.org/home.html.

[3] In the mainstream discourse the movement was called anti-globalist. But most of the activists and organisations did not consider themselves as 'anti'. Therefore, in French the concept of *altermondialiste* (alternative type of globalisation) is used, and in the German-speaking countries *globalisierungskritisch* (critical of globalisation) is used.

[4] See their homepage: http://www.nationalnursesunited.org/affiliates/entry/msc1.

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BIOGRAPHICAL NOTE

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