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Germany wants the Robin Hood tax – and Europe's voters do too

No argument against a financial transaction tax has stood up to scrutiny, so politicians must resist lobbying and see sense

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Angela Merkel's Christian Democrats and the Social Democrats look set to prioritise a Robin Hood tax in Germany. Photograph: Isopix/Rex Features

The path to implementing a tax on financial transactions (known as the FTT) was never going to be smooth. This week's announcement that the expected coalition between Christian Democrats and the Social Democrats in Germany will prioritise the tax's implementation, is a sign that the proposal remains on track. But any measure that taxes or regulates financial markets and banks will always meet concerted opposition.

In recent weeks, this has been growing from some quarters. The latest criticism, from France's central bank governor Christian Noyer, was splashed on the front page of Monday's Financial Times: "France central bank chief says Robin Hood tax is 'enormous risk'" ran the headline. As this extremely small tax is to be implemented by 11 European countries, it is appropriate to ask: an enormous risk for whom?

Certainly it will impact on trades with short time horizons – high-frequency traders,

whose computer algorithms fire off thousands of trades in microseconds, will undoubtedly have their business dramatically curtailed. Yet this will significantly reduce rather than create risk. Many regulators are concerned about the risk of this high-frequency trading, which now accounts for over half of trades on the London Stock Exchange. As demonstrated by the infamous flash crash of May 2010, when liquidity drained from the market and the Dow Jones index dropped 9% in a matter of minutes, it poses a threat to wider economic stability.

By contrast, the impact on a typical long-term investor is likely to be negligible. There are already many transaction costs such as trading commissions, spreads, clearing, settlement, exchange fees and administration costs. Prof Avinash Persaud, a former JP Morgan executive, has estimated that the FTT of 0.1% on stocks and bonds, and 0.01% for derivatives will comprise of only 5% of annual transaction costs for long-term equity holders, taking levels back to those experienced 10 years ago. Compared to management fees – typically about 1% charged by many financial institutions which are now lining up to oppose the FTT – it is hard to conclude the tax will have more than a marginal impact on costs for long-term investors, like corporates and pension funds.

The net result is that an FTT would slow short-term trades, which are mainly unproductive, helping to reduce the risk of crises that are so detrimental to growth. Furthermore, the potential €30bn in revenue the European FTT could raise, could be invested productively, for example in infrastructure and innovation, encouraging much needed future growth and employment and making European countries more competitive.

Noyer and others worry unnecessarily that the tax will lead to an exodus of bankers from participating countries. But the issuer principle embedded in the EU proposal means that attempts by banks and their subsidiaries to duck the tax by migrating to other jurisdictions will not work, since the FTT would be paid by all those transacting the eleven countries' bonds and shares, wherever they are based. Thus the tax, from a transaction in say a French bond taking place between parties in New York and Singapore, will still be collected by French authorities.

But this need not be a debate about hypotheticals. Major financial sectors such as the United States, Hong Kong and South Korea already have FTTs which together raise tens of billions in revenue annually without causing economic damage. In the UK we have the very successful stamp duty, an FTT on share transactions that raises more than £3bn a year, of which 40% is paid by foreign-based investors and banks. It too rightly taxes all those trading UK shares, wherever they are based. This is the same principle on which the European FTT will be based.

Fortunately, the European commission is clearly supportive of the proposal, as is the European parliament. Eleven European countries, representing 66% of European GDP,

remain committed to implementing the tax.

It is encouraging that in coalition talks between the German SPD and CDU, they achieved clear consensus on the FTT. This is not surprising, as in Germany 82% of citizens, according to Euro-barometer, support a European FTT. In France this figure reaches 72%, and the EU average is 64%. Let's hope politicians elsewhere will listen to their voters and fully implement the tax soon.

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