Financial Transaction Tax

- A study of how Sweden might be affected by the FTT
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Idén att beskatta marknader har funnits i decennier och målen är desamma i dag som de var för 80 år sedan. Nämligen att:

- Harmonisera existerande regleringar genom minska antalet nationella beskattningsmetoder,
- Stabilisera marknader genom att minska volatiliten och
- Få in intäkter

Skatte intäkterna ska sedan användas till att finansiera något annat som man önskar att finansiera i samhället.

Den här uppsatsen undersöker hur skatten kan komma att påverka Sverige och presenterar bland annat att skatten som elva länder i EU kommer att införa från och med januari 2014 kommer inte bara att påverka de elva länder, utan även övriga länder inom EU som också kommer att få ökade kostnader, trots att de inte tänker implementera skatten. För Sveriges del riskerar skatten att påverkar våra pensioner, hur vi investerar, var vi investerar med mera.
Abstract

Title: Financial Transaction Tax
- A study of how Sweden might be affected by the FTT

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The idea of taxing markets have been around for decades and the goals today are the same as they were 80 years ago, to

- Harmonize existing legislation by reducing the amount of different national taxation methods,
- Stabilize markets thru decreased volatility
- Collect tax revenue

The tax revenue will later be used to finance something that the society wants to finance.

This thesis examines the possible effects that the financial transaction tax might have on Sweden and will present the effects that the tax might have not only inside the 11 countries in the European Union that will implement the tax from January 2014 but also on those outside, who will face higher costs even though they are not planning on implementing the tax.

Sweden faces a risk with decreased pension’s funds a change in how we invest and where we invest.
Acknowledgement

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Writing this thesis was a very interesting and instructive experience and the deeper understanding that was acquired will certainly be very useful in the future.

During the process several challenges have been overcome and the work proved that different areas are much more related than it seemed from the beginning.

I want to thank my supervisors Björn Berggren and Ingalill Söderberg at KTH, for valuable support throughout the process and I want to express my gratitude towards Dr. Steve Hinson and Dr. David Porras at Webster University in St. Louis, USA, for interesting discussions, views and helpful advices. Also, I'm very grateful to everyone who contributed to this thesis: Cecilia Hermansson, Mats Wilhelmsson and Han-Suck Song.

Stockholm, May 2013

Inna Agrest
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1. INTRODUCTION

This section will present a general background and why it’s necessary to investigate the financial transaction tax further.

1.1 Background

The global financial crisis starting 2007 had its roots in the deregulated US banking sector. The bubble in the US housing market had been caused by excessive speculation on US mortgage debt. By the proliferation of several financial products based on US mortgages throughout the world banking system, the burst of the bubble led to a near collapse of the world financial system, as many banks suffered huge losses and could not acquire enough new capital without state intervention. Since then, experts in all leading economies have sought ways of dealing with the volatility of global financial markets in a way so that any future crisis would have less substantial effects on the world. (WP/11/54)

Lately, there has been a strong opinion that the financial market should help to cover the expenses that occurred as a consequence of risky speculation in the financial world. This because the financial market is under-taxed, given that no “global” VAT is applied to the majority of financial transactions, there should simply be a tax that would raise revenues and curb speculations. (WP/11/54)

A remarkable step in this direction is taken by the 11 countries in the European Union (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain) that will implement a financial transactions tax (FTT) from Jan, 1st 2014. This tax and its effects are still being debated on a regular basis. A crucial issue is the effect on countries that implement the tax compared to countries that will not do so. The countries who implement the tax are hoping to start the process of stabilizing the markets around the world.

Sweden is not one of those countries who are planning on implementing the tax, but it is in a daily interaction with actors from these 11 countries. Therefore it is necessary to study possible effects and consequences that this financial transaction tax might have for Sweden.
1.2 Purpose

The purpose of this thesis is to examine how Sweden might be affected by the financial transaction tax.

1.3 Restrictions

Many research papers have been written about taxes and what general consequences they might have. This paper focuses specifically on the financial transaction tax (FTT) and which effects it might have on Sweden and the Swedish financial market. It will however touch the EU in general, since what happens in Europe now might have an indirect effect on Sweden later.

1.4 Disposition

The thesis starts with background information that will present why it’s necessary to look into this issue. The same section will also present the purpose and the restrictions of this thesis. Chapter two will give a general explanation of the methodology that has been used while collection information and reasons behind certain choices of sources. The historical background of the ideas behind taxes and a summarized description of the current proposal will be presented in Chapter three. Previous experiences, opinions about the tax and the conducted interviews will be presented in chapter four. Chapter five will present analysis based on the empirical evidence presented in section three. Last chapter will include conclusions and ideas for further research.

1.5 Audience

This paper targets anyone with an interest in financial markets and who wants to know more about general ideas about financial taxes and why the European Union has proposed to implement one. In addition to that, it targets people with a specific interest in the Swedish financial market.
2. METHODOLOGY

The section will present and motivate the methods chosen to complete this thesis.

2.1 General

In order to be able to evaluate what effects this financial tax might have on Sweden, I used a qualitative research method and I started out by acquiring a general understanding and knowledge about ideas and reasons behind taxes.

My primary sources were research papers, publications in journals and current working papers as well as general articles from current newspapers. Several of the research papers are written by Nobel Prize laureates, who devoted their whole lives to economics. The opinion articles are from newspapers, since it’s such a current topic and someone can be found expressing his or her point of view regularly.

Secondary sources used were interviews that provided me with material and ideas for discussion and other perspectives on the financial tax that I came across while studying the material as well as ideas for further research areas. They also contributed with a different and somewhat more modern perspective on possible effects, compared to the economists who tried to foresee possible consequences several decades ago.

I also studied historic data about taxes, in particular the tax that Sweden had from 1984-1991, because I realized at a very early stage that there were many similarities between the tax now and the tax back then. This drove me to the conclusion that the effects the financial transaction tax is going to have this time must be very similar in some ways. Current papers provided me with an updated view on this financial tax, as well as pros and cons for it.
2.2 Respondents

From the beginning I was trying to figure out how to get an interesting view and new fresh ideas on the topic. Therefore, the reasoning behind the choice of respondents was to find people with relevant knowledge who could give an interesting opinion on the subject from different perspectives. I wanted to find people who had looked at the problems from an academic perspective and people who had looked at the subject from a work-related perspective, therefore I focused on respondents from KTH, because this institution has a broad variety of different people among the academic staff, which makes it possible to find many qualified respondents with diverse opinions on the subject of the transaction tax. I ended up with a selection of three respondents, all with different connections to the financial tax; some more inclined to practical considerations others more theoretical.

The first respondent was Cecilia Hermansson who is currently working on her PhD at the Royal Institute of Technology (KTH) in Stockholm, but has a wide economic background including a position as Chief Economist at Swedbank, one of the largest banks in Sweden.

The second respondent was Dr. Mats Wilhelmsson who’s a Professor of Applied Financial Economics at KTH. He has been published several times in different economic journals and economic magazines.

The third respondent: Dr. Han-Suck Song, assistant professor at KTH, doctor of technology. He teaches a variety of courses in: Corporate Finance, Capital Markets and Financial Instruments, Real Estate Finance and Portfolio Management, Real Estate Finance and Investments; Econometric methods, Excel for finance etc.
2.3 Basis for interview

Questions used during the interviews were created after most of the material was studied. This was done in order to be able to collect to most interesting points and ideas for further discussion. There were originally 7 questions, but during the interview several more were added as part of the discussion. They are not presented in the appendix, but in the interviews.

2.4 Conducted interviews

Two of the interviews were conducted at KTH on May 15th 2013. Several questions were provided in advance for the respondents to prepare and plan their responses. An audio recorder was used during both interviews, this to avoid misunderstandings but also to be able to continue the conversation as new questions arose without being worried about missing something important. The last interview was conducted by email, because of lack of time. All the interviews were conducted in Swedish and were later transcribed and translated to English.
3. THEORY

This section will present taxation from an academic perspective.

3.1 The idea of a transaction tax

The idea of taxation in different forms has existed for decades and even though times change and the world moves forward, the ideas are still very much the same. The empirical literature points toward two important ideas: to curb speculation\(^1\) and decrease volatility\(^2\) which would stabilize the market, while generating substantial tax revenue in the process.

3.1.1 John Maynard Keynes

One of the fathers of the transaction tax idea was John Maynard Keynes. In the mid-1930s he expressed concerns about the big influence that speculation might have on the financial markets. One of his main arguments was that speculation will have a big role on financial markets as long as it is easy and cheap to trade.

“When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.” (Keynes, The General Theory of Employment, Interest and Money, p 159)

Therefor the solution that he presented was a tax on all securities transactions, which according to him “would force the investor to direct his mind to the long-term prospects and those only” (Keynes, The General Theory of Employment, Interest and Money, p 102), and thereby reduces speculation.

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\(^1\) Short term investments. 
\(^2\) Variation of price of a financial instrument over time.
3.1.2 James Tobin

James Tobin introduced in 1972 the idea of a currency transaction tax in his paper (J. Tobin, The New Economics One Decade Older pp. 88-92), which later got to bear his name and nowadays such taxes are often called “Tobin-tax”. Unlike most others before and after him he was actually only talking about taxation of one type of financial transactions,

“Spot conversion of one currency into another, proportional to the size of the transaction”
(J. Tobin, A Proposal for International Monetary Reform, p 155).

This, according to Tobin, would result in less exchange-rate movements – decreased volatility. He argued that the financial markets in general and the exchange rate markets specifically have become extremely efficient, much more responsive to changes in the market environment in the short-run than goods and labor markets. Still, goods and labor markets in a currency area are severely affected by drastic changes in the exchange rate. Demand and supply, the balance of export and import, will inevitably shift.

In the US not only capital moves freely between its states, but labor too, so that capital can move to the most profitable enterprises and labor can adapt to the changing demand and supply in the different regions, by moving accordingly. Deficits in a region can easily be covered by surpluses earned in another region, because the US is one currency area.

Between different countries this does not work, because exchange rates fluctuate, making it easier or harder to balance a trade deficit, while workers cannot move freely to markets in other countries and the prices of goods are rigid compared to the fluctuation in exchange rates.

The fast and more importantly, at times substantial changes in exchange rates strain national economies, as any policy adjustments need time. Tobin recommended the tax on currency conversions to put a stop on short-term currency trading and direct the markets towards long-term investments in any currency, more in line with the long-term orientation of national economic policies. He basically wanted to slow down the currency market to meet the pace of national goods and labor markets. According to Tobin, this would allow national governments
to focus on long-term policies/goals with less distraction of their efforts by short-run exchange rate fluctuations.

3.1.3 Summers and Summers

Summers and Summers (When Financial Markets Work Too Well: A Cautious Case For a Securities Transactions Tax, 1989) observed an enormous increase in the turnover volumes on the US financial market over the years. For a long time, the efficient markets view, that the prices in financial markets are a reflection of fundamental values, was widely accepted. Their paper provides indications to why this is not true anymore or at least far from accurate. According to Summers and Summers empirical evidence suggests, that the effect of new information alone does not explain the volatility of markets.

This can be illustrated by the following example when a market is closed e.g. every Wednesday, the volatility between closing on Tuesday and opening on Thursday will be much smaller, compared to the scenario with open markets on Wednesday in between. Summers and Summers reason that there is volatility solely out of market operation, that exceeds volatility based on new information. In their view, the trading that is not based on market facts, does not contribute to the market function of finding an accurate price at any time, it rather represents “trading noise”\(^3\) that is not related to fundamental values and constitutes of purely speculative trading that leads to excess volatility.

This logic allowed the authors to make a case in favor of a securities transaction tax in the US, a form of a financial transaction tax. They addressed and attempted at refuting the criticisms at such a tax to underline its key benefits at the same time. The transaction tax would obviously increase the transaction cost, and thus help making heavy frequency trading, aimed at short-term profits, less attractive. (Summers and Summers, 1989)

\(^3\) Decisions to buy, sell or hold are irrational and erratic.
Summers and Summers pointed out that according to critics, this development would at the same time decrease market liquidity, and reduce the overall supply of funds for investment. While this concern is valid, Summers and Summers argued that there is enough liquidity and available capital in the market in any case. The main purpose of the tax is to curb speculation, to help the market focus on its social function: To direct investment capital to the most profitable enterprises, with long-term growth/profit orientation. The tax would generate government revenue, while steering the market into a better direction.

According to the authors, this makes the securities transaction tax a very desirable one. They negate substantial negative market distortion as they hold that “a modern transaction tax would not have a major impact on the return to the long-term investors who are the primary suppliers of capital in the US market” (Summers and Summers, When Financial Markets Work Too Well: A Cautious Case For a Securities Transactions Tax, p. 274)
3.2 Financial Transaction Tax proposed by the EU Commission

This section will present the background behind the proposal as well as a summarized version of the proposal with the key points.

3.2.1 Enhanced Cooperation

In September 2011, the European Union Commission submitted a proposal for a financial transaction tax. Originally it was meant to be implemented in all the 27 countries that are currently part of the European Union, but several countries including Sweden expressed concerns about the tax which made the European Union realize that an agreement on a common system in all countries wouldn’t be reached. Therefore, the countries who wanted to implement the tax submitted a request to be allowed to create an enhanced cooperation, through which they would all implement the tax. The enhanced cooperation was granted on January 22nd, 2013.
3.2.2 Summarized FFT Proposal EU

Below is a summary of regulations for the financial tax.

On February 14\textsuperscript{th}, 2013 the European Commission published “Proposal for a COUNCIL DIRECTIVE implementing enhanced cooperation in the area of financial transaction tax”. A detailed proposal on how the financial tax will work.

Originally on September 28\textsuperscript{th} 2011, the Commission adopted a proposal for a Council Directive on a common system of financial transaction tax (FTT) which included a detailed information on how the tax was going to work, the reasoning behind it, etc. ((COM(2011) 594 of 28 September 2011)). But during a meeting on 22 June 2012, several of the member states expressed concerns about the financial tax and possible consequences that it might have. The consequence to that was that the tax could not be implemented in all the member states.

Afterwards, 11 member states requested the commission to authorize an enhanced cooperation between themselves which would allow them to establish a FTT system between each other. The request was authorized on 22 January 2013.

The following eleven countries will be implementing the tax January 1, 2014: Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain. This is the so called Financial Transaction Tax zone (FTT-zone).

**Main goals**

The tax has three main goals:
* Make current regulations more harmonized.
* Make the markets more stable than they are today.
* Make sure that the financial markets take part in covering the costs of the recent crisis.

**Tax rates**

The tax rate for shares and bonds, units of collective investment funds, money market instruments, repurchase agreements and securities lending agreements are set to be minimum 0.1 \%, while the tax rate for derivative products will be minimum 0.01 \%. This means that the countries are free to set a higher tax than the minimum rate. (Chapter 4, Article 9)
Definitions

The definition of financial institutions includes among others: investment firms, organized markets, credit institutions, insurance and reinsurance undertaking, collective investment undertaking and their managers, pension funds and their managers, holding companies, financial leasing companies, special purpose entities, etc. Additionally, other undertaking, institutions, bodies or person carrying out certain financial activities with a significant annual average value of financial transactions should be considered as financial institutions.

According to the adopted directive for the enhanced cooperation (Chapter 1, article 2) the definition of a financial transaction is:

(a) the purchase and sale of a financial instrument before netting or settlement
(b) the transfer between entities of a group of the right to dispose of a financial instrument as owner and any equivalent operation implying the transfer of the risk associated with the financial instrument, in cases not subject to point (a)
(c) the conclusion of derivate contracts before netting or settlement;
(d) an exchange of financial instrument;
(e) a repurchase agreement, a reverse repurchase agreement, a securities lending and borrowing agreement”

More definitions can be found under article 2.

Subject to tax

The tax will be applied on all financial transactions carried out by financial institutions acting as a party to a financial transaction that might be conducted for their own sake, or for the sake of other persons. It also applies to cases where financial institutions are acting in the name of a party to the transaction. Tax will be applied on derivative contracts based on currency transactions.
The following institutions are excluded from the tax: European Central Bank, the European Financial Stability Facility, the European Stability Mechanism, the European Union where it exercises the function of management of its assets, of balance of payments loans or similar activities, the central banks of member states are also excluded from the tax. The tax will not apply to primary issuance of shares and bonds and units of collective investment funds.

Most day-to-day financial activities relevant for citizens and businesses are excluded from the FTT. Such day-to-day activities might be: Conclusion of insurance contracts, mortgage lending, consumer credits, enterprise loans, payment services, etc. Currency transactions on spot markets are also excluded from the tax.

A financial transaction that occurs in one of the participating member states is subject to tax, if at least of one the parties are established in the territory of a participating member state. Tax has to be paid if a transaction occurs on a financial institutions account.

Around 85 percent of the transactions that take place daily are between financial institutions. Therefore the Commission doesn’t expect the ordinary citizens to be affected by the FTT, since the day-to-day financial activities that most ordinary citizens take part in are excluded from the FTT. However, FTT is expected to have an effect on pension funds, as they are considered to be an important actor on the financial markets. (Chapter 2)

**Time scope of payment**

When a transaction is conducted electronically the tax should be paid at the same moment as the financial transaction occurs. In other cases the tax has to be paid within three working days from the moment of chargeability. The tax should be paid to the tax authorities of the participating member state where the financial institution is established.

If the tax is not paid on time, both parties will be held jointly and severely liable. This doesn’t apply to the following entities when they are exercising their respective function: Central Counter Parties (CCPs), Central Securities Depositories (CSDs) and International Central Securities Depositories (ICSDs), member states, including public bodies managing the public debt. (Chapter 4)
**Tax avoidance**

Two principles are created to prevent people from relocating transactions and avoid the tax: the residence principle and the issuance principle.

A tax will be applied regardless of when and where the transaction occurs as long as one of the parties to the transaction is established in the FTT zone. The definition of “established” is to have a registered seat within a member state or permanent address/ tax residence in a member state. This is called the residence principle and was created in order to avoid relocation of financial transactions. Example: If a German and a French company are doing business in the UK and the transaction occurs in the UK, they will still have to pay the tax since at least one (but in this case both) of the parties are from the FTT zone.

In order to prevent avoidance of the tax, the issuance principle states that a transaction will be taxed, regardless of when or where it takes place as long as it involves a financial instrument issued in one of the participating member states. (Chapter 4)

According to the Q&A posted by the European Commission, the only way to avoid the tax will be to give up the clients that are based in one of the eleven participating states and stop trading in financial products issued there.

**Expected results**

The financial transaction tax is expected to bring revenue of € 30-35 billion annually. FTT is not anticipated to lead to any job losses; however it is estimated to have a -0.28% impact on GDP in the long run. (Chapter 5)
4. EMPIRICAL EVIDENCE

This part starts with information about the previous experience that Sweden had with a similar financial tax. Then different opinions about the tax together with interviews will be presented in three different categories: volatility, revenues and others.

4.1 Previous experience

The following two sections will describe the previous experience that Sweden had with a financial transaction tax of a similar kind.

4.1.2 Umlauf

Steven R. Umlauf wrote a paper with the title “Transaction taxes and the behavior of the Swedish stock market” that was published in the Journal of Financial Economics 33, September 1993. In the paper he studies the effects that the transaction tax was implemented in Sweden between 1984-1991 had on the behavior of Swedish equity returns before, during and after the tax was in place. Sweden had a transaction tax between 1984-1991 that was applied to equity securities, fixed income securities and financial derivatives.

The reason behind the implementation of the tax was political appeasement of the labor sector. One other argument behind the tax was that the financial sector didn’t contribute enough compared to the resources that it used up. The Parliament implemented the tax from January 1st, 1984 and it was a round-trip tax of 1.0 percent, which meant a tax of 0.5 percent on both purchase and sale. Later, in 1986, the tax was increased to 2.0 percent round-trip.

The results of the tax were that the volatility did not decrease during the period the taxation was in effect. But the index fell and the weekly to daily returns variance ratios declined during the high-tax time, which according to Umlauf suggested that taxes generated negative autocorrelation in returns. After the tax-increase in 1986, 60 percent of the trading volume migrated to London, which was tax-free at that time. After the migration, the volatility of London-traded share classes fell in comparison with those of their companies’ Stockholm traded classes. Both Stockholm- and London-based share classes have the same claims on
company’s cash flows, but they have different voting rights and ownership limits. The results overall were, according to Umlauf, an indication that all else being equal, taxes increased volatility.

4.1.3 Wiberg

Financial Times published an article with the title “We tried a Tobin tax and it didn’t work” on April 15, 2013 by Magnus Wiberg, former economist at the Swedish ministry of finance and the country's Riksbank.

In the article Wiberg advises the European Union to learn from Sweden’s mistakes. Because Sweden had a very similar tax 1984-1991, that was implemented for very similar reasons as the FTT; to improve the financial markets and to generate tax revenues. He points out that based on the way everything turned out in Sweden the move that the European Union is about to make is “extremely unwise”.

The differences between Sweden then and the European Union now are that 25 years ago, there were market restrictions that limited the investor’s possibilities to move capital to foreign markets. Today the markets are much more free-floating. Nevertheless Wiberg points out that back then investor’s still found their way around the tax, even inside the country, for example by trading instruments that were exempt from taxation.

According to Wiberg, there are three important lessons to be learned from the Swedish experience:

“First, on open financial markets it is easy to move transactions to untaxed markets. Second, it is legally problematic to determine what constitutes a taxable transaction. Third, it is unlikely to make much money.”
4.2 Media

The following section will present various articles published in the daily-press, economic journals and official websites with an expressed opinion about the financial transaction tax.

4.2.1 Volatility

On February 23rd, 2013 the Economist published an article with the title “Europe’s financial-transactions tax: Bin it”, that started with the following lines “ANY idea that has bankers up in arms and America, of all places, whining about intrusive lawmaking must have something going for it, right? Wrong. The European Commission’s proposals for a financial-transaction tax (FTT), published on February 14th, are a masterpiece of bad design.”

The article says that even though the small tax percentage looks harmless, if you take a closer look you will see that the tax increases the cost very much. When capital flows freely, it gives ideas that there should be more regulations even across borders, something that might work in the U.S., but not in Europe. This tax might instead give people incentive not to buy European securities. Their last comment is that the EU won’t achieve what they want with this proposal.

Johan Almeberg from the Swedish Financial Department and Magnus Wiberg

From the Swedish country’s Riksbank published a paper “Skatt på finansiella transationer” about the FTT during the first part of 2012. In the paper they show why there’s no substantial evidence that the financial markets would work better with a transaction tax. Instead they think that the tax will increase the company’s cost of capital, which would lead to fewer investments and in the long run a lower GDP. According to their research there is no theory or empirical evidence that proves that transaction taxes result in decreased volatility.

The Swedish web-newspaper “Business World” (Affärs Världen) published on April 9th, 2013 an article (”Tobinskatt slår mot sparare” by Karin Arnell) about the FTT where they point out that Swedish investors will have to pay some tax, to other countries, depending on where the funds that they invest in are located and that will result in a decreased value of the respective fund and additional administration for Swedish fund companies. In the end Swedish investors
will lose money and might do less diversified and therefore more volatile and risky investments.

4.2.2 Revenues

“Fondbolagets förening” published a press release on their official website on March 12, 2013 where they say that Sweden shouldn’t support the FTT-proposal. The Swedish investment funds that have placement in financial instruments in countries that will implement the financial transactions tax will have to pay the tax, which will result in lower stock values; a direct impact on investors and pension savers. The tax revenues will go to other countries than Sweden.

4.2.3 Others

Swedish Insurance (Svensk försäkring) expressed their worries about the consequences that the FFT might have on the pension funds in Sweden in a press release on their official Webster on January 24th, 2013. According to them, the insurance holders and the pension funds already had to pay for the crisis once and the crisis was not caused by actions taken by insurance companies. They want Sweden to argue in favor of pension funds being exempted from the FTT.

They bring up that the enhanced cooperation isn’t allowed to have negative consequences on the domestic markets or to interfere with trade between countries in a negative way. According to Swedish Insurance, the current proposal will have a negative effect on the liquidity in the financial markets in the EU because of the fact that the regulation that was created after the financial crisis in 2008 was built on the financial actors ability to measure and control risk together with a demand on a high-standard capital that would work as a fund. Their second concern is that there will be a negative effect on pension funds because insurance companies have long-term commitment towards their customers and it’s difficult to satisfy those commitments through fund placements in small currency areas like Sweden, who uses derivate instruments to be able to offer a variety of options. They question this because according to the proposal they might be within the scope for taxation, which would create additional costs that the customers would have to pay.
The Swedish committee on Taxation (Skatteutskottet) is very critical toward the FTT-proposal that the European Union has released. This they presented in a press release ("Skatteutskottet kritiserar EU-förslag om skatt på finansiella transaktioner") on April 9th, 2013 on the official website of the Swedish Parliament. The committee states that the EU is going too far, since some Swedish institutions will be affected even though Sweden is not planning on implementing the tax. They also find it unclear how the tax will be applied and what consequences it will have. There were two parties that didn’t agree with that. The left party and the Green party, they would both like to implement the tax. The left party thinks that the tax is a good idea and that the revenues collected should be used to provide jobs for young people.

SACO also posted a press release ("Ett gemensamt system för en skatt på finansiella transaktioner") on their website on November 14th, 2011, when the FTT was still a proposal. They dismissed the proposal and their arguments for that were based on previous experiences where taxes like this have not been successful. SACO feels like the consequences might be less, if the tax is implemented in the entire EU, but it’s still not possible to avoid a migration to other tax-free markets. Their conclusion is that other methods should be sought to make the financial market pay their share.

The Swedish Financial Inspection (FI) posted their response on Match 12th, 2013. In their press release they argue that a financial transaction tax shouldn’t be implemented. They see a risk that the goals will not be reached and that there are better ways to stabilize the financial markets. The FI thinks that a FTT will increase the cost for both individual and non-financial companies, this because even though the financial institutions have to pay the tax they will find a way to rollover the tax on the customers, for example by lower returns. The tax creates extra work for the companies and institution since they have to keep track of the details of all transactions and pay the tax when they trade with a company within one of the 11 countries. FI also sees a risk that investor’s behaviors will change; they will be more afraid of investing in one of the countries with the tax and look more at other options. Earlier the FI also submitted comments, when the proposal was still a proposal and back then they pointed out that it’s very hard to draw a line between speculative transactions and non-speculative transactions.
4.3 Interviews

The following section will present the conducted interviews under seven different sub-sections. All interviews started out by talking about the proposal in general, to get the discussion going and everything developed from that.

4.3.1 FTT proposal

Wilhelmsson said that it’s generally a bad proposal that will become very expensive and at the same time very bureaucratic. “You’ll need a good system and be able to monitor everything, who’s the buyer, the seller, who issued the papers and so on. In order to achieve that you’ll have to spend a lot.” His main point was that as long as the tax is not global, it won’t be good. That some countries start before others won’t do any good, it has to be implemented everywhere at the same time. To him the proposal is very strange in general.

Hermansson also said that it’s a bad proposal and that as long as it’s not global, it won’t work. She argued that the euro-zone countries shouldn’t be free to choose and that it might end up being a decision inside the EU, which is what makes the UK so mad. Since it’s only 11 countries right now, it makes it even more chaotic, because it’s like moving from Frankfurt to London, which benefits London. To her everything is rather strange.

According to Hermansson the motive that drove to the creation of the tax proposal is great need for spending austerity, need for consolidation. It’s easy for politicians to attack those who are already down, i.e. the financial sector, since it has misbehaved and thereby created the financial crisis. One way to get out of the crisis for politician might be by saying that they will tax the financial sector. It’s one kind of populism. It’s easy to convince people if you say that you will tax with a small percentage and get lots of revenues. Lot of people think that it will be very good – a “winner” for a politician. But it’s a bad proposal if you look at it more closely and investigate what you’re actually doing.

Song pointed out that he hadn’t analyzed the potential important consequences of the tax and the question he brought up was how thoughtful the proposal is, i.e. has the commission analyzed all possible consequences of the FTT. There are many countries that neither have nor plan to implement the FTT, something that brings huge challenges. The legislators are
aware of this of course and try to fix the proposal, but the question is maybe the FTT destined to fail because not all countries (markets) implement the same type of FTT.

### 4.3.2 General ideas about taxes

About the general ideas that were discussed under the theory section, Wilhelmsson said that it’s possible that the financial sector should help paying for the financial crisis and it’s also possible that it’s partially their guilt that the world economy had slid into a crisis. He proposed that there are other ways to build a fund for future crises, for example by implementing a tax on financial activities, taxing the profits that the banks make, taxing the profits of the companies.

Hermansson pointed out that James Tobin’s original idea was completely different and has nothing to do with the proposed financial tax; therefore it is wrong to call the FTT a “Tobin-tax”. Both Keynes’ and Tobin’s times were a long time ago, but Hermansson points out that it is still good to look at historical ideas. She wishes that EU-politicians would look more at what Sweden did, because it’s such a clear example.

Wilhelmsson pointed out that Tobin’s reasoning was completely different and has been misrepresented after the financial crisis. The new phenomenon high-frequency\(^4\) trade has been seen as a root of the crisis/problems born out of speculation. But according to Wilhelmsson there is no evidence that it is the case. After seeing that, people thought “Why not tax everything in the financial sector?”. Wilhelmsson pointed out that the EU knows that it’s wrong and politically hard to implement FTT in all countries. They didn’t convince all countries, they didn’t convince the UK. Wilhelmsson said that he is surprised that it got as far as the enhanced cooperation with the 11 countries. Because all countries got to express their opinion and not everyone was pro. He thought that maybe there might be a strong faith in the ECB in this case? That maybe the Commissions officials are pushing this?

\(^4\) Securities traded on a fast-basis with help from technological tools and computer algorithms.
But the calculations of the cost seem to be missing. What are the costs? There are some
calculations for the profits. There are huge sums projected with those percentages, but they
are based on today’s trading and they don’t seem to have a very good idea about the costs.
Some trade will disappear and the liquidity will decrease, which will result in fewer
transactions, something that they probably calculated. Wilhelmsson said that he would like to
see the costs that the companies both inside and outside the system will be facing, and later
compare the costs to the revenues that will be generated, that will make it easier to make a
better assessment.

Wilhelmsson questions whether the FTT will increase the stability and how to evaluate that?
He also said that he thinks that it will be hard to evaluate. Taxes are often meant to help to be
more flexible with the systems. But it’s difficult for politicians to remove something that has
been conducted.

About Keynes ideas Wilhelmsson said that it was an expansionary fiscal policy, with more
public sectors during bad years. According to Wilhelmsson that reasoning fails if you don’t
change it. He explained it in the following way: You could smooth out the economic cycle by
having the tax in periods. When the financial sector is doing well, then you implement the tax
in order to damp it down and cool it off and when the financial sector has it more difficult,
you collect no tax or less tax. It’s bad to implement the tax now, when the financial sector has
troubles and several countries in the south have a difficult time, it’s not necessary to make it
extra difficult.

Wilhelmsson questioned whether high frequency trading really is to blame for the financial
crisis. There is no evidence for that, even though many people assume that it is the case.
There is no sufficient ground to prove this view. There’s plenty of trading if you want to
create good liquidity. The system is not the best to achieve what the EU want. Wilhelmsson
said that he once heard someone say that the financial markets are a good tax base, which
sounds very strange to him. He pointed out that real estate for instance is a good tax base,
since it doesn’t move anywhere. But capital moves right away. If the system would be
introduced worldwide, it would be possible to achieve what the EU wants. Wilhelmsson
thinks that now the centers in Frankfurt and Paris will suffer and that migration will occur.
The financial center in London might be a winner, if the trading migrates there. The fact that
EU has been trying to prevent migration, makes it harder to evaluate the consequences.
Wilhelmsson thinks that the reasoning around investments will change. Now if you buy something you have to keep track of who’s the buyer or the seller, where the bond or stock is issued and so on, it’s very complicated. Wilhelmsson explained that we need to finance different types of activities in the society. Taxes increase incentive to do something, subsidies to save or use the taxes for savings. Generally the taxes are supposed to cause as little distortion as possible; they shouldn’t distort competition between companies or countries. To him the most important thing is that if you implement it, you have to implement in everywhere because then it might actually work. I.e. if we have VAT on products, we have them on all products, not just apples. Wilmhelsson argues that it is better with taxes that are of lump sum nature, like Sweden has on endowment insurance and investment savings account. According to him taxes shouldn’t be based on transactions or profits, it should be a fixed sum based on the product that you’re possessing. Based on how much you put in, not on how much you profit or lose. That kind of tax is better than something which is a percentage of profits, income; price etc.

Hermansson said that Wiberg wrote about the Swedish experience. Wiberg talked about that you by implementing such a tax might reduce the speculation, but you will also reduce the trade, which is a problem and an important one. You might end up with a very small financial market. Therefore according to Hermansson, it’s important to think about what is actually important what you want to achieve? If you want to stabilize the financial market, you need good regulations; you need to increase coverage of capital for companies and banks. When Sweden implemented the tax, the trades with bonds decreased by 85 percent (Wiberg), so you definitely get reduced speculation, but do you still have enough trade left?

Hermansson pointed out that you can also ask why the over-the-counter market doesn’t have better regulations. Why isn’t there more transparency? Hermansson indicated that there are other ways to regulate trade that would result in more transparency and better functioning of the financial market. She pointed out that if you implement taxes that reduce the trade, what have you achieved? Nothing positive. In this case you will get less trade, even though the tax is small. Companies will move out. You think that the banks might migrate, but that’s not the case, it’s the big companies that will migrate and that will have much greater consequences than when a few small companies move.

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5 Exchange done directly between two parties, without supervision
Further on Hermansson questions whether speculation is such a huge problem that it needs to be regulated. According to her the answer is no, it’s a ruling from the financial crisis and all the anger that emerged. There are defects in the financial sector and they should be regulated separately. It’s wrong to say “today, we are removing speculations”.

According to Hermansson people dislike the financial market from the beginning. A company that needs money to finance something might invest in state bonds to earn some money on the financial transactions and have it as a "side" business besides the regular activities, which might also be considered speculation. When our friends buy shares, it might also be considered speculation. Hermansson pointed out that the line between speculation and trade is hard to define. Everyone wants to have some profits, and wants to use the financial markets in a smart way.

Hermansson explained that for example, if you take away naked-short-selling⁶, your market won’t function as well. There are studies that prove that naked-short-selling is not a problem. Originally naked-short-selling was the first action that was going to “punish” the financial market. Germany was the first one to introduce it. Even though it’s not supposed to be a problem, a company might suffer at a specific time. Sometimes you can choose actions that have a symbolic value; most likely the Germans thought that they have a very powerful government who “punished” the financial sector.

Song questioned which the main motives are and argued that they want to kill two birds with one stone, i.e. increase the tax revenues (something that many countries need), decrease the amount of speculations, increase the stability in the financial system, some might also think that FTT is a way to let the financial market to pay for the mess that it created. Song pointed out that a society that wants to keep a certain welfare standard needs tax revenues, the challenge is to create an effective tax system that fulfills a wide variety of criteria. The hunt after the optimal tax system (that may vary across time and space) implies that some taxes should come and others should disappear. It’s always difficult.

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⁶ The practice of short-selling a tradable asset, without making sure that the security can be borrowed.
4.3.3 FTTs possible effect on Sweden

According to Wilhelmsson the tax will influence Sweden/the Swedish financial market in two categories: Savers and entrepreneurs. He argued that the export industry will face most costs and have to consider hedging and face also higher funding costs, depending on who the buyer of their bonds is. Wilhelmsson pointed out that the saving habits for the savers will change. It’s a problem that we don’t save enough as it is and now they change the incentive in the wrong direction, because they give incentive not to save. Sweden is trying through tax reliefs, to make people save more and this FTT proposal is working in the opposite direction.

Hermansson argued that as long as Sweden isn’t forced to enter the agreement, it’s an advantage, it will move some transactions if you look at it from a market perspective. From an economic perspective it’s an obvious disadvantage for Sweden if it doesn’t go well for Europe. Overall, if the tax will be implemented it will be negative for Sweden. According to Hermansson there are better actions that could be taken, actions that would increase the productivity i.e. be investing in education and research that would give more dynamic affects which will increase the tax revenues over time and keep more people occupied. Hermansson pointed out that it’s important with a good climate for entrepreneurship that will provide job opportunities which companies do, not the politicians.

Hermansson said that some time ago there was a proposition in France to tax smartphones, tablets, etc. to collect revenue which would be used to finance French film. The tax is a parallel to the FTT and seems like an easy deal based on how many smartphones are sold today. Hermansson explained that what actually happens is that it’s destroying the culture, cultural activities, growth and everything else that comes with what the internet has to offer. It’s not clear if it is beneficial to tax something just because you think you might generate revenues. According to Hermansson the way of thinking is wrong because you forget about the dynamic effects and the incentive structure when you implement the tax. You think that it’s not so serious with a small tax, but if everything starts to move to markets without taxes, then something must be wrong.

According to Hermansson its fine if the tax is all over the world, because then there is nowhere to move. But with this FTT there is a risk for migration of different activities. Even if the EU tries to prevent migration, it increases the risk that the companies might move their
headquarters completely. Hermansson pointed out that it’s very likely that we might see a migration of companies because there is nothing that keeps them here, because there’s no difference between Frankfurt and Hong-Kong. Many companies issue their own bonds and they want to do that without additional fees or taxes, it might need some calculations. According to Hermansson it won’t benefit Europe if companies start to move because it’s not necessary that there will be less trade with companies inside one of these 11 countries but it’s negative if headquarters start to move out from Europe, it takes away job opportunities. Less opportunities for people that educate themselves in innovation and research, they will have to move to Singapore. But it will increase the job opportunities for Asians within those areas and less for the Europeans. Hermansson indicated that there’s a risk of losing activity with a high value-added, those who have a high value-added have high incomes and high taxes. Companies that produce postcards won’t disappear, they already have. Its companies like Siemens that they should be worried about.

4.3.4 If Sweden implements the tax

Wilhelmsson argued that implementing the tax in Sweden would just be as stupid as it is in the other 11 countries. As long as the tax is not global, it won’t make a difference. He pointed out that “We can’t have a system where only one country does something”. One country can’t do much; everyone has to be in on it. Therefore it won’t make a difference, but it will however make it even more expensive for the companies. If the tax won’t be implemented in Sweden, then the savers will have Swedish shares and that’s a possibility you don’t have if Sweden implements the tax and therefore it will raise the costs. The financial companies won’t suffer, depending on price sensitivity, but it will affect the customers, because they will have to bear all the costs, for instance by lower returns for fund investors and pension funds. Future pension will decrease, so it won’t take too much of the profits. If the motives are to increase stability and reduce speculations, then the consequence will be that the liquidity in the system will decrease according to Wilhelmsson.

Hermansson argued that there’s no difference between Sweden and any other EU-country. If the tax would be implemented globally or if only Sweden does it, doesn’t make a difference. In case Sweden implements the tax, Swedish companies will have to calculate if maybe it would be better to move the headquarters to Norway and thereby avoid the tax. According to
Hermansson it’s different for different companies, depending on where the pain threshold is. She explained that for many companies that might have considered to move somewhere before, the FTT could just be the push they need to make that decision. Hermansson pointed out that Implementing the FTT is a huge risk that the countries are taking without being certain about the outcome. The best for entrepreneurship and investments in Europe, according to Hermansson would probably be to have taxes as low as possible in the financial sector and to keep everything simple. Transactions should be able to flow freely; it will be beneficial in the end. It’s better to tax real estate. But she pointed out that there’s an anger towards the financial market and therefore they want to tax it. There should be the same towards other sectors like the food industry, for all the recent scandals with the horse-meat. But it doesn’t have the same effect, because the financial sector has very high profits, there’s an irritation towards bonuses and the greed that bank managers have all over the world; once again populism.

4.3.5 Previous experiences

When talking about the similarities between the tax that Sweden had 1984-1991 and the tax that will be implemented now, Wilhelmsson said that it was probably just as stupid back then, since it was only Sweden who did it. The market wasn’t as deregulated as it is today in terms of capital movements, etc. He pointed out that as long as you can migrate to other countries, it’s a problem. Today with free capital movements it’s even more important that it’s not possible to walk away, when taxes like FTT are implemented.

The EU is trying to prevent migration, but that according to Wilhelmsson will just create more bureaucracy and higher administration costs in the system. He pointed out that you will need to create systems that keep track of who the buyer is who the seller is, where the bond/share is issued etc. a bureaucracy system to prevent migration and in that case you can just move to Hong-Kong, the US and just ignore Europe. The US has a bigger domestic market and they are not so dependent on their export companies. Sweden is extremely dependent on Germany, Sweden’s biggest counterpart when it comes to trade. The Swedish export companies will be affected, they have to know when to hedge, when to invest. It will become problematic for Sweden.
Wilhelmsson pointed out that if the companies can’t hedge, that they will have to take bigger risks, which will influence their investment decisions, and in the end have a negative effect on Sweden. He argued that it’s hard to say if the effects will be the same as 20 years ago. This tax is lower, but the ideas and the goals are the same. It also depends on how high the pain barrier is. Hard to say what will happen.

Hermansson pointed out that the biggest difference is that back then Sweden introduced the tax alone with no one else. Therefore everything migrated to London. The tax was bigger back then too. Everything was just a complete disaster. However it’s still easy to migrate to the London market today. Therefore the movements should be similar, but not in the same dimension. You would think that there should be some consequences, but not as huge as when Sweden had the tax in the 80s. You need to understand how the Swedish market works, how companies think and how the traders reason. Hermansson proposed that before implementing such a tax, there should be a survey done with those who might be affected and how they would react and what they think about it. There is something to research from different points of view, i.e. you can have an academic and economic approach and then you could add the political dimension and analyze it. The political part is very important, since it’s mainly a political project and it’s important to look at the consequences.

4.3.6. UK’s role

A very important question has been which role the UK has in all this and what would happen if they entered the enhanced cooperation. Wilhelmsson argued that it would be a marginal improvement. It won’t affect Sweden since Germany is much more important. Whether it’s 11 countries or 15 doesn’t make a huge difference, as long as Asia or North America aren’t participating, it won’t make a difference. He indicated that the more the better is right of course. It won’t be as valuable to move to London if all the 27 countries of the EU are involved. But European companies might still move to Asia or the US. Right now it’s easier to move to London and a much smaller step to take.

Wilhelmsson said that the EU is counting on high revenues, (€30-35 billion) but questioned how high they will be in reality. Maybe not that high, but all the costs (administrative, bureaucracy) are still there. The revenues might even become negative in the end.
Hermansson pointed out that the financial center in London is very important for the UK and they guard it very tightly and the FTT does increase the risk that the UK might leave the EU, they are planning to vote “to be or not to be” in a few years. She explained that some consequences of the FTT might be migration and decreased trading and that there’s also a risk that the growth in the FTT-zone will decline and that the Geopolitical situation might be affected. In the end the UK might feel forced to leave the EU. If they force all the EU countries to implement FTT, it won’t benefit Europe.

According to Hermansson the UK is important in many ways; it’s an important financial center that we should be proud of. She explained that the UK has some “power” over the EU when it comes to reforms; they also have a liberal trade mentality which is good for the growth. It’s not good if the UK leaves the EU and especially not good for Sweden. Sweden is a small economy where 50 percent of our GDP is export; out of those 70 percent goes to Europe. There would be a bigger effect on Sweden if they leave the EU, then if the UK leaves. Hermansson argued that it’s unclear what this might lead to; we don’t know what the world would look like in 5-10 years. If the EU-crisis calms down/gets resolved, then the EU will be stabilized. But there’s a lot of new thing that didn’t exist a year ago like ESN, Outright Monetary Transactions in ECB, those are 2 institutions that are ready to help countries that have a financial crisis, something that didn’t exist one year ago. Back then, when countries got into a financial crisis, they got extremely high interest rates and therefore made everyone worried about the euro-zone potentially collapsing.

Hermansson explained that with these two institutions, the effect on the euro-zone was smaller when Cyprus got problems. This seems to indicate that everything is on the right path, since we are creating institutions for countries that are in a crisis. You have to accept that some countries get into a crisis, for example Slovenia. It might not be ok if France gets into a debt crisis since it is so big. It’s a political project, and it’s politically unwise to allow a country to leave the EU. If you break up the euro, you will also break up the EU and it’s very hard to do something with 27 different currencies. It would even be hard with two; a south euro and a north euro.

According to Hermansson, Germany doesn’t have any interest in having a strong currency. France was the one who was pushing the euro-question and Germany felt like they were forced. The Germans have gained a lot by having such a weak currency and the last 10 years
have been a triumph for them. Their banks invested in Greece and therefore they have to pay now, but they seem to have accepted it. You have to remember that a lot of the debt is warranties and loans, which they will get back even if some of it was written off. All of the numbers in the papers are not aid but loans.

4.3.7. Effect on individuals

Hermansson argued that the individuals that want to start up a business will be affected. She explained that everything else equal, then there still will be consequences for everyone. Taxing of pension funds will affect how we invest. Swedish people will buy more Norwegian/Swedish funds in order to avoid the tax. If Sweden will be forced to implement the tax, it will have some consequences. If migration won’t occur, then the tax revenues will potentially go to the state, who might give them back to the pension funds. Some effect on private equity and venture capital might be possible, such things that go into venture equity firms.

Wilhelmsson pointed out that individuals will be affected, mostly through the savings since incentives to save will decrease and the costs will increase. Investors will be guided towards Swedish, Norwegian, Nordic financial instruments instead of German or French. The Swedish Financial Supervisory Authority talked about a worse portfolio and increased risk for savers. Double taxation will occur when companies pay tax and a tax has to be paid on dividends and then also a tax on the trade, triple tax in the end.

Song argued that there’s a risk that part of the tax costs might be passed on to individuals – the financial institutions always want to achieve some return on equity.

Wilhelmsson pointed out one of the reasons behind the tax implementation might be that they want to have some justice towards the inhabitants. The financial sector helped create the crisis and now they have to help to pay for it. The FTT is one way to make them pay, but they are fooling themselves, because most people are savers. Most savers are individuals. The customers will be the ones paying the costs in the end.
Hermansson argued that it’s hard to see that the tax will have a decisive effect on individuals, more on companies. Individuals who are frequent traders with big volumes will be affected. It’s hard to see that it would affect individuals; small volumes are okay, while bigger volumes might be a problem.
5. ANALYSIS

The following section will present analysis based on empirical evidence presented in the previous section.

5.1 Possible effects

Something that crossed my mind very early while I was still reading background information about transaction taxes in general and some opinions about the upcoming tax was “Why is the European Union doing this?”

It seemed to be proven long time ago, that this was a bad idea and that it doesn’t work and I’m sure that the EU officials are aware of that information on some level, therefore why are they still doing it? They know that it will hurt the market; it did it before, is it any different now? Probably not. The respondents to my interview questions provided me with many different ideas and answers that are all worth a deeper study. But they also confirmed what I thought from the beginning, that it is a bad idea. The taxation ideas that Keynes and Tobin proposed were a lot different from that the EU is doing. An important point is that Tobin was only talking about taxing currency transactions, something that is exempted from the FTT proposal.

The original purpose with this thesis was to examine how Sweden will be affected after the implementation and together with the respondents we could all agree that it will have a negative effect on Sweden even though they won’t implement the tax. Since the tax is created in a way so that when Swedish actors will trade with someone who’s based in the FTT-zone, the Swedish actor will have to pay tax; Sweden will also be affected because they will have to administrate the trades that are subject to taxation, something that will cost Sweden time and resources. During the interviews there were many discussions about other countries than Sweden, which might have given some people the idea that it’s not supposed to be a part of this thesis. But the discussions presented that it’s important to look at other countries that are implementing the tax or that are of great importance in the financial world. The respondents
explained in several ways that what happens in other European countries might later affect Sweden. For example, Wilhelmsson explained that Germany as Sweden’s biggest trading partner is very important to Sweden; therefore what happens in Germany affects Sweden too. If companies start to migrate from Germany outside Europe, it might have an effect on the trade between Sweden and Germany. This in comparison to UK, which might seem very important from all point of view and they are as a huge player on the financial market. However, their actions might have a smaller effect on Sweden but a bigger one on Europe in total.

Many Swedish organizations expressed their concerns about the possible effects that the FTT might have at a very early stage, but the proposal still went through, something that surprised Wilhelmsson. Many articles, as well as the respondents said that the EU should look at the Swedish example. Even though it was about 25-30 years ago, and the tax back then was higher and markets less regulated, the effects were still obvious with a decrease in trade and the trade migrating to London. This point toward the conclusions that there might be other underlying reasons for implementing the tax, than the ones that are stated officially, like harmonize legalizations, curb speculations etc.

The respondent brought up that it’s important to decide what you want to achieve with the tax. One possible consequence might be a smaller financial market, something that sounds very unwise, but maybe that’s the real hidden goal of this tax. It’s possible that the EU for an unknown reason might see it as more beneficial to have a smaller financial market because the financial market developed too fast during the last decades compared to other areas.

From the beginning, my thoughts were only focusing on the financial and economic effects of the FTT, but several articles and respondents pointed out that there are political reasons behind the tax, that it’s actually just a political game, a way for the countries to punish the financial markets for misbehaving and unleashing political populism.

Hermansson pointed out that it’s a lot about populism; that the governments want to earn votes from their citizens by showing that they can punish the financial market. The political part has nothing to do with the economic theories or the financial regulations, but it’s a very big part of today’s world and therefore important to remember when analyzing possible consequences. Sweden is a small country, therefore they might not be affected too much
politically by this tax but as one of the respondents pointed out, Germany is very important for Sweden since it’s one of the main trade partners, therefore what’s bad for Germany should be bad for Sweden and obviously if this tax has a negative effect on Germany, it might also have a negative effect on Sweden.

Something that probably goes by unnoticed is what effect this tax might have in the long run politically because if the UK gets pushed to a decision they might decide to leave the EU, something that may or may not have an effect on Sweden depending on what the world looks like when that happens.

The political part was never mentioned in the original proposals by Keynes, Tobin, Summers and Summers probably because they looked at it from a pure economic perspective and even though their ideas very slightly different, the EU still uses them quite opportunistically with consequences that are to be seen.

As of today everything points toward that when the tax will be implemented in the FTT-zone, Sweden will just have to pay more and administrate more, no one is talking about Sweden avoiding the taxed markets. When Sweden implemented the tax back in the 80s, many companies migrated to London, something that’s very likely to happen even this time, which is a problem, because the financial centers in Paris and Frankfurt will suffer. Although, if the companies move out from Europe to Asia, that might result in much greater consequences, because of the loss of job opportunities.

Both Hermansson and Wilhelmsson brought up that it’s not easy to predict the effects, because we don’t know the real costs, there are no calculations over the costs, only the profits. The EU is calculating with high revenues, 30-35€ billion annually and based on the Swedish experience it is not very likely that they will achieve that.

There are a few parties in Sweden that would like to implement the tax, but it’s completely clear for what reasons. Because in Sweden most organizations and economists are well aware of that happened in the 80s and they do not wish to see the same thing happening again. However it is known that they would like to use the tax revenues for job-opportunities for young people.
Many people are probably interested in the effect on individuals, since that’s what we all are and to me that was an interesting topic to discuss. The respondents explained that it’s very likely that the savings-area will be affected, because if the pension funds have to pay tax it will result in a lower pension. The way people invest will change since most people will want to try to avoid the tax. We might see an increased interest in investing in Scandinavia which is for now tax-free. That might have some positive effects, however the markets are small and it might not give investors enough options and they might seek themselves to bigger tax-free markets somewhere else.

The EU is hoping that people and companies will start to think in more “long-term investments”, but the respondents pointed out that the opposite effect is possible too, that there will be more risky investments and that volatility might not decrease after all. It would be interesting to look at all this again after a few years, to study more concrete what actually happened because right now, all we can do is just speculate and predict possible results based on previous events and earlier presented theories on that’s supposed to happen.

Something that the respondents brought up and that worries me it the possible effects that the tax might have on job opportunities in Europe. Since less jobs means a higher percentage unemployed, harder to find a job and in the long run a bad effect on the economy. The job situation is bad in several countries in the FTT-zone as of right now and there’s no need to take more jobs away. The EU should instead look for possibilities to create more job-opportunities and get the global economy going again.
6. CONCLUSIONS

The original idea for this thesis was to examine the possible effects on Sweden and the Swedish financial market when 11 countries of the European Union implement the tax. This study indicates that the effect will be negative, like increased costs for financial institutions, companies and in some cases even individuals. In the long run the costs might be rolled over to the individuals in the shape of fees or effects on the return of different kinds of funds.

This study also indicated that there reasons for implementing the tax and the planned goals might be completely different than the ones presented in the proposal. There are strong indications that it’s very much a political game, a way to shows that the politicians indeed have to power to punish the ones that seems to be to blame for the financial crisis.

As long as Sweden doesn’t have to implement the tax, there’s no sign that a migration from the Swedish financial market would occur, but the way investors think will change. They might start to seek tax-free markets outside the 11 countries or tax-free ways to invest. Therefore if this becomes mandatory in the whole European Union, which is not completely impossible, then Sweden should start to be really worried. This thesis shows that there’s enough reasons for Sweden to fight strongly against a mandatory implementation inside the whole EU.

The most obvious conclusion is that the FTT will have a negative effect overall on the European Union, but especially in the 11 countries that will implement the tax from January 1st, 2014. They face high risk of capital and company migration to other markets and there’s even a risk that companies might move as far as Asia, which will have an impact on the jobs in central Europe.

The best the European Union can do is not to implement this tax and look for other possibilities because this won’t bring any good, it will only harm the market even further.

The idea of Tobin and Summers and Summers that the markets are working too efficiently and need to be regulated to be closer to the pace of economic policies and long-term orientation of enterprises, deserves to be focused on, rather than antagonizing the financial sector.
6.1 Further studies

Throughout the work several interesting areas that would be good for further studies were touched. Most sources propagate other solutions to achieve what the EU wants to achieve with the FTT. Whether that’s better or not is for us unknown, but definitely worth further studies, especially since the solution with the FTT seems to be an unsuccessful choice. One major area for further studies is outside of the scope of economics, the political consequences of all this. If the UK gets pushed too hard, will they leave the EU? What effects would that have? Because when looking at implementing a financial tax, the political effects are left untouched but in our global world they might be just as important as the economical ones.
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Litterature
8. APPENDIX

Interview questions

1. What are your thoughts on the financial transaction tax that 11 countries in the European Union want to implement from January 2014?

2. What are your thoughts on the motives behind the tax?

3. How do you think that the tax will influence Sweden/the Swedish market?

4. What do you think would happen if Sweden also implemented the tax?

5. What are your general thoughts about the ideas behind implementation of different taxes?

6. Which similarities do you see between the up-coming tax and the tax that Sweden had between 1984-1991? Is it possible that similar effects will occur?

7. What difference would it make if the UK also entered the enhanced cooperation?

8. Will the FTT have an effect on individuals?