Message to Copenhagen

Finance the transition towards a socially and ecologically just economy by Introducing the Financial Transaction Tax

One of the main problems blocking progress in the Copenhagen climate negotiations is the issue of finance for development countries. The G77 is right to demand for a substantial financial contribution from the North to mitigate the consequences of climate change on the poor countries. Experts consider 100 billion USD per year to be an appropriate amount. The development model of the North has damaged the global biosphere for 200 years and bears the responsibility for the problem. It is a question of justice and equality to compensate for the damages. However, the industrialised countries are only ready to release peanuts. While trillions of USD are used to bail out banks they say there would not be enough money for fighting climate change in the South.

A way out of the impasse would be the implementation of a Financial Transaction Tax (FTT).

What is the FTT?

The FTT is expanding the idea of the so-called Tobin Tax, which was meant to tax currency transactions. The FTT, however, would not only tax currency transactions but trade of all financial assets, i.e. also shares, bonds, securities and derivatives.

As the FTT is limited to asset markets, other transfers such as payments for goods or labour market transactions, as well as remittances and short-term inter-bank lending and any operations of the central banks, would not be subject to an FTT.

Basically, the FTT works like a Value Added Tax (VAT). While trade with bread and butter and any other consumer goods is taxed with the VAT in most industrialised countries, trade with financial assets is – with few exceptions - not taxed. This has to be changed.

Take the money where there is plenty of it

Every day there is a turnover of several trillions of USD at the financial markets. Already a relatively small tax of, for instance 0,1% would yield globally 734,8 billion USD a year (shrinking turnover as a result of the tax already accounted for). The 100 billion USD for the developing countries could easily be paid from the revenues of a FTT.

In addition, as financial markets are very often speculation on changes in asset prices in dimensions of 0,01% the FTT would make such operations unprofitable. The tax would curb speculation and thus contribute to the stability of the financial system.

The FTT can also be implemented at national or regional level. Circumvention would be more costly than to pay the tax.

Political momentum for the FTT like never before

Behind the background of the financial crisis the idea of a FTT has now increasing support. Governments are badly in need of money. Huge public debts have been accumulated. This is why many politicians begin to consider the introduction of such a tax. Merkel, Brown, Barroso and Sarkozy have already spoken out in favour of the FTT.

Under these conditions, further pressure - in particular to get the US on board - can be successful.

Civil society, negotiators, politicians in Copenhagen should opt for the FTT to secure funds needed to combat the consequences of climate change and to finance the transition towards a socially and ecologically just economy.