

# Tobin tax will do more harm than good

The Government is right to reject EU calls for a Financial Transaction Tax



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When the City hears the words 'Financial Transaction Tax' it worries, and for good reason. The European Commission's belief that it is necessary to stimulate growth in the Eurozone with a Europe-wide FTT or 'Tobin Tax' is simply misguided, ill-founded and based on envy. If confirmed, this tax will draw business out of Britain and have an extremely detrimental effect upon our growth and competitiveness while destroying London's pre-eminent position as a global financial centre, which may give the Germans and French some pleasure.

The banks contribute a huge amount to the economy, and it is they who have the strength to help Britain and Europe cope with the current economic crisis. Taxing them would be a desperate and ultimately flawed decision. When all we should be concentrating on, as a nation, is stability, employment and growth, who could possibly believe that this is a good idea?

Luckily for us, the British Government does not. Both the Prime Minister and Chancellor have rejected the idea as reckless, but worries remain. For one, the Prime Minister seems unable to convince German Chancellor, Angela Merkel, to come to a similar conclusion.

Make no mistake; this tax, if enacted, will hit London the hardest and destroy the powerhouse of the UK economy. The City is by far and away the largest and most powerful financial market in the EU and, if one was being cynical, one might think there is method in the madness of the Franco-German proposals.

Sweden pursued a similar Tobin Tax in the 1980's and paid for it very severely: half of all Swedish equity trading moved to London, share prices fell enormously and the volume of bond trades fell by over 80 per cent.

This would happen to London. We simply cannot contemplate this when we need the City to drive the UK economy out of the doldrums. It goes without saying that Sweden is completely against the re-emergence of this tax, and we should all learn from their example. What is more, this tax could also be easily dodged by firms who would simply move their trading arms outside the EU, with America and Asia as the obvious



destinations. Given London's dominant position in the European markets, the effects of this tax would be felt the worst in Britain and would damage the City's long-term competitiveness and, in the process, undermine our position as a global leader.

The line being peddled by the EU is that this is a punishment for the banks for their contributory role to the current economic situation. Chancellor Merkel and President Sarkozy believe that the banks are responsible and that this additional tax is a way of controlling them and holding them to account. If it also allows them to indulge in a bit of Brit-bashing and weaken London's dominant position over Paris and Frankfurt then even better.

The British Government will rely on the revenues created by the City to pull the country through the economic quagmire we find ourselves in. Anything that creates an un-level playing field and weakens the attractiveness of the City to the world's financial institutions must not be allowed to happen. There may be an argument for the tax if it is to be applied worldwide but until that happens our response to Chancellor Merkel must be "Nein danke".

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