European Review, Vol. 26, No. 4, 704–720 © 2018 Academia Europæa
doi:10.1017/S1062798718000418

The European Union as a Global Actor: The Case of the Financial Transaction Tax

MARINA STREZHNEVA

IMEMO – 23, Profsoyuznaya Str., Moscow, 117997, Russian Federation.
Email: m.strezhneva@imemo.ru

The EU plays a high-profile role in the international arena, and yet this role still evades accurate conceptualization. Since the EU is not a state, it is commonly accepted as *sui generis*; a normative power influencing the world order mostly by means of direct and intermediary persuasion. Despite this position, in practice when championing the global normative agenda, the EU does not always demonstrate high efficiency as a leader. This article studies the EU's efforts to push through regional and global versions of a financial transaction tax, meant to promote the common good through the positive externalities it generates for the economy. The aim of the article is to arrive at an adequate explanation for the (in)ability of the EU to act as an agent of global governance in this case. The focus of attention is the inner organizational limitations on the EU's behaviour as a global actor.

Introduction

In September 2011, José Manuel Durão Barosso, the then-President of the European Commission (EC), presented a legislative proposal for an EU financial transaction tax (FTT). In November of the same year, French President Nicolas Sarkozy, while hosting the Cannes G20 Summit, officially spoke in favour of a global FTT as a new means to finance global development. This idea failed to achieve substantial support from his counterparts during the Summit and, in effect, was henceforth dropped from the G20 agenda. Despite this, the introduction of an EU FTT through enhanced cooperation provisions, now planned to start in 2017, could still lead to the establishment of a global tax in the long run.

Existing published analysis that specifically discusses the potential FTT, within the context of assessing the EU's global influence, comes from one and the same author – Bart Van Vooren.[1–4] His position on the subject is an overtly normative one: he strongly supports promotion by the EU of an FTT at the global level, expecting the

EU to confirm its role as a benign 'stabilizer' of the world in accordance with its own legal, as well as moral, obligations. In many other articles relevant to the wider 'EU and FTT' topic, concurring with Van Vooren's stance, the idea of an international financial transaction tax is defended from a normative point of view – as an instrument for increasing the stability and fairness of the international financial system.[5] However, there are also numerous articles criticizing the very idea of the European FTT from an economic point of view. These analysts look at it instrumentally, comparing expected costs and benefits, and, more often than not, forecast that the introduction of an FTT would amplify market instability by interfering with the functions of important financial institutions,[6] and could have a significant – and possibly highly negative impact – on the general economy of the EU. Truly, such a tax would change practices in the financial industry, increasing the cost of potentially dangerous transactions. That is why the banking industry is strongly opposed to it. But it is not that easy to separate the rational and normative considerations of the key actors involved in the promotion of the EU FTT or opposing it (EU member states and European institutions). Brussels, in particular, might find it important that an FTT could contribute to public finances (part of it could go to the EU budget). Thus, no less instructive for this research is literature that discusses the FTT as a possible future resource on which the EU budget can draw,[7] helping to power EU integration. It points to a conceivable link the EU proposal for a global FTT could have to what goes on in the European 'domestic' arena.

In what follows, 'European FTT' presents a narrative of the FTT idea advancement within the European Union. 'Global FTT proposal' analyses the seemingly inconsistent role the EU has played in the global promotion of the FTT. In 'Theory', the facts and conflicting arguments concerning the EU FTT are passed through several conceptual millstones in order to provide a more accurate analytical account of the EU's promotion of a global FTT. The final section concludes by looking at the structural strengths and limitations of the EU behaviour as a normative actor in the international arena.

European FTT

The idea of a common European financial transaction tax gained support after the global financial crisis that started in 2008. Global public opinion held the financial industry responsible for the crisis, with the broad general feeling being that financiers had not adequately contributed to covering the cost of stabilizing the financial system, forcing governments to raise taxes (or cut public spending).[8] The taxing of financial transactions would convey a message that the financial sector must share the costs and responsibilities associated with being part of the global community. At the same time, national jurisdictions with different tax bases created distortion risks for the financial markets,[9] making it logical for the Commission to address this matter as part of safeguarding the proper functioning of the Single Internal Market.[10]

According to the Eurobarometer survey conducted in 2012,[11] 66% of Europeans were in favour of the principle of a financial transaction tax (73% in the euro zone and

53% outside the euro zone). The EC Communication 'Taxation of the Financial Sector' considered several possible instruments that could be applied in future commonly across the EU,[12] an FTT and a financial activities tax (FAT) being among them.[13] In fact, in the Communication the Commission gave preference to the latter. According to sceptics, a European FTT would lead to a reduction in GDP and job losses. A Swedish tax on the trade of securities, introduced in 1984 and abandoned in 1991, is often cited as an example of a national FTT disaster.[14]

France, Germany and the UK (before the Conservative party took office in May 2010) strongly supported the idea of a European FTT. It was important for them that, in addition to generating revenue, this tax should help stabilize the financial markets by curbing excessive high frequency trading. In 2011, the EC, backed by Germany and France, switched support from the FAT to the FTT.

The Commission presented its initial legislative proposal in September 2011.[15] (A general tax on transactions was envisioned to cover all kinds of financial assets, not just those confined to specific markets, unlike the original 1936 recommendation from John Maynard Keynes (for the stock market) or the 1978 tax proposal from James Tobin (on foreign exchange markets). The banking lobby predictably opposed the move. Lobbying groups and think tanks – such as the Adam Smith Institute, the British Bankers Association, the Federation of German Industry (BDI), the Deutsches Aktieninstitut (DAI), the French Association of Private Sector Companies (AFEP), Paris EUROPLACE and many others – delivered an endless stream of anti-FTT reports. Critics prophesied a liquidity squeeze and increased trading costs for financial institutions and other market participants.

The Commission had to abandon the initial proposal after it met effective resistance from a number of EU member states (the UK, Sweden, Luxembourg, Bulgaria, the Czech Republic, Malta and Denmark).[16] In the meantime, in reaction to the 2008 crisis, specific intergovernmental financial instruments were created (the European Financial Stability Facility and the European Stability Mechanism, assisting eurozone countries confronted with liquidity problems), and the idea gained momentum of having a separate budget for the eurozone ('an appropriate fiscal capacity') in the future – with tax income from financial transactions as one of its possible revenue sources – in order to achieve macroeconomic stabilization (an idea advanced by France) and/or to facilitate less costly structural reforms (the preferred option for Germany).

It is relevant to mention here that the 2007 Lisbon Treaty introduced changes to the provisions governing the system controlling the EU's own resources, allowing the EU to create new own resources. In 2011, the EC proposed to streamline the own resources system and to introduce a financial transaction tax resource in particular (a share of two-thirds of the eventual FTT receipts was assumed to be retained for the EU budget). Consequently, the report of the then President of the European Council, Herman Van Rompuy, envisioned the possibility to develop a fiscal capacity for the Economic and Monetary Union to support new functions that are not covered by the multiannual financial framework, opening a discussion that FTT could be used for these purposes.[17] In this case, the financial transaction tax would have to be collected in all the euro countries. French MEP Alain Lamassoure (of the European People's Party), who chaired the European Parliament's Committee on Budgets and was promoting the FTT, developed similar ideas:

> The next stage is now to allocate revenue from the tax to finance the EU budget. It is an emergency to relieve national budgets burdened by the crisis, at a time when they continue through national contributions to fund almost all of the EU budget.[18]

In February 2013, in the context of the negotiations on the 2014–2020 Multiannual Financial Framework, the European Council agreed only limited changes to the previous configuration of the own resources system and did not support an FTT option. But a plan from June 2015 to address defects in the eurozone's makeup confirmed an ambition for a shared eurozone-only budget to begin operating in 2018, capable of absorbing shocks with the potential to shake the currency block.[19] Theoretically speaking, this future eurozone budget could be financed by a European financial transaction tax, European VAT, a European carbon tax, a European corporate income tax, or other new forms of own resources that are not directly linked to Member State contributions. FTT is continuously discussed along with other measures, required for the completion of the EMU.

In the meantime, in August 2012, the French government imposed a unilateral financial transaction tax. In October 2012, a minority of 11 eurozone countries agreed to go ahead with the disputed European tax via the enhanced cooperation procedure.[20] The Council of the European Union (27 EU finance ministers at that time), acting by qualified majority (with the Czech Republic, Luxemburg, Malta and the UK abstaining), gave the green light for them to press forward in January 2013.

On 14 February 2013, the EC tabled a proposal for a Council Directive to implement the enhanced cooperation. In essence, it followed the initial 2011 proposal – envisaging tax rates of 0.1% for shares and bonds and 0.01% for derivatives – but in addition to the 'residence principle' (the tax will apply if at least one party to the transaction is established in a participating member state), it suggested application of an 'issuance principle' (covering financial instruments issued in a participating state that are traded outside the jurisdiction of the participating states). The Directive, as it was dealing with tax matters, had to be adopted by the unanimous agreement of the participating 11 countries. Pending enactment of the Directive, Italy unilaterally introduced the national FTT in March 2013.

In April 2013, a UK attempt to block the European FTT harmonization move was dismissed by the Court of Justice of the EU as 'premature' and speculative. In September 2013, the Council legal service concluded in its non-binding opinion that the residence principle – referring to the fact that the FTT covered trades in London, Singapore and New York – overreached national jurisdictions and infringed on the EU treaties. However, according to the Commission's legal services, the FTT Directive conformed with both customary international law and EU primary law and did not lead to any unacceptable extra-territorial effects arising from the proposed tax. The residence principle was defended as one of the crucial elements in the proposal for an FTT, with the aim being to reduce to an acceptable level the risk of tax avoidance accomplished by geographically relocating transactions to jurisdictions outside the EU. Transaction counterparties, resident in states outside the FTT zone, would still be liable for the tax when conducting transactions with FTT-zone resident counterparties. The same principles would apply to the UK, which would remain outside the jurisdiction of the FTT. As an example, a transaction between a UK and a German bank would trigger the tax, with the result that revenues from both sides would go to the German authorities rather than the UK ones.

In the wake of the 2008 financial crisis, the UK's influence on the EU's financial services rules has generally decreased. In the 1990s and 2000s, EU-wide financial rules allowed the British Government to influence EU regulation, serving to reduce transnational barriers to trade and creating new opportunities for UK-based firms. After the crisis, the perception in many continental capitals and in the European Parliament (EP) became that the 'Anglo-Saxon' version of unlimited financial globalization could no longer be tolerated. In this context, the British government referred to FTT as 'a missile aimed at the heart of the City of London'.

On 6 May 2014, ten participating member states (PMS) issued a statement considering the introduction of the first stage of the FTT, confined to shares and 'some derivatives'. By Christmas 2014, France continued pushing through a weaker FTT, promising insignificant financial income, in order not to jeopardize its own derivatives market, but, in January 2015, French President Francois Hollande, planning to host the all-important environmental conference in Paris at the end of the year, instructed his Finance Minister Michel Sapin to negotiate with the other PMS for a more ambitious FTT that could be used as a financing tool for the fight against climate change.

On 27 January 2015, the PMS issued another joint statement, confirming their commitment to agree on an FTT directive at the EU level.[21] In contrast to the previous statement, the new one noted that the tax should rest on the widest possible tax base and low rates. It was also underlined that full consideration should be given to the impact of such a tax on the real economy and the risk of relocation. The Austrian and German Finance Ministers had reportedly agreed on a timetable for the tax that would place a stock-exchange levy on equities from 2016, and a tax on other transactions – from 2017. However, the Austrian Finance Minister, Hans Joerg Schelling, later announced that Europe was unlikely to impose a financial transaction tax before 2017: there were still unsettled differences over whether the levy would cover all shares and derivatives and whether it would be based on where the trader buys a financial product or where the product originates (another option considered was to have the rates halved).

At the end of 2015, participants decided to give themselves another six months to work on the technicalities of the agreement. At this point, Estonia withdrew from the proceedings. Together with Slovenia (both these small countries having tiny financial markets), Estonia would prefer the tax to have a broader cross-border reach in order to ensure it would raise sufficient revenue to be worthwhile. In contrast, the Netherlands began considering whether it wanted to join the FTT zone, providing a satisfactory answer could be found to the issue of pension funds.

According to estimates, the proposed FTT tax could raise around €35 billion per year.

Algirdas Šemeta, previously the Commissioner responsible for Taxation and Customs Union, said that the 'revenues it will generate can be used for growth-friendly investment, and to support wider policy commitments such as development.'[22] In June 2013, three European Development Ministers, Pascal Canfin (France), Dirk Niebel (Germany) and Jean-Pascal Labille (Belgium), published an article in the Belgian and Spanish press claiming that the FTT arose from the idea of finding additional financing to combat global poverty, and calling for the countries promoting the European FTT to allocate a percentage of its future proceeds accordingly.[23] Domestic budgetary demands, particularly in France and Germany, as well as the special fiscal constraints imposed in the eurozone, put additional pressure on the ability of an integrated Europe to meet its promised increases in global development funding. Signalling that there is a way to solve the problem, part of the revenue generated by the French national FTT has been put into the national development aid budget.

Global FTT Proposal

It has often been suggested that the FTT could only work properly if coordinated and implemented globally – otherwise financial activity would migrate to less-regulated areas with a consequent loss of jobs and taxes for the regional FTT zone. In reality, apart from those cases looked at in individual EU member states, its various forms have already been in effect in several other countries, including Switzerland, Singapore, South Africa, the Republic of Korea, Hong Kong, Brazil and India – without causing any noticeable disruption to the work of their respective financial industries.

The Group of Twenty (G20), with political leaders present from those nations that currently provide over 80% of the world's economic output, was appropriately chosen as the global forum for global promotion of the FTT idea. Among its members are the so-called 'traditional' Western powers, and the European Union, and the world's emerging powers, starting with China and India, with relatively less market-driven forms of state. These combinations in particular allow for a new consensus to be sought on how best to manage the global economy. In general, the EU is represented by the European Commission, while the four largest EU member states (France, Germany, Italy and the UK) are permanent G20 members in themselves and, alongside the EU presence, retain full capacity to represent their own interests in all areas discussed in this forum.[24]

The prospect of a global FTT was first raised in the G20 by the then German Finance Minister Peer Steinbrück in September 2009. Prior to the Pittsburgh Summit of the G20, he said receipts from the tax would be used to repay the cost to governments for tackling the crisis, including fiscal stimuli and bank rescue operations.[25] The same year, French President Nicolas Sarkozy and British Prime Minister Gordon Brown said they would collaborate on proposals for a new global levy on financial transactions as a way to fund climate change alleviation measures in developing countries. Sweden, consistently resistant to the FTT, sided with the US to promote a bank levy instead. The UK later sided with Sweden on this matter after the Conservative-led coalition came to power. In June 2010, the G20 met in Toronto, though the Canadian leadership did not show any interest in encouraging any serious discussions on the FTT. With global support for an FTT wavering, EU members became better disposed towards the idea of a bank tax. However, this alternative, in its turn, came up against fierce opposition from those countries whose banking sectors survived the worst of the crisis better than the eurozone did: Australia and Canada as well as Brazil, India and Mexico all argued that this tax, while allowing the gain of some extra money, would not prevent future meltdowns.

In the meantime, within the global context, the FTT idea has been steadily debated (along with a solidarity levy on airplane tickets, a financial activities tax, a VAT on financial services, a nationally collected single-currency transaction tax, and a centrally collected multi-currency transaction tax) as an innovative development financing mechanism, intended to correct the negative effects of globalization. The international debate started as far back as March 2002, when the Monterrey Consensus on Financing for Development called for new strategies to complement Official Development Assistance.[26] It was spearheaded by the Leading Group on Innovative Financing for Development (established in 2006), whose own 2010 report, entitled 'Globalizing Solidarity: the Case for Financial Levies', highlighted the technical feasibility of using mechanisms, such as the FTT, in the context of increasingly automated and centralized financial transactions. The same year, a group of developed and developing countries signed a political declaration in support of the FTT.[27] In 2011, a proposal for a global FTT was tabled at the Cannes G20 Summit by French President Sarkozy not long after the initial EU FTT Directive was put forward.

Sarkozy emphasized that part of the revenues raised from the global tax should go towards development. The French Presidency of the Cannes Summit asked Microsoft's co-founder Bill Gates to prepare a report on financing for development in advance of the meeting. According to this report, the FTT did not necessarily need to be universal, being capable of yielding substantial resources without full global participation.[28] In Cannes in 2011, a 'coalition of the willing' emerged, including South Africa, Brazil, Argentina, France, Germany, Spain, the EU, African Union, Secretary General of the UN Ban Ki-moon, along with others, but no consensus was reached, casting additional doubts over the EU's ability to hold a leading role in global affairs. Sarkozy indicated in his final speech at the Cannes 2011 Summit that the FTT focus is likely to shift to Europe, at least in the short term. On the global stage, the EU no longer pushed for the FTT within the G20. At the same time, due to the principle of sincere cooperation,[29] from that time on, those EU governments opposing the EU FTT were relatively constrained in their capacity to act against it internationally, as it was presented as an EU initiative.

At this point we can pause and list several reasons for this apparent failure. First, the chances of a global FTT as promoted by Europe were undermined by the start of the European debt crisis, which became particularly acute at the end of 2009. It dealt a noticeable reputational blow to the EU as a model of economic governance and as an example to follow for the world at large (in particular, exposing regulatory loopholes in banking oversight), and made third-party countries less receptive to European advice on how to tame the excesses of globalization. China and India issued a joint statement soon after the Cannes 2011 Summit, noting that Western countries needed to adopt more responsible macroeconomic policies.[30] There were observations made elsewhere that proceeds from a global FTT tax could be redirected to help indebted eurozone countries rather than go to helping the global poor. Hence, the FTT proposal did not receive much attention in the global South, particularly among its political leaders.

At the same time, the emerging countries could interpret eurozone problems or policy reactions to those problems adopted in Europe (including the European FTT) as a chance for themselves to enhance their own international positions (if they do not just sit back and follow the European lead). For example, in 2010, when Russia experienced a short-lived capital inflow of US$4.1 billion in the second quarter of the year, Arkadiy Dvorkovich, an assistant to the Russian President, articulated a paradox: a strengthened capital requirement in Europe could accelerate the establishment of an international financial hub in Russia. These plans, however ephemeral, were at that time dear to the Russian government, which was particularly attentive to advice from City of London experts, who encouraged an aversion towards any external limitations (or burdens) of a financial or fiscal nature that could impede the chances of the realization of these plans.

On FTT in particular, Dvorkovich remarked on the eve of the Cannes 2011 G20 Summit:

> We are not against, if Germany, France or Italy introduces such a tax, but we are not going to support collective decisions for its introduction. ... To establish an international financial centre in Moscow and to develop a (national) financial market are priorities of the Russian government. In such circumstances introduction of any additional taxes in the financial sector ... is utterly illogical.[31]

The most enthusiastic supporter of the idea to introduce a Russian national FTT remains the economist Sergei Glaz'ev. He argues that such a tax could become a useful barrier to curbing the illegal outflow of capital from Russia.[32]

Despite the above, most significant for the European proposal, sealing its fate in Cannes, was the reaction of the American administration. As pointed out by Oliver Picek of the Austrian Institute of Economic Research (WIFO):

> In North America and Europe, tax revenues would be similar in size (relative to nominal GDP), in the Asian-Pacific region, FTT revenues would be lower by roughly one third than in North America and Europe. In the rest of the world, revenues would be negligible.[33]

In other words, an international FTT looked, to a considerable extent, to be more or less purely a 'transatlantic affair'. Whilst US President Barak Obama was at first well-disposed towards the FTT idea, which has a level of support in the Democratic Party, the United States later decided against seriously considering the introduction a national financial transaction tax.[34]

Second, experts on the economy gave rather convincing warnings that the FTT could be counterproductive during times of weak economic growth. These warnings were persuasive to decision-makers, as proven by the fact that rates proposed for an eventual European or global FTT have been invariably rather low. In other words, introduction of an FTT, whether European or global, seems to demand much more political will in times of economic hardship. In the eurozone, a positive longer-term economic outlook remains uncertain, undermining the chances for an earlier introduction of a common FTT. The EC intends to stimulate economic growth via the realization of an elaborate growth-friendly investment plan, meant to attract private investors and pave the way for a Capital Markets Union (CMU) by 2019. But the FTT, its opponents claim, could prove particularly harmful for the CMU, as it would 'gum' trading of securities in the secondary market.

Third, the EU member states themselves showed stark disagreement on the issue of the FTT to the outside audience, hardly the best possible tactic to win over new supporters for the idea from third-party countries. The two European countries most strongly opposed to the FTT, the UK and Sweden, do not belong to the eurozone, and since then the UK has even opted to leave the EU, affording ground for expert speculation as to whether the intra-European 'quarrel' over the FTT was linked to efforts to stop or promote deeper EU and/or differentiated integration.

Theory

As far as theoretical considerations are concerned, it should be recalled that the Commission finally opted for the FTT instead of the FAT, assessing that the former had a perceived normative superiority to the latter. The EU and pro-FTT member states (France in particular) did not shy away from using explicitly normative and ethical overtones when advocating an FTT, both domestically and abroad. This is in full agreement with the image the EU projects of itself as a powerful global actor, different in principle to states as actors, a novel type of entity, and often explainable by referring to it as a 'normative great power'; in short, a promoter of positive norms.

This vision of Europe as a normative power was first suggested in 2000 by Ian Manners, who stressed the EU's 'ability to shape the ideational constitution of international relations'.[35] Indeed, in certain cases, the resource of normative power allows the EU to define the terms of the global rules (for example, in the environmental domain). But if normative power refers to the ability of the EU to influence the actions and understandings of others (first of all, of its own fence-hanging member states), then the FTT case demonstrates quite a lack of such ability. One might even suggest that the EU tried to gather whatever global external support for the FTT idea that was available in order to influence its own member states, who strongly questioned the very normativity of the regional FTT idea. After the 2011 G20 Cannes Summit, the EU stopped actively pushing the FTT on the global stage. At the same time, the 2013 Commission new FTT proposal, meant for enhanced cooperation within the EU, became more radical in comparison to the previous one. The Normative Power Europe concept does not totally account for the contradictory evidence. But organizational/institutional explanations can cope better with this task.

The evidence presented above could, as a first approximation, fit a two-level rational choice game design well, describing national executives playing simultaneously at national and international levels with the aim of increasing their influence over their domestic polity. As Andrew Moravcsik once remarked: 'This is a constant theme in modern world politics, from Bismarck's manipulation of domestic coalitions to the current use of monetary integration by today's European leaders to "strengthen the state" at home.'[36,37] However, European institutions do not receive fair treatment from his liberal intergovernmentalist approach *per se*, as it casts them in the role of neutral agents, without preferences or motivations of their own.[38] The picture changes once we start thinking of the European Commission in the role of an executive acting in a strategic manner – with 'at home' meaning 'within the European Union'. From the point of view of the EC, an EU FTT could be a desirable alternative to national contributions for financing the EU budget. But the consensus of all member states in support of the FTT proposal did not exist. At the same time, there has been a broad-ranging international campaign for the introduction of a financial transaction tax across the globe, meant to solve problems in the field of development aid and of fighting poverty, which strongly intensified in the aftermath of the financial crisis. The political elites of Europe were impressed by the intensity of this campaign. Even the UK government's official position was that it was not opposed to the tax in principle, just to its introduction in Europe without a global consensus to impose the levy everywhere else. In this context, Nicolas Sarkozy's move in Cannes in 2011, made on behalf of the EU following the 2011 Commission legislative proposal may be interpreted as an attempt to put additional normative pressure on the dissenting EU member states by demonstrating that more countries back a financial transaction tax globally.

The move did not produce the desired effect. In 2012–2013 the proposal for a new own resource based on a financial transaction tax lost momentum. The European Council refuses to negotiate about a reform of the system of own resources and about the introduction of an EU tax in particular. After that, the Commission's interest in the promotion of the global FTT receded.

In general, the approach the European institutions demonstrated in respect to the FTT was favourable, but not uniform. The EP unequivocally supported the tax in two resolutions, one in March 2010 and the other in March 2011, as a measure to stabilize the financial markets and to make financial players contribute to the costs of the crisis. On 23 May 2012, when endorsing the Commission's FTT proposal, the EP concluded that if imposing the financial transaction tax worldwide was too difficult, then the EU should press ahead and impose it at a European level first, with the revenues to be shared between international development, Member States and the EU institutions. The European Council, in its turn, justified its support for the global

FTT differently, by paying more attention to preserving the integrity of international financial markets:

> The EU should lead efforts to set a global approach for introducing systems for levies and taxes on financial institutions with a view to maintaining a world-wide level playing field and will strongly defend this position with its G20 partners.[38]

The Commission's concerns were more complex. The legal foundation for its 2011 and 2013 proposals on the FTT was Article 113 of the Treaty on the Functioning of the European Union (in other words, they were formally aimed at harmonizing national legislation concerning the taxation of financial transactions to ensure the proper functioning of the Internal Market and to avoid the distortion of competition). However, in 2010, the Commission was of the opinion that a FAT was a more preferable option for Europe than a unilateral FTT, which carried a risk of encouraging relocation, with the latter being more suitable for global application. But at the same time, in August 2010, the Commission started considering the creation of an EU-wide tax, perhaps levied on air travel or financial transactions, to fund the EU budget. In 2010–2011, the European debt crisis had intensified and greater tax revenues were urgently needed to deal with the matter. Under such circumstances, the fact that more that 80% of the EU budget came from GNI-based resources became more problematic. Against this background, the FTT became more appealing for the Commission, as it could logically argue for of an EU-sourced own resource to move away from the current system of direct national contributions.

Besides this, the FTT also proved to be politically relevant: NGOs continued to campaign intensively for the FTT, and support for it from both the majority of the EU population and from global civil society remained strong. But later on support weakened.

At this point one can infer that the European institutions (the EP and the EC in particular) have fully developed preferences and aims of their own regarding the FTT that parallel those of national governments. As such, the concept of multilevel governance (MLG) can be employed to replace the simpler two-level schemas mentioned above, to more adequately interpret the interactions of state-level and supranational-level actors in European tax governance.[39]

Multilevel Governance fundamentally challenges an intergovernmentalist understanding of EU policy-making, emphasizing the multi-actor nature of contemporary governance instead. Member states are ill-disposed to find agreement on positive integration measures in the field of taxation to be introduced at the supranational European level. To avoid deadlock in this particular case, the Commission and pro-FTT member states tried other governance levels and arenas, such as G20 and the enhanced cooperation format, to achieve the required European decisions (making them feasible for subsequent all-European implementation).

At the same time, while regarding the state as one actor amongst others, this theoretical approach does not pay enough attention to the sovereignty states retain as EU members, which can be used to block or to slow down integration processes: even if EU norms are legally binding, states can circumvent or oppose these norms.[40] The

MLG concept expects norms and rules developed by the higher level to be mostly implemented by decentralized units for the sake of achieving common good. It cannot adequately account for the structural limitations, arising on the way.

The idea of increasing the EU's powers in the field of taxation stands in opposition to safeguarding national tax sovereignty, while the persistence of unanimity in Council voting when taking tax-related decisions assists unwilling member states in their efforts to try to shelve the Commission initiatives to which they object. Organization theory allows for the EU to be treated as a complex public-sector organizational system,[41] an influential meta-organization (MO) that constitutes an association of states.[42,43] The value added by organization theory in this case lies in the stress it puts on the importance of institutional and structural dimensions within the internal arrangements of organizations, posing as agents of governance beyond the state. Consequently, Dieter Kerwer reaches the following conclusion: 'Despite the image of the EU as a powerful actor, there is ample evidence for the conflict over actorhood typical of MOs', because the EU is far from enjoying a monopoly when representing its interests in most of its spheres of activity.[44] The EU – as a meta-organization – finds itself in perpetual conflict with its states – its organized members – over autonomy, leading to strains between the supranational institutions (the Commission, the Parliament) and the intergovernmental institution (the Council).

This outlook gives the most plausible explanation for the nuances in these institutions' attitudes to the eventual European FTT, which would seriously limit the autonomy of states. This theory suggests that the conflict of actorhood that states and supranational institutions are involved in imposes systematic limitations on what the EU can actually do in the international arena. The FTT case confirms that this kind of organization, combining supranational and intergovernmental elements, is not a clear-cut example of delegated power to supranational institutions, with the latter monitoring implementation of their decisions by national governments. It more closely resembles a system of collective decision-taking by national governments and European institutions, sometimes ending with deadlock – for example, in the FTT case, where member states cannot find common ground in respect of a normatively important issue.

Conclusion

In its 'domestic' arena, the EU is faced with an acute problem to move forward towards more political and fiscal integration. To achieve this, there is a need for a considerable transfer of tax authority to the European level. Member states are opposing this transfer, as, in the long run, it would mean reducing them from sovereign states to something more like subdivisions of the EU as a meta-organization turning into a federation.

The idea of a European FTT presented itself as a solution to the problem because of its superior correctness in normative terms. Promoting greater social, political and economic harmony among the nations of Europe is the fundamental purpose of the

https://doi.org/10.1017/S1062798718000418 Published online by Cambridge University Press

European Union. The normative power of the EU as an international actor rests upon its ability to export respective harmonizing norms beyond its borders. At the same time, to project FTT as a European norm onto the multilateral arena is a way to bypass controversies about it among the EU countries themselves.

The 2008 global crisis opened an opportunity for the reform of the international financial architecture, allowing the EU to export at the international level the norms of a 'regulated' model of capitalism, as opposed to the neoliberal Anglo-Saxon approach to global financial markets, which prevailed before. The proposal for a global FTT, tabled by Sarkozy at the Cannes G20 Summit in 2011, was an attempt to present a case for international tax harmonization with a developmental purpose as a part of this reform worth considering. It implicitly envisioned positive market-making in the financial sphere (proliferation of non-coordinated national FTTs could be disruptive for the international markets). If formally endorsed by G20, an EU FTT could become a matter of implementing global financial reform that it would be more complicated for the opposing EU member states to withstand.

The attempt was not successful for a variety of reasons: (a) it was rather radical and far going; (b) G20 partners interpreted it as resulting from the EU's own inner weaknesses; (c) the impulse for global financial reforms, stemming from the crisis, started to fade away already.

Europe can still adopt its own tax on financial transactions in the form of enhanced cooperation and then push for dialogue on harmonizing FTTs with the most advanced countries, starting with the United States – if and when an American FTT becomes a reality.

The case of FTT does not contradict the notion of the EU as a normative power. But it helps to explore the structures underpinning/loosening its normative influence.

References and Notes

1. B. Van Vooren (2011) The EU as a global Robin Hood: proposal for a multilateral convention on a global financial transaction tax. CLEER Working Papers 4, pp. 1–30. Available at: www.asser.nl/media/1627/cleer2011-4web.pdf (accessed 20 February 2016).
2. B. Van Vooren (2012) The global reach of the proposed EU financial transaction tax directive: creating momentum through internal legislation. EUI RSCAS Working Papers 28, pp. 1–23. Available at: http://cadmus.eui.eu/bitstream/handle/1814/22559/RSCAS_2012_28.pdf?sequence=1&isAllowed=y (accessed 20 February 2016).
3. B. Van Vooren (2013) The proposed financial transaction tax directive: the quest to create momentum at the G20 through internal legislation. In B. Van Vooren, S. Blockmans and J. Wouters (Eds), *The EU's Role in Global Governance: The Legal Dimension* (Oxford: Oxford University Press), pp. 272–286.
4. B. Van Vooren (2014) The EU's financial transaction tax: shaping global financial governance in its own image. In D. Kochenov and F. Amtenbrink (Eds), *The European Union's Shaping of the International Legal Order* (Cambridge: Cambridge University Press), pp. 328–348.
5. G. Wollner (2014) Justice in finance: the normative case for an international transaction tax. *The Journal of Political Philosophy*, **22**(4), pp. 458–485.

6. J. Grahl and P. Lysandrou (2014) The European Commission's proposal for a financial transaction tax: a critical assessment. *Journal of Common Market Studies*, **52**(2), pp. 234–249.
7. D. Nerudová and V. Dvořáková (2014) Financial transaction tax: can it be sufficient resource of EU budget when introduced through enhanced cooperation? *Procedia Economics and Finance*, **12**, pp. 453–462 Available at: www.sciencedirect.com/science/article/pii/S2212567114003670 (accessed 20 February 2016).
8. In particular, in many jurisdictions, no value added tax (VAT) was imposed on financial transactions, distinguishing them from many other services that did have to pay VAT.
9. Unilateral financial transaction taxes were at that time introduced in EU countries, such as Austria, Greece, Luxembourg, Poland, Portugal, Spain and the UK.
10. Tax legislation is mainly decided by each country in the EU at the national level. The European Commission can present proposals for tax legislation where it considers EU-wide action is needed for the Internal Market to work properly.
11. European Parliament (2012) Crisis and Economic Governance V. Eurobarometer (EB77.2) Summary. Brussels, 21 May, p. 6. Available at: www.europarl.europa.eu/pdf/eurobarometre/2012/crise_V/eb_77_2_crisis_and_economic_governance_V_en.pdf (accessed 20 February 2016).
12. European Commission (2010) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions of 7 October – Taxation of the Financial Sector. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV:mi0063 (accessed 20 February 2016).
13. A tax (proposed by the International Monetary Fund), raised on the sum total of a bank's profits and the remuneration packages of bankers.
14. It led to financial institutions relocating to surrounding countries. The spectacular failure of the Swedish experience with a 'unilateral' FTT is nowadays attributed mainly to its poor design. The tax rates were very high. The taxation mechanism was easy to evade. While government bills and bonds and some associated derivatives were made subject to taxation, substitutes such as debentures, variable-rate notes, forward rate agreements and swaps were not. For the EU, the Commission subsequently advocated lower rates and a very wide scope, with all financial transactions covered, see G. Färm (2014) Forget Sweden, FTT should fly. In: G. Färm, www.socialdemokraterna.se/Webben-for-alla/EU/EU/Modulerny/EU/Ledamoterna-/Goran-Farm1/Mediany/Artiklar/Forget-Sweden-FTT-should-fly/ (accessed 20 February 2016).
15. European Commission (2011) Proposal for a Council Directive on a common system of financial transaction tax and amending Directive 2008/7/EC. Brussels, 28 September. Available at: http://ec.europa.eu/taxation_customs/resources/documents/taxation/other_taxes/financial_sector/com%282011%29594_en.pdf (accessed 20 February 2016).
16. There is a requirement of unanimous decision-making in the Council in the field of taxation.
17. H. Van Rompuy (2012) Towards a genuine economic and monetary union, 5 December. Available at: www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134069.pdf (accessed 20 February 2016).

18. EurActiv.com (2013) FTT deal ignites debate on how to allocate funds, 22 January. Available at: http://beta.euractiv.com/sections/euro-finance/news/ftt-deal-ignites-debate-on-how-to-allocate-funds/ (accessed 24 February 2016).
19. J.-C. Juncker in close cooperation with D. Tusk, J. Dijsselbloem, M. Draghi and M. Schulz (2015) *The Five Presidents' Report. Completing Europe's Economic and Monetary Union*. Available at: http://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf (accessed 24 February 2016).
20. Participating member states (PMS) were: Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain.
21. Greece was one of the PMS, but did not sign the statement, given the recent national elections (much like the absence of Slovenia from the joint statement, issued in May 2014).
22. Š. Algirdas (2013) Speech: Speaking points on Financial Transaction tax. ECOFIN Press Conference. Brussels, 22 January. Available at: http://europa.eu/rapid/press-release_SPEECH-13-42_fr.htm (accessed 24 February 2016).
23. www.leadinggroup.org/IMG/pdf/A_key_tax_to_address_global_challenges.pdf (14 March 2016).
24. European Parliament (2015) The European Union's Role in International Economic Fora. Paper 1: the G20. April 2015, p. 9. Available at: www.europarl.europa.eu/RegData/etudes/STUD/2015/542207/IPOL_STU(2015)542207_EN.pdf (accessed 24 February 2016).
25. *Financial Times* (2009) Steinbrück seeks global tax. *Financial Times*, 11 September. Available at: www.ft.com/intl/cms/s/0/4038e1fe-9f09-11de-8013-00144feabdc0.html#axzz42ERffy8F (accessed 7 March 2016).
26. United Nations (2002) *Report of the International Conference on Financing for Development*. Monterrey, Mexico, 18–22 March. Available at: www.ipu.org/splz-e/ffd08/monterrey.pdf (accessed 24 February 2016).
27. Belgium, Benin, Brazil, Burkina Faso, Congo, Ethiopia, France, Guinea, Japan, Mali, Mauritania, Norway, Senegal, Spain and Togo.
28. B. Gates (2011) *Innovation with Impact: Financing 21st Century Development. A Report to G20 Leaders*. Cannes Summit, November. Available at: www.leadinggroup.org/IMG/pdf/BillGatesg20-report-english-2.pdf (accessed 24 February).
29. F. Amtenbrink and R. Repasi (2015) The Role of the EU in the G20. Introductory Statement. Hearing of the Committee for Economic and Monetary Affairs of the European Parliament (ECON) on 'The role of the European Union in international economic fora European Research Centre for Economic and Financial Governance, 17 July. Available at: www.esl.eur.nl/fileadmin/ASSETS/frg/Nieuws/Actual/2015-07-20_Introductory_statement.pdf (accessed 24 February).
30. J. Ghosh (2011) Summit? What Summit? D + DC: Development and Cooperation, 16 November. Available at: www.dandc.eu/en/article/g20-language-does-not-paper-over-disagreement (accessed 24 February 2016).
31. Зыкова, Татьяна (2011) От налога не уйти: Аркадий Дворкович предлагает на 20% увеличить их собираемость. Российская газета, 11.10.2011 [Zyikova, Tat'jana (2011) Ot naloga ne uyti: Arkadiy Dvorkovich predlagaet na 20% uvelichit ih sobiraemost [There is no way to avoid the tax: Arkadiy Dvorkovich proposes to raise the tax collection rate by 20%]]. *Rossiyskaya gazeta*, 11 October. Available at: www.rg.ru/2011/10/11/dvorkovich.html (accessed 24 February 2016).

32. Глазьев, Сергей (2014) Вывоз капитала за рубеж надо обложить налогом', RUPOSTERS, 22 сентября [Glaz'ev Sergej (2014) Vyvoz kapitala za rubezh nado oblozhit' nalogom [External capital movement has to be taxed]]. RUPOSTERS, 22 September. Available at: https://ruposters.ru/news/22-09-2014/sergej-glazjev-vyvoz-kapitala-za-rubezh-nado-oblozhit-nalogom (accessed 24 February 2016).
33. O. Picek (2008) A general financial transaction tax: financing development and enhancing financial stability. Paper presented at the Meeting of the UN Economic and Social Council in New York on April 2008. Available at: www.un.org/esa/ffd/ecosoc/springmeetings/2008/Schulmeister_presentation.pdf (accessed 20 February 2016).
34. Several Congressional proposals for FTTs have been introduced by Representative Peter DeFazio and Senator Tom Harkin, and by Representative Keith Ellison, all of them from the Democratic Party, and also by Democratic presidential candidate Bernie Sanders (L.E. Burman, W.G. Gale, S. Gault, B. Kim, J. Nunns and S. Rosenthal (2015) Financial Transaction Taxes in Theory and Practice, Discussion Draft, 31 July, p. 2). On 12 January 2015, the Democratic leadership in the US House of Representatives announced support for FTT as a core element of a new tax reform plan. (L.E. Burman, W.G. Gale, S. Gault, B. Kim, J. Nunns and S. Rosenthal (2015) Financial Transaction Taxes in Theory and Practice, Discussion Draft, 31 July. Available at: www.taxpolicycenter.org/UploadedPDF/2000287-Financial-Transaction-Taxes-in-Theory-and-Practice.pdf (accessed 24 February)).
35. I. Manners (2000) *Normative Power Europe: A Contradiction in Terms?* Working Paper No. 38 (Copenhagen: Copenhagen Peace Research Institute), p. 44.
36. A. Moravcsik (1997) Taking preferences seriously: a liberal theory of international politics. *International Organization*, **51**(4), p. 526.
37. R.D. Putnam (1988) Diplomacy and domestic politics: the logic of two-level games. *International Organisation*, **42**(3), p. 36.
38. European Council (2010) Conclusions, Brussels, 17 June 2010, p. 7. Available at: http://ec.europa.eu/eu2020/pdf/council_conclusion_17_june_en.pdf (accessed 20 February 2016).
39. The multilevel governance model (L. Hooghe and G. Marks (2001) *Multi-level Governance and European integration* (Oxford: Rowman and Littlefield)) provided a first attempt at capturing more accurately interactions between European institutions and national governments as actors at different governance levels. Michael Zürn applied it to the study of global governance, see M. Zürn (2010) Global governance as multi-level governance. In H. Enderlein, S. Walti and M. Zürn (Eds), *Handbook on Multi-level Governance* (Cheltenham: Edward Elgar), pp. 80–99.
40. S. Saurugger (2013) Is there a sovereignty problem in the EU? <halshs-00911482>, p. 6. Available at: https://hal.inria.fr/halshs-00911482/document (accessed 24 February 2016).
41. Z. Murdoch (2015) Organization theory and the study of European Union institutions: lessons and opportunities. *Organization Studies*, **36**(12), pp. 1675–1692.
42. G. Ahrne and N. Brunsson (2005) Organizations and meta-organizations. *Scandinavian Journal of Management*, **21**(4), pp. 429–449 Available at: www.sciencedirect.com/science/journal/09565221/21 (accessed 24 February).
43. G. Ahrne and N. Brunsson (2008) *Meta-organizations* (Cheltenham: Edward Elgar).

https://doi.org/10.1017/S1062798718000418 Published online by Cambridge University Press

44. D. Kerwer (2013) International organizations as meta-organizations: the case of the European Union. *Journal of International Organizations Studies*, **4**, p. 45. Available at: http://journal-iostudies.org/sites/journal-iostudies.org/files/JIOS2013-special-issue_Kerwer.pdf (accessed 24 February 2016).

About the Author

Marina Strezhneva is Head of Sector at the Primakov National Research Institute of World Economy and International Relations (IMEMO), Moscow, and Professor in the Integration Processes Department of MGIMO, where she teaches courses on EU and International Relations. Her academic interests include systems of decision-making and modes of governance, both in the European Union and at the global level. She has worked on political issues of European integration since the end of the1970s. Her 1988 *Great Britain and Western Europe: Political Aspects* (in Russian), analysed the period before and after British accession to the Common Market. Her 1999 *Social Culture and Regional Governance: Comparison of the European Union and Post-Soviet Experiences* (in English), addressed the problems of regional institution building in comparative perspective. In *European Union: Architecture of Foreign Policy* (2016 in Russian), Strezhneva and Rudenkova exposed specific modes of EU policy in the international arena. In *European Union in Global Economic Governance* (2017 in Russian) Strezhneva and her IMEMO colleagues elaborated a synthetic concept of global governance, based on organization theory and field theories.

https://doi.org/10.1017/S1062798718000418 Published online by Cambridge University Press