

If the City thinks a Tobin Tax is possible why do the d...

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The [Guardian has noted](#):

The controversial tax on financial transactions endorsed by Gordon Brown and Lord Turner, the top City regulator, was last night beginning to garner the support of leading financiers for the first time.

The idea of a Tobin-like tax was embraced by outspoken City figure Terry Smith as well as by Sir Philip Hampton, chairman of the [Royal Bank of Scotland](#).

Smith, chief executive of the money brokers Tullett Prebon, told the Guardian his support was based on similar factors. "I'm in favour of some form of Tobin tax. There are elements of financial services that have become over-large and have no social purpose," he said.

Smith admitted he did not know how the tax would be set or levied but scorned those who said it would be too difficult to impose without international agreement. "It is possible to get international agreement on very difficult subjects," he said. **"I think the vested interests of those saying it can't be done are a bigger obstacle."**

Smith's endorsement came after Hampton backed a similar levy, which he suggested should be in addition to changes to capital and liquidity requirements, which will also increase the cost of banking.

I added the emphasis. It is a suitable riposte to those who have said in the last week that the TUC support for such a tax has been ill-informed. I could not disagree more and it is clear that those with lot more experience than those dogma-driven critics concur.

[Adam Lent of the TUC](#) makes a similar point:

The [TUC call](#) to use a tax on major financial transactions to help reduce the public deficit has created a [minor blog bust-up](#). But one important point at risk of being overlooked here is the question of what might be the

alternatives to a transaction tax.

The TUC believes that the deficit is not an urgent problem but it *is* one that will need to be dealt with over the medium term. In our submission to the Treasury ahead of the PBR, we argue that any measure designed to reduce the deficit needs to meet five criteria. It must be:

- * effective: any measure must genuinely reduce the deficit;
- * progressive: the costs of any measure must fall to those most able to pay;
- * proportionate: any measure must meet the reality of the challenge posed by the fiscal problems rather than any exaggerated or understated claims;
- * limited in its economic consequences: any measure must not prolong the recession or threaten recovery;
- * just: the costs of any measure should not fall on those who bear no responsibility for the financial crisis and recession that has caused the fiscal problems.

Our concern is that the leading contenders for addressing the deficit — major public spending cuts, a [***big rise in VAT***](#) or a ***big rise in income tax*** — ***fail when judged against these criteria.*** A transactions tax, we felt, did meet most of these criteria. I accept not everyone will agree with that conclusion but given that we are in a tough fiscal situation, there must be a certain obligation on those entering the fray to identify their alternatives and explain how they meet these criteria.

Of course, they may not agree with the criteria but then they need to explain that position as well.

Quite so when [***closing comments on this issue on my blog I said:***](#)

[W] is curious to note is not one person has said [the tax the TUC propose] should not happen. All you have argued about (if I recall correctly) is the rate

So it may be introduced at less than the proposed rate - even at one fifth of that rate it could make a valuable contribution to closing the fiscal deficit - and it could be ratcheted up from there

But has the case for the tax been made? Yes, undoubtedly. And why? Because the only counter argument is that the neo-liberal view of markets must prevail. Nothing more, or less

And if the best that the opponents can come up with is that such a tax impedes the free flow of the market to do whatever it will they really have lost the argument. It seems to me that debate is over As the [***Guardian notes, even the new Lord Mayor of***](#)

London says:

In a dramatic change of tone from his predecessor, the financial district's mayor, Nick Anstee, will today tell an audience that includes the prime minister: "We need to re-establish a contract between the City's financial institutions and the society they serve. This is right because society, the taxpayer, has just picked up an enormous bill for failings."

He's right.

A Tobin tax would help pay for that. A UK based version is completely possible. Details will be refined, no doubt, but the case is now made. Only the timing really need be in question.

Note: I advise the TUC on tax issues