Stamp out stamp duty

Stamp duty, the Inland Revenue is fond of reminding us, is the oldest tax they administer in the UK. Established in 1694, the year of the foundation of the Bank of England, it yields £1bn a year, "efficiently and inexpensively". Perhaps a tax which costs the Revenue very little to collect, together with a sense of history, prevents it from even considering abolishing this historic relic.

The previous government's promise in the 1990 Budget to do away with stamp duty linked its abolition specifically to the introduction of Taurus rather than to the introduction of electronic settlement. Despite repeating the promise in more general terms in its 1992 manifesto, the Conservatives conveniently forgot it, as the loss of £1bn of revenue became too large to contemplate. So far, there is no indication that the present administration intends to make any change or fulfil the promises of its predecessor on this issue.

Soon, however, the government may have no choice, if substantial amounts of equity trading are to remain in London. This is not exclusively a UK problem either – it is also pressing for the Irish Exchange – Dublin may suffer even more if the Irish government does not also wake up to the reality of Europe-wide equities trading and the barrier which stamp duty represents.

Fanciful? Not at all. Ireland has the highest stamp duty in Euroland at 1%. The London market faces a 0.5% rate and France imposes a 0.25% levy, while Germany, the Netherlands, Luxembourg, Finland and Spain impose no duty at all. With broking commissions on large transactions falling, and spreads on well traded stocks all but disappearing under order book regimes, stamp duty is now the biggest charge on many institutional equity transactions.

The pressures on it are building. Internet trading is already a reality but the bigger immediate threat is the London-Frankfurt Stock Exchange link. With the recent news that these talks are to be opened up to include the bourses of Amsterdam, Brussels, Madrid, Milan, Paris, and Zurich as well, this could easily expand into a more general European alliance, with major European shares traded on all the bourses. Why trade Glaxo Wellcome in London or Allied Irish Banks in Dublin and pay stamp duty when you can buy either or both of them on Frankfurt without? "Liquidity" may be today's answer but where will the liquidity be tomorrow? With capital flowing ever more freely across national boundaries and technology providing the means for easy access to other markets, there can only be one answer: to use the place where the service is cheapest. And with London charging a 0.5% stamp duty and Dublin 1%, those places will certainly not be London or Dublin.

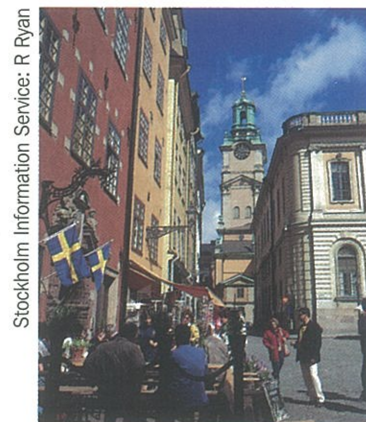
How long can the Canute-like UK and Irish governments continue to try to turn back this inexorable tide? The loss of £1bn of easily collected revenue in the UK and some £140m in Ireland is uncomfortable for any government, but the opportunity-cost of losing a substantial market, whose practitioners and firms pay substantial amounts of income and corporation tax, as well as contributing to the economy's general well-being, will make the amounts raised infinitesimal by comparison. This is a nettle which the two governments must grasp.

REVIEW EDITORIAL PANEL MEMBERS

Peter Bucks
Kevin Ferris
Peregrine Banbury/Eleanor Malcolm – Coutts & Co
Harvey Dyson – Financial Services Authority
Geoffrey Turner/Graham Ross Russell/
Susan Soper/Stuart Valentine – Securities Institute
Paul Cattermull – Securities Institute Services Ltd
Michael Lilwall – Charles Stanley & Co Ltd
Dennis Cox – Prudential Portfolio Managers
David Courtney – Tri-Aspects Ltd

CURRENCY UNION

Countries are still divided on whether to join the euro



Stockholm Information Service: R Ryan

■ Despite its reluctance to sign up to the euro, Sweden's economy is prospering.

GREEKS ARE eager to join the euro and even the sceptical Danes are warming to the idea, but Britons and Swedes are not so sure as their economies seem to be prospering outside monetary union, opinion polls show.

Polls in the "outs" — the four European Union countries which failed to join EMU last January — show that the euro's slide, weak economic growth in Euroland and scandals in Brussels have made some Europeans wonder whether joining makes sense.

A Reuters survey of opinion polls in the past year indicates that the current, often heated debate over whether to join the euro in a second wave has scarcely altered Britons' views.

Since May 1998, responses in the *Guardian*/ICM poll have consistently showed around 50% of Britons would vote against euro membership if a referendum were held now. A regular poll from MORI/Salomon Smith Barney paints a similar picture and likewise shows the "yes" camp stuck at around 30%.

Swedish public opinion swung firmly behind EMU membership for the first time in January, but it has weakened since the European Commission resigned in March over sleaze allegations.

A Demoskop poll in May 1999 showed 44% of Swedes were opposed to joining EMU, with 41% in favour. In February, 31% were against and 49% in favour. Another reason is that the Swedish economy is doing well outside EMU.

Danes almost wrecked EMU by rejecting the Maastricht Treaty on monetary union in a 1992 referendum. But now the political establishment is behind membership and public opinion seems to be following, although the battle is not yet won.

A Greens poll in May showed 46% are in favour, with 36% against. By contrast, the "yes" camp stood at 39.5% in August 1998, with 41.5% against EMU membership.

Britain, Sweden and Denmark could have joined the EMU launch if they wanted but decided not to. Greece could not because it failed to meet economic targets in the Maastricht Treaty.

The Greek government is successfully getting the national finances into shape and Prime Minister Costas Simitis wants his country in EMU by 2001. It can also rely on solid public backing. A European Commission survey published in March 1999 found 75% of Greeks supported EMU, while 19% were against.

CONSUMER INFORMATION

Customers will benefit from FSA league tables

THE FINANCIAL Services Authority has announced the timetable for its project on financial services league tables, which is designed to help provide consumers with useful comparable information on product cost and quality, so they can shop around more effectively and make better informed buying decisions.

The project was launched in March following Chancellor Gordon Brown's announcement in his Budget speech. A consultative paper will be published in September that will:

- ■ review existing available data, including information collected and published by the PIA, industry software tools, etc;
- ■ review experience elsewhere in producing comparable information, especially in overseas financial services markets;
- ■ consider whether existing data could be presented in ways that are more useful to consumers; and
- ■ propose options for future collection and publication of data, including the compilation of league tables of charges and product quality indicators.

Howard Davies, the FSA's chairman, said: "The government has set us a challenging task. There is no doubt that better comparable information in the form of league tables should help make the market work better, in the interests of consumers and of competition.

"But we need to be careful about how indicators and products are chosen, and make sure that what we produce is useful to consumers and practicable to implement. We will adopt an open approach, and consult fully with the industry and consumers before firm decisions are taken."

REGULATION

Paper outlines arguments for single national regulator

THE RATIONALE for a Single National Financial Services Regulator is the title of an occasional paper from the Financial Services Authority written by Clive Briault, its Central Policy Unit director.

It sets out the arguments for a single national financial services regulator and its main conclusions are:

- ■ The UK has not been alone in establishing a single national financial services regulator. This international trend reflects the increasing number of financial firms offering financial services that cut across traditional sectoral and national boundaries.
- ■ A single national financial services regulator should be able to offer significant efficiencies. These efficiencies are generated by economies of scope and scale, more efficient allocation of regulatory resources, clearer and more consistent objectives that should generate fewer conflicts and through the avoidance of differences in supervisory approaches that may have arisen across multiple regulators.
- ■ However, it would not be appropriate to extend these arguments automatically to the international context, where other considerations also need to be considered.

These include the existence of different legal and cultural structures, the relatively low level of cross-border financial services and the distance such a regulator would be from most of the firms it regulated.

The current combination of international co-operation and co-ordination, including the introduction of lead regulator arrangements and agreements on common minimum standards, meets current needs.