European Financial Governance: FTT Reform, Controversies and Governments’ Responsiveness

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Abstract
The Eurozone crisis exposed the incompleteness of the Economic and Monetary Union’s governance framework thereby prompting the promotion of a multitude of reform packages and proposals. This simultaneously induced conflict among EU governments on both design and content of such reforms. In case of the financial transaction tax (FTT) proposal, which failed to garner consensus among member governments, it illustrates Ireland’s disapproval clashing with favorable German and French stances. While these governments aligned on the necessity to reform, the process of harmonizing EU financial governance proved rather difficult. In analyzing governments’ variation of reform support or opposition, the societal approach to governmental preference formation is employed. This is considerably conducive in directing academic attention to the role of two explanatory variables, domestic material interests and value-based ideas, in shaping governments’ reform positions. This article encompasses a comprehensive comparative account of domestic preference formation and responsiveness of three EU governments (France, Germany and Ireland), in the case study of the FTT, and demonstrates that the two societal dynamics are prone to have played a role in shaping financial reform controversies. By building on and contributing to Eurozone crisis literature, this approach seems appropriate in analyzing financial governance reform due to the crisis’ domestic impact resulting in increased public salience, issue politicization and an advanced role of elected politicians.

Keywords
domestic politics; financial regulation; financial transaction tax; France; Germany; government preferences; Ireland; political argumentation

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1. Introduction
The outbreak of the financial and Eurozone crisis in 2010, highlighting the deficiencies of the Economic and Monetary Union (EMU) governance framework, led to a swift consensus amongst the heads of state and government of the European Union (EU) “to restore the soundness and stability of the European financial system” (European Council, 2010, p. 6). Although the necessity to act sparked immediate response, in the form of the European Commission proposing multiple reform packages and proposals, Burns, Clifton, and Quaglia (2018, p. 372) argue that no considerable alterations have been undertaken at reforming financial regulation: “EU post crisis financial regulation underwent only incremental change, rather than transformation.” While the financial and Eurozone crisis immediately increased financial regulation’s salience and called for prompt substantial action, considerations on financial reforms’ acceleration and design oftentimes induced controversies between individual member governments (van Loon, 2018). Due to the unanimous decision making procedure several governments acted as veto players in delaying or blocking reform proposals on the EU level. One considerably
contested reform proposal, which failed to garner consensus among member governments and still lingers in the reform pipeline, the financial transaction tax (FTT), serves as a case in point. The FTT, as an instrument of regulating the financial market, will have an influence on the banking sector in the EU in particular, and shape the overall outcome of the banking union (Högenauer, 2021). It was disapproved by Ireland (Hardiman & Metinsoy, 2019) clashing with favorable German and French stances (van Loon, in press). Consensus and desirability for financial regulation reform have thus, at times, been severely constrained.

In explaining governments’ variation of reform support or opposition, a turn to the domestic level of European financial governance demonstrates that these governments equally faced potential veto players within their countries’ societies. Pursuing the line of reasoning that the urgent, uncertain threatening crisis situation advanced political contestation, a so-called politicization (De Wilde, Leupold, & Schmidtke, 2016) created a particular change from quiet to noisy politics inducing (1) an increase of governments’ responsiveness to citizens’ demands, which simultaneously led to (2) a decrease of interest groups’ ability to shape a government’s position (Culpepper, 2012). This mirrors a process leading away “from permissive consensus towards constraining dissensus,” while spilling “beyond interest group bargaining into the public sphere” (Hooghe & Marks, 2009, p. 5). Heated public discussions, generated by the immediate spotlight on EMU’s weaknesses, paired with its increased issue salience, induced a broad actor plurality, ranging from business associations and trade unions to non-governmental organizations (NGOs) and voters, favoring or opposing reform proposals during EU level negotiations (Kastner, 2018). Assessing domestic level societal dynamics shaping governments’ preference formation, and thus reform positions, is a vital preceding component in comprehending how and why these positions were pursued at the EU level. Examining domestic preference formation is hence of importance when accounting for past, current, and future governments’ positions towards EU reforms.

Whereas some studies put the positions of member states at center stage in explaining Euro crisis decision making (Degner & Leuffen, 2019a; Schoeller, 2018), other research involves positions of member governments in EMU reform, whereby these largely reflect single country case studies on France (Rothacher, 2015), Germany (Degner & Leuffen, 2019b), Italy (Bull, 2018), Ireland (Hardiman & Metinsoy, 2019) or the UK (Kassim, James, Warren, & Hargreaves Heap, 2020). These studies examine whether governments’ preferences are mainly determined by so-called structural economic factors or by political considerations (Tarlea, Bailer, & Degner, 2019), or by a “battle of the systems” and a “battle of ideas” (Van der Veer & Haverland, 2019, p. 1399). Through application of the societal approach to governmental preference formation (Schirm, 2011, 2016, 2020), this article contributes to the literature by examining both material and ideational considerations towards the FTT from a domestic level perspective stemming from a cross-country comparison of three EU governments’ preference formation processes. It argues that the Euro crisis may genuinely have enhanced the legitimacy of governments’ position taking, particularly during the first phase of EU decision making, governmental preference formation (Degner & Leuffen, 2019b).

Contemporary Eurozone crisis literature points to the aspects of issue salience and actor plurality usually through employment of competing European integration theories such as liberal intergovernmentalism (Rehm, 2021; Schimmelfennig, 2015), neofunctionalism (Niemann & Ioannou, 2015), or post-functionalist approaches (Puetter, 2012). Csehi and Puetter (2020, p. 17), having reviewed these theoretical perspectives, identify government autonomy as a common line of argument and conclude that most have lost their “liberal angle”... with decisions “decoupled from domestic influences.” A particular focus on domestic preference formation is therefore of importance as, in post-crisis European financial governance literature, imbalanced views have emerged that crisis management solutions were criteria of output legitimacy rather than input legitimacy (Kreuder-Sonnen, 2016). Due to the Euro crisis generating high uncertainty and unknown consequences, Lodge and Wegrich (2012, p. 1) perceive this output legitimacy as a specific “hour of the executive,” leading to democracy deficit in decision making, leaving reform initiatives thus falling short of democratic legitimacy. This is in line with Bauer and Becker (2014) who argue that the European Commission gained more influence in implementing governance rules, while Schmidt (2015) underlines that reforms were initiated and applied without public input. This contrasts with the new intergovernmentalism literature, which states that “de novo bodies” increased autonomy, primarily through intergovernmental coordination within the European Council framework, resulting in less empowerment of supranational institutions, such as the Commission partly departing from the Community method (Bickerton, Hodson, & Puetter, 2015, p. 705). This article aligns with the latter and argues that the uncertain threatening crisis situation advanced a so-called “particular environment of democratic citizenship in flux” (van Loon, 2021, p. 66), with a variety of domestic actors being well informed and highly concerned about their governments’ positions in EU reform negotiations. Literature underlines the importance of governments’ responsiveness to voters during times of political contestation (Hobolt & Klemmensen, 2008, p. 310), or to business associations’ efforts in delaying the FTT (Kalaitzak, 2017; Kastner, 2017). Considering governments’ responsiveness relating to decision makers prioritizing different actors with wide-ranging issues, especially during times of crisis, this article contributes to examining a wide range of actors situated within three different domestic societies (Ireland, France, and Germany) and instantly
affected by revamping the EMU framework, in shape of the FTT. Considering actor plurality and issue salience, which domestic actors did these governments respond to during FTT reform discussions and why?

By paying particular attention to the issue salience and actor plurality, which led to political conflicts of a broad range of stakeholders in the domestic sphere, this study’s analysis encompasses business associations, trade unions, NGOs and voters having shaped the French, German, and Irish domestic preference formation processes. The principal aim is to ascertain who determined these governments’ responses during the FTT debate and why, as well as under which circumstances some domestic actors were either paid attention to, or largely ignored in informing these positions. By applying the societal approach to governmental preference formation, two explanatory variables, material interests and value-based ideas, dominant in these countries’ domestic politics, are investigated to account for when each of these mattered, how they interacted and which of these prevailed in the French, German, and Irish governments’ positions. By means of political discourse analysis (PDA), a methodological framework is employed in which a practical argumentation scheme highlights the broad public FTT debate. By using several premises (circumstance, goal, concern/value, and target), governments’ responses to and dealing with the specific reform proposal, are linked for correlation purposes to diverse material interests and value-based ideas of particular domestic actors (Fairclough & Fairclough, 2011, 2012a, 2012b).

The article proceeds in the following four steps. The next section, and while touching on several domestic politics approaches, presents the societal approach to governmental preference formation. This includes defining the variables and formulating the core hypotheses. Subsequently, the PDA framework and operationalization of the variables is explained. This is followed by the empirical case study examining whether the FTT positions of the governments under scrutiny correspond to domestic material interests or value-based ideas, or both, in a cross-country comparison. The last section concludes with a brief comparative summary on the theoretical and empirical findings.

2. Analytical Framework

Due to its distinguished emphasis on endogenous societal dynamics, material interests and value-based ideas, dominant in countries’ domestic politics, preceding an intergovernmental or international bargaining context, the societal approach to governmental preference formation (Schirm, 2011, 2016, 2020) allows for an explicit unfolding of the black box in explaining variation in governments’ reform positions (van Loon, 2020). A third explanatory variable applied in this approach, domestic institutions, is due to space constraints not part of this analysis. For an elaborate explanation on all variables and conceptualization of hypotheses, see Schirm (2020). While employing and augmenting domestic politics theories such as IR liberalism (Moravcsik, 1997), domestic sources of economic policies (Goldstein & Keohane, 1993), as well as varieties of capitalism (Hall & Soskice, 2001), this approach engages in a unique advancement of these. Similar to these theories is its core assertion that elected governments in democratic political systems aspire to remain in office, ergo their positions mirror societal actors’ preferences (Schirm, 2013, p. 690). Yet, contrary to hailing the importance of either societal interests or ideas, this analytical instrument embraces both societal dynamics in explaining governmental preference formation as the dependent variable.

The interrelationship of these societal dynamics has been endorsed by Hall (1997), Goldstein and Keohane (1993, p. 25) and Milner (1997, p. 16), yet enthusiasm to truly explore this interdependence has been lacking and awaits further theoretical development. The societal approach to governmental preference formation caters for a systematic examination of the individual role of both societal interests and ideas, in supporting or opposing each other, their interplay and plurality in shaping governments’ positions. It is essential in “refining” existing domestic politics approaches both theoretically and empirically (Schirm, 2020) and consequently, a theory-guided empirical investigation is solely complete when it has been determined which of these explanatory variables accounts for variation across governments’ positions, and why they do so. Schirm (2018, p. 65) states that “the conditions for the relative prevalence of either ideas or interests” has not been anticipated in previous domestic politics approaches. Through application of these variables, this article addresses the controversies around the FTT debate triggering an active involvement and engagement of domestic actors such as voters and NGOs. With European financial governance increasingly touching domestic politics, thereby ‘catalyzing’ a range of materialistically and ideationally motivated societal stakeholders, who aim to shape their respective governments’ positions, justifies employing this approach.

The societal approach to governmental preference formation, in reflecting previous scholars’ research outputs, connects domestic actors’ specific attributions: Encompassing and furthering Milner (1997) and Moravcsik (1997), the material interest variable is delineated as economic sectors’ distributional calculations adjusting swiftly to changes in the European (international) economy through FTT introduction. Furthermore, while connections with Goldstein and Keohane’s (1993) as well as Moravcsik’s (1997) work are echoed, the variable value-based ideas is defined as voters’ enduring joint expectations on apt government FTT management. As this article expands its examination to a broad array of stakeholders, supplementary domestic actors are involved in the analysis (van Loon, 2021; van Loon, in press): Trade unions complement the domestic materially motivated business associations as sources for
material interests, while NGOs enhance the ideationally motivated voters’ examination as sources for value-based ideas. The variables’ precise characterization supports three individual hypotheses’ articulation on the conditions for prevalence in shaping governments’ positions. These central hypotheses explain the impact of economic sectors (material interests) and societal expectations (value-based ideas): When economic sectors face meaningful distributional calculations, material interests predominate in shaping governments’ FTT positions, due to intense lobbying; and when fundamental questions on the role of politics in managing the economy are affected, ideas will prevail in shaping governments’ FTT positions (Schirm, 2016, p. 69). A third hypothesis accounts for the variables’ interplay: When both cost-benefit calculations for economic sectors as well as fundamental societal expectations on governments’ apt role in managing the economy are affected, then these either compete and weaken, or reinforce and strengthen each other in shaping governments’ FTT positions.

3. Operationalization

Fairclough and Fairclough’s research in political responding to and dealing with the financial and Eurozone crisis views PDA mainly as a type of “practical argumentation” which “demands systematic analysis” of arguments for or against particular types of governments’ actions (Fairclough & Fairclough, 2012a, pp. 1–2). Such governments’ responses shed light on the broad public debate on the causes of the crisis in general, as well as particularly on reforms proposed. In arguing practically in support or opposition of reform proposals, these are linked to the diverse concerns/values of domestic actors. Arguing practically over particular types of actions, in the crisis context of uncertainty and risk, is designed to lead to a reasonable and legitimate outcome precisely in the absence of consensus:

In a modern democratic state, people expect politicians to be bound by the promises they make, and expect the institutions of the state to act justly and treat them as equals. Action based on such reasons is legitimate both because a concern with doing one’s duty or fulfilling one’s obligations enjoys public recognition, but also because these reasons can be argumentatively and publicly justified as institutional facts, regardless of whether agents want to act in accordance with them or not. (Fairclough & Fairclough, 2012b, p. 26; see also Fairclough & Fairclough, 2012a, p. 177)

In this sense, PDA is attached to domestic individual and collective actors (interest groups, trade unions, voters, NGOs, and governments) involved in political processes within institutional contexts, in which these actors can engage, in an environment of uncertainty, risk and disagreement on decisions on matters of common concerns/values. According to Fairclough and Fairclough (2012a, p. 34), giving primacy to practical argumentation means:

Carefully weighing a variety of relevant considerations...in a democratic setting where a wide range of viewpoints can be expressed and taken into account, will not only produce a legitimate decision...but will also enhance the rationality of the decision-making process.

In applying PDA, the authors establish a framework, analyzing a claim for action (action to be pursued) which is distinguished from the premises illustrating the circumstances of action (current context) from premises expressing the goals of action (future state of affairs)—which, in turn, are explicitly informed by values and concerns (Fairclough & Fairclough, 2012a, p. 15). Fairclough and Fairclough (2012a, p. 44) propose practical argumentation which, inserted within the context of this study of the FTT, can be applied by taking the following systematic steps: (1) in accordance with material interests (concerns) and/or value-based ideas (values), and (2) given the actual problematic context of action (circumstances), as well as (3) the desired future state of affairs (goals); (4) the solution to the problem is the action to be pursued (target). Therefore, concluding that the action to be pursued will be the right means to achieve the goal, the link from the premises to conclusion is done by a presumptive means-end relation that goes from the actual circumstances to the future current state of affairs.

This empirical analysis examines whether the three governments’ FTT positions, expressed in statements of responsible elected politicians (finance minister and head of government), correlated with either (1) interest-related indicators articulated by business associations and trade unions’ demands in the form of position papers and representatives’ statements, or to (2) ideational-related indicators such as voters’ and NGOs’ attitudes as indicated by public opinion polls and positions papers, or if in fact (3) a correlation occurred between interest and ideational-related indicators. Concerning public opinion surveys, societal attitudes from the Eurobarometer are highlighted, as well as one dyad of value-based ideas on the role of the government in steering the economy: trust in government’s regulation versus trust in market forces (Schirm, 2011, p. 50).

4. The Proposed European FTT

After the failure of the 2010 G20 Toronto Summit in reaching agreement on globally coordinated action to tax the financial sector, President of the Commission, José Barroso, proposed a Directive in September 2011 to create a harmonized broad-based FTT in response to the global financial and Euro crises. To serve as an example of potential global implementation, the FTT was to be
installed by member governments. This tax was “to make the financial sector pay its fair share [and] to reduce competitive distortions in the single market, discourage risky trading activities and complement regulatory measures aimed at avoiding future crises” (European Commission, 2011). Many member governments contested the FTT mainly due to the risks of hindering growth and financial sector relocation. Once unanimity to pass the proposal proved difficult to achieve, the most reluctant governments such as Ireland, the Netherlands and the UK were bypassed primarily by Germany and France in requesting the Commission to introduce the enhanced cooperation mechanism. This would permit those favorable FTT member states to participate in implementing the tax. The mechanism was supported by 11 EU member states representing more than 90% of Eurozone GDP and was approved by the European Parliament in December 2012 and the Council of the EU in January 2013. However, FTT introduction still lingers in uncertainty. Statements of support mainly come from Germany and France, regularly putting the FTT on the ECOFIN agenda to advance the issue and renew the political commitment of the remaining member governments. Contemporary developments seem to slightly accelerate this process, as Brexit and the subsequent exclusion of the UK as a ‘foot-dragger’ (Quaglia, 2017, p. 1) in blocking FTT negotiations, and the current COVID19-pandemic crisis, have initiated the German Council Presidency, to call on EU members’ “solidarity, cooperation and joint solutions” to fund the EU’s budget and “manage the economic effects” in response to the corona virus (German Federal Ministry of Finance, 2020).

4.1. German, French, and Irish Governments’ Positions

From the perspective of the French and German governments, the political context of action (circumstances) was similar in their basic features. At the beginning of the crisis Christine Lagarde, French Finance Minister, stated in the Assemblée Nationale that it was “the result of a deregulation of liberalism” (Assemblée Nationale, 2009). Her successor François Baroin added, referring to international structures, that “if we wait for a consensus and a global agreement, this tax will not be introduced” (Assemblée Nationale, 2012b). Referring to the lack of regulation of the financial markets identified, Lagarde stated as a solution to the problem (target premise) “to rebuild the rules that ensure the smooth functioning of the markets” (Assemblée Nationale, 2009). Baroin also demanded that “the financial system should contribute to repairing the damage it has itself caused by developing a financial industry that got carried away with subprime mortgages and Lehman Brothers” (Assemblée Nationale, 2012a).

Similarly interpreting the circumstances, German Chancellor Angela Merkel stated in the Bundestag that the “financial crisis could only have arisen because the regulation of the financial markets was insufficient” (Deutscher Bundestag, 2012). German Finance Minister Wolfgang Schäuble estimated the “chances of us achieving a global financial transaction tax...very small” (Deutscher Bundestag, 2010c). Schäuble added that the “lack of regulation of the financial markets” was one cause, but the main cause was the “excess of public debt in the national budgets” (Deutscher Bundestag, 2011) and thus gave higher priority to reducing public debt. Merkel’s target premise was again similar when she stated that “there is no way around the fact that the financial sector is sharing the costs of the crisis” (Deutscher Bundestag, 2010b). In addition, Merkel exceeded Lagarde’s regulatory ideas with her demand that “every financial center, every financial market player and every financial product should be subject to regulation, if possible not only in Germany, if possible not only in Europe, but if possible everywhere in the world” (Deutscher Bundestag, 2012). This should “restore the primacy of politics over the financial markets” (Deutscher Bundestag, 2010a).

The Irish government’s position is in stark contrast to the German and French positions in terms of the political context of action (circumstances). In the discussion in the Dáil Éireann on the introduction of a European FTT, Prime Minister Enda Kenny emphasized that the financial sector was a "very important sector for Ireland" (Houses of the Oireachtas, 2012a), as “32,000 people are directly employed in the International Financial Services Centre in Dublin, which is the location of more than 5,000 firms” (Houses of the Oireachtas, 2012a). The International Financial Services Centre (IFSC) is thus not only “an important part of the economy” (Houses of the Oireachtas, 2012b), but “vital to the Irish economy” (Houses of the Oireachtas, 2012c), as the financial sector contributes “€2.1 billion in corporate and payroll taxes to the Irish Exchequer” (Houses of the Oireachtas, 2012a). Accordingly, the Irish government primarily focused on the relevance of its financial sector. Kenny expressed the target premise of “continuing to adopt, articulate and implement a clear vision for the future of the IFSC and demonstrating Ireland’s commitment to the promotion and growth of this sector” (Houses of the Oireachtas, 2012a). This target premise of the Irish government, by focusing on promoting the national economy, contrasts with the German and French stances, bearing in mind that Ireland also opposed the FTT due to the UK’s resistance (Hardiman & Metinsoy, 2019).

4.2. German, French, and Irish Domestic Material Interests

As a representative of the German credit institutions, the Deutsche Kreditwirtschaft (DK) warned that a FTT “because of possible evasive reactions, is fiscally justifiable—if at all—only if it is introduced globally or at least EU-wide (EU-27)” (DK, 2011, p. 2). From the DK’s perspective, the financial sector is “not undertaxed compared to other sectors of the economy” and “even if it
were introduced at the international level, many problems would still arise” (DK, 2011, pp. 6, 10). In addition, the association stressed:

That the introduction of a Financial Transaction Tax would have negative consequences not only for financial institutions, but also for companies and citizens in general, as well as for the economy and financial locations of the affected states as a whole. (DK, 2011, p. 2)

The Fédération Bancaire Française (FBF), equal to the DK, argued that “the financial sector, and in particular the banking sector, contributes as much and perhaps even more than others to public charges in the broadest sense” and that “in this context the...financial transaction tax (FTT) is not legitimate” (FBF, 2011). The FBF similarly argued that “a tax on financial transactions can only be conceived on a global level to maintain the competitive conditions of the financial centers and not to penalize the market financing of European companies” (FBF, 2011). The rejection of the FTT, whether national or regional, highlights the concerns premise of these national business associations clearly reflecting the national locational advantage in international competition and the relevance of this, as it would harm the financial sector. Thus, the interests of the German and French financial sectors conflicted with the respective government positions that advocated FTT introduction. The Irish Banking Federation, in cooperation with Financial Services Ireland (FSI), commissioned a study on the advantages and disadvantages of an FTT. The aim of the study was “to independently review and distil the main points...on the European Commission’s initial...and the subsequent authorized proposal for an FTT...to provide an indication of the expected impact of the FTT across the financial services sector and its constituent product groups” (PWC, 2013). Based on this report, Brendan Bruen, Director of the FSI, concluded that “Ireland has made the right decision to stay out of any FTT” as it “harms any country that introduces one” and “is ultimately paid by the real economy, in increased costs for business, lost jobs and lost payroll” (FSI, 2013).

With the Confederation of Trade Unions (DGB) and the Confédération française démocratique du travail (CFDT), the largest trade union federations in Germany and France spoke out in favor of the introduction of a European FTT. The CFDT supported a campaign by the European Federation of Public Services Unions, which focused on the demand for “fairer and more progressive taxation” in the form of a “European financial tax” as it believed it to be “high time that the financial sector also paid its share” (CFDT, 2011). The DGB contradicted the view of the German financial sector that a FTT “must be introduced worldwide” and supported “the introduction of a Financial Transaction Tax in the EU...even if the rest of the world community does not follow suit,” so that “financial speculators, as the cause of the financial and economic crisis, to share in its consequential costs” (DGB, 2011). This echoes the view of the ICTU, the Irish Congress of Trade Unions, while adding that the FTT contributes:

To state revenue at a time when the state finances are under unprecedented pressure and it shows citizens that the institutions which were the main culprits in our economic collapse are making some contribution towards a recovery. It will alter economic behaviour by making risky transactions more costly, while in turn allowing a more rational allocation of economic resources. (ICTU, 2012)

The trade unions’ demands (concerns premise) for a European FTT correlates with the German and French governments’ positions. The financial sector is to be held accountable through stronger regulation and the responsibility for the costs of the crisis is accompanied by a sense of justice, which the German and French governments also emphasized, yet diverged from the Irish government’s stance.

4.3. German, French, and Irish Domestic Value-Based Ideas

To illustrate the increased issue salience, the importance the public attached to the FTT reform proposal and its subsequent politicization, media analyses from Kastner (2017) and Degner and Leuffen (2019b) confirm that public attention increased instantly, particularly during the years 2011 to 2013. Concerning the question of an apt government’s role in managing the economy and trust in governments regulation versus trust in market forces, highlighting the values premise, weak governmental regulation of the financial sector enjoyed support among the Irish population. In a Eurobarometer survey recurring since 2010, respondents were asked to indicate whether they support or oppose specific EU measures. In Ireland, on average 44% supported the introduction of a FTT, compared to 43% who opposed it. These figures are very different from the results in Germany (75% pro/16% contra) and France (64% pro/24% contra; see EUOPD, 2014–2018). The enforcement of the EU Troika’s bailout program, including conditions of austerity measures imposed on the Irish society to decrease government expenditure, might have contributed to this difference in Irish attitudes towards FTT introduction. The German and French governments’ target premise of having the financial sector share the costs of the crisis is reflected in a Eurobarometer survey recurring since 2013. When asked whether the EU is ensuring that the financial sector pays its fair share, 21% of French and 37% of German (as well as Irish) respondents surveyed felt that the financial sector is paying its fair share. A majority of 55% of French respondents felt that the EU was not holding the financial sector sufficiently accountable. In Germany and Ireland, 50% each shared this view (EUOPD, 2014–2018). In the FTT debate, the emphasized...
value of fairness (the financial sector must pay its fair share) can be correlated to the values equality, justice, and freedom. In the question of whether “[we need] more equality and justice, even if this means less freedom for the individual” (EUOPD, 2014–2018), an absolute majority of respondents in Germany (62%), Ireland (63%) and France (64%) voted on average for the values of equality and justice, whereas in contrast, 31% (France), 25% (Ireland), 34% (Germany) preferred the value freedom.

The internationally active NGO Tax Justice Network, which maintains partnerships with the Tax Justice Network Germany and Attac France, contributed to the debate on the introduction of a Europe-wide FTT. The Tax Justice Network advocated “the introduction of a Financial Transaction Tax because only this is suitable for financing current crisis management measures and for preventing or at least mitigating future crises” (Netzwerk Steuergerechtigkeit Deutschland, 2010). In addition, the Network for Tax Justice was one of 100 other sponsors of the German nationwide campaign ‘Tax against Poverty’ (Steuer gegen Armut). An open letter, which forms the basis of the campaign, states: “[We want] to ensure that the financial sector contributes to overcoming the consequences of the crisis” (Steuer gegen Armut, 2009). Attac France viewed the introduction of a FTT as a service to social justice, as it would “shift the burden of the crisis from the citizens to the financial sector” (Attac France, 2010). It celebrated the Commission’s proposal for a pan-European FTT as a “victory for Attac’s ideas” but regretted that “the proposed rate is only 0.01%” and that “the scope of the proposal...is limited by the exclusion of taxation of transactions on the foreign exchange market” and hence, the proposal is “too little, too late” (Attac France, 2011). The NGO Financial Justice Ireland called for an “EU-wide financial transaction tax” (Financial Justice Ireland, 2014) “to reclaim what we have paid out to banks and ‘bail-outs’” (Financial Justice Ireland, 2013b). “Part of the FTT revenue should be used to repay part of the bank debt in the global North and South” (Financial Justice Ireland, 2013a). The positions of the NGOs show a strong consensus on the demands (values premise) for a Europe-wide FTT and reveal that the planned FTT introduction not only affects the material interests (concerns premise) of the financial sector but also societal expectations about the role of the government in managing the financial market. The positions of the German and French NGOs are consistent with their respective government positions in their claim for action to demand a European FTT and in their target premises of making the financial sector share in the costs by regulating the financial system and the associated values of equality and justice. On the other hand, the rejection of a FTT in the Irish government’s claim for action correlates neither with the position of Irish NGOs nor with the widespread demands in Irish society for equality and justice in the financial markets.

5. Conclusion

Both the German and French governments’ context of action (circumstances) to introduce a FTT at the European level is in line with the demands of the voters, of NGOs and trade unions, and runs counter to the material interests of the financial sector, which considered the introduction of a FTT at the European level to be harmful to the economy. These governments’ target premises of using the FTT to regulate the financial sector and make it share the costs of the crisis can be plausibly explained by the high approval rates for a European FTT and the widespread view, expressed by the trade unions and NGOs, that the financial sector has not been held sufficiently accountable. In the analysis of the Irish government’s position, it deviates from the German and French governments’ stances, correlating in its circumstances with the material interests of the financial sector, as well as with the expectations of the Irish voters, which, unlike in the German and French cases, did not support the introduction of a FTT at the European level with an absolute majority.

Reflecting these empirical results, the hypotheses of the societal approach to governmental formation and its explanatory variables, material interests and value-based ideas, account for when these mattered, how they interacted, and which prevailed in shaping these governments’ FTT positions. The first formulated hypothesis focused on the prevalence of business associations and trade unions in shaping the governments’ FTT positions. Strengthening EU financial regulation would directly affect specific economic sectors, leading to cost-benefit calculations instigating these domestic actors to engage in vocal lobbying efforts, thus dominating domestic preference formation. The comparative empirical analysis on material interests reveals that these actor types were divided regarding their FTT demands. Due to the role they play in the national economy, contributing to employment, exports and GVA, more so for Ireland than for France and Germany, business associations were highly opposed to strengthening financial integration. Trade unions, specified as material interests due to the importance of labor to the national economy, were supportive of the FTT as they blamed the finance sector for the dire economic situation, which had induced unemployment and immense costs for the taxpayer. The FTT, in punishing the financial sector, would raise revenues and contribute to political stability, economic prosperity, and social security.

The second hypothesis turned attention to voters’ and NGOs’ concerns if strengthening EU financial regulation involves fundamental and salient enduring societal expectations on apt government’s role in steering the economy. The cross-country comparison illustrated that all NGOs had a unified position towards FTT introduction. French and German public opinion were more in line regarding pro-regulation versus pro-market attitudes, while in Ireland trust in market forces reflected
the negative correlation to strengthening financial market regulation. This equally corresponds to the large percentage of French and Germans in favor of the FTT, yet also complies with the Irish public opinion being largely divided over this tax issue.

So far, this article has highlighted the importance of both domestic explanatory variables, whereby it has become clear that not only competition took place within these variables in the three country case studies (material interests: finance and business industries versus trade unions) or in Ireland only (value-based ideas: NGOs versus voters) but competition took also place between these societal dynamics, hence they can also reinforce each other. The third hypothesis concentrated on the variables’ interplay: The strengthening of financial regulation would directly affect cost-benefit calculations as well as fundamental enduring societal expectations on the apt government’s role in steering the economy. The comparative empirical examination has supported that trade unions’ demands collided with these from finance and industry associations, thus a certain weakening of the latter demands took place in the domestic preference formation processes. This weakening occurred more so since, particularly in France and Germany, trade unions were joined by both voters and NGOs in their support for the FTT, thereby reinforcing each other. Hence, an interaction between the societal dynamics took place. In Ireland’s domestic preference formation process, business associations’ opposition was most likely reinforced by the public’s divided opinion. Not having been able to form a solid positive attitude towards the FTT, the regulation-adverse attitudes reinforced the material interests opposed to financial strengthening. Hence, in France and Germany trade unions, voters and NGOs were able to circumvent the business associations’ interests and were thus more decisive in shaping its government’s position towards supporting the proposed reform, whereas in Ireland these domestic actors were ultimately not able to counter a unified financial industry overwhelmingly opposing the tax. In sum, this article has illustrated that, even in an uncertain crisis situation in which governments have to act prompt, a broad range of directly affected domestic stakeholders were able to voice their concerns in shaping the governments’ responsiveness, hence public input in the FTT reform negotiations genuinely enhanced the legitimacy of governments’ FTT position taking.

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Conflict of Interests

The author declares no conflict of interests.

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