The movers and the makers

The notion of a financial transaction tax has been circulating for years. The United Nations Summit on the Millennium Development Goals, held on 20-22 September 2010 was a perfect opportunity to see if world leaders were able to put their money where their mouth is.

This is not the first time there has been a call for innovative sources of financing to meet development goals and raise money for funding global public goods (GPGs). In fact, some innovative measures already exist, such as a tax on airline tickets, which is used to fund international public health initiatives. But are these piecemeal measures enough? The UN Summit on the Millennium Development Goals, held on 20-22 September 2010, provided a golden opportunity to discuss more far-reaching measures, such as a financial transaction tax (FTT). The question is, will the commitments announced at the summit be translated into action?

Signs that the FTT question is being taken seriously came from a high-level side event on the second day of the summit. It was organized by the Leading Group on Innovative Financing for Development, an initiative that now consists of 61 country members, international organizations and non-governmental organizations (NGOs).

The Leading Group drafted a declaration, read out at the side event, that reiterated its belief 'that those who benefit from globalization should contribute to solidarity efforts [to] help address the challenges of sustainable development'. It went on to say that it intends to 'explore a very small tax on international financial transactions ... that could provide stable and substantial financing for development, while minimizing economic distortions or damage to the real economy'.

Judging by the tone of the declaration, its authors mean business, though one may question whether the intention to 'explore' the feasibility of an FTT reflects real commitment or not. This is a legitimate concern. The notion of an FTT has been circulating for years, but a truly global tax, the revenue of which is earmarked for 'the challenges of economic development', has yet to emerge.

All this support

Taxing financial transactions is an idea that had been receiving gradual international support prior to the UN Summit. Former UK Prime Minister Gordon Brown presented this and other ideas related to the implementation of a global bank tax at the Group of Twenty summit in Scotland in November 2009. Lord Turner, chairman of the UK Financial Services Authority, advocated the introduction of an FTT in an interview in September of that same year in Prospect magazine, characterizing a global tax as a 'sensible revenue source for funding global public goods.' The manifesto of the Liberal Democrats, now part of the United Kingdom's coalition government, clearly endorses the introduction of an FTT and urges its use to support development and fight climate change.

On the European mainland, France has played a key role in promoting innovative financing. It can bank on a history of governments, regardless of their ideological persuasion, that are highly independent from and critical of the financial sector. At the UN Summit on 22 September 2010, French President Nicolas Sarkozy reaffirmed France's commitment to creating a global tax in his speech to the UN General Assembly.

Interestingly, the French president made a link in his speech between implementing an FTT and channelling the revenue it generates to development cooperation. He said that while 'the crisis is severe in the wealthy countries ... its consequences are much harsher in the poor countries. So we do not have the right to do less'. He went on to say that now was the time to >

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introduce innovative financing in the form of an FTT. 'Why wait?' he asked. 'Finance has been globalized. Why shouldn't we demand that finance contribute to stabilizing the world through a minuscule tax on each financial transaction?'

Strong support has also come from other countries, such as Belgium, Spain and Japan. Belgium passed a bill in 2004 introducing a currency transaction tax called the Spahn tax, developed by Paul Bernd Spahn (see the companion article in this special report). These three countries presented the Leading Group's declaration at the UN Summit side event, receiving support from Norway and Brazil.

Sarkozy was joining Prime Minister José Luis Rodríguez Zapatero of Spain, who also called for an FTT at the UN Summit two days earlier. He said that if 'we want effective global governance [and] shared responsibility in the face of global challenges like the battle against poverty, then we also need a system of global incomes'. Zapatero expressed support for a tax on financial transactions that would 'be integrated into the global framework of reforms of the financial system'.

There has been some support in the United States, though there is still plenty of opposition. The United States, it should be noted, is not one of the Leading Group's 61 country members. Nevertheless, Nancy Pelosi, Speaker of the US House of Representatives, endorsed a global tax in March 2009. The American Federation of Labor and Congress of Industrial Organizations, the largest federation of unions in the United States, has strongly endorsed it. It remains to be seen, however, whether the FTT proposed in the US will be used for any other purpose than to fund additional domestic stimulus spending.

NGOs are vocal backers of FTTs (see box). But all this support raises a number of questions. There does not seem to be any consensus yet on what form an FTT should take. How do its supporters envision the use of the revenue generated from these taxes? The key question is whether significant rhetorical and technical support will materialize into political commitment. The recent financial regulatory reforms, especially in the United States, but also increasingly in Europe, are grounds for optimism. They suggest that governments are able to look beyond their own financial interests and consider acting for the common good.

European NGOs supporting FTTs

United Kingdom

Stamp Out Poverty is an amalgamation of UK charities such as Oxfam, Christian Aid, Save the Children and War on Want. It advocates a currency transaction tax with a levy of 0.005%, arguing that 'a tiny levy ... on the four most traded currencies has the potential to raise US$30 billion in revenue without damaging the market'.

The Robin Hood Tax campaign, whose motto is 'turning the crisis for banks into an opportunity for the world', advocates an FTT starting at a rate 'as low as 0.005%', but which can 'average 0.05%'. The movement proposes using a quarter of the proceeds for development and a quarter for climate change, with the remaining half going towards domestic needs.

France

ATTAC, the Association for the Taxation of Financial Transactions for the Aid of Citizens, is a global justice movement in France advocating 'the regulation of financial markets, closure of tax havens, introduction of global taxes to finance global public goods, cancellation of developing countries' debt, fair trade rules and limits to free trade and unregulated capital flows'.

Germany

WEED is a German NGO campaigning for a U-turn in finance, industrial and environmental policies in order to counter the negative effects of globalization on society and ecology. Part of their mission is to promote the introduction of an FTT.

The bright side

The dark side of the financial crisis is that while governments need additional resources to finance investments in developing countries, it is now less likely that the private sector will chip in. So an added attraction of an FTT is that many financial transactions are made by people with high incomes or by specialized financial agents, who operate hedge funds among other things. This makes it a highly progressive tax. And the argument that an FTT would reduce liquidity is a moot point. Its rate would be so low that the amount of tax would ultimately be far smaller than the commissions and spreads charged by financial institutions on such transactions.

The bright side of the crisis is that it has rekindled interest in FTTs. It has also prompted authorities in major financial centres to increase the transparency of financial transaction exchanges and centralize them. And given the instability of the financial world at the moment, more transparency is good for financial stability.

There are two basic measures for dealing with financial instability: regulation and taxes. Ideally, both should be implemented multilaterally in light of the markets' global nature. If this were to prove unfeasible politically, these measures could be introduced by a so-called coalition of the willing. Think of the European Union or the Leading Group, to name but two. The leading role should be assumed by countries whose financial industries do not have excessive lobbying powers.

One kind of tax that would be easy to implement is a currency transaction tax (CTT). The infrastructure for it already exists. It merely requires governments to demonstrate the political will to actually move forward and introduce new measures. As we have seen, the rhetoric in support of FTTs is growing. Perhaps governments could be won over more easily if a currency tax were introduced on a pilot basis – for a period of five years, for example.

Organizations working in the field of development would certainly welcome a modest CTT. A coalition consisting of NGOs, the UN, development and environmental ministries could wield their influence to muster support from other

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sectors: the small and medium business sector, unions and even sectors within the financial industry that wish to rehabilitate their tarnished image.

Broader political support for a CTT that earmarks proceeds for development purposes will probably require giving some of the proceeds to countries where these transactions originate. This would reduce the finances reserved for GPGs, but it would increase political feasibility since there would something in it for everyone. Indeed, it could be a wise opening move. A small currency tax could then be linked to far broader (and possibly higher) FTTs established at national levels.

Global solidarity

A further impulse to the introduction of a CTT has come from the 2010 report, *Globalizing Solidarity: The Case for Financial Levies*. The report was written by the Committee of Experts to the Taskforce on International Financial Transactions and Development (TIFTD), under the aegis of the Leading Group. The impetus for this report was the fact that the financial crisis has seriously undermined governments' ability to meet their international development and environmental commitments. The report's aim is partly to address this sudden, vast financial shortfall, as well as structural underfunding of global public goods.

The TIFTD report analyzes financing options against a number of criteria:

- sufficiency, or the ability to make a meaningful contribution
- market impact, where market distortions and avoidance are acceptable
- feasibility, such that legal and technical challenges can be easily addressed
- sustainability and suitability

The report concludes that a CTT is the most desirable option, partly because it would be easy and cheap to implement. This is in some measure linked to the collapse of the Herstatt Bank in Cologne, Germany, in 1974. German regulators seized the bank in the middle of a German mark-US dollar transaction. The time difference between Cologne and New York meant that funds were never transferred to the receiving end.

This led to the establishment of the *real time gross settlements system*. This system ensures that all transactions in foreign currencies are made in real time in a centralized manner. Moreover, there are a number of institutions that keep complete records of currency transactions. And this is why it would be extremely easy and inexpensive to impose taxes on currency transactions.

The funding crisis governments are presently facing is directly linked to what the report calls the global solidarity dilemma. The growth of the global economy has not been matched with an effective means of generating revenue from global economic activity to pay for global public goods. The report therefore recommends that proceeds from a currency tax be channelled to a global solidarity fund, which would use the proceeds to fund global public goods.

Improving the net contribution of the financial sector to the real economy, and to the welfare of ordinary people, would significantly rehabilitate the financial sector's battered image, a desirable aim for the financial sector itself. In the end, maybe it is the financial sector which would gain most from a financial or currency transaction tax. Once it accepts that, the main barrier to its implementation – political opposition by parts of the financial sector – would be removed. ■

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