

Open letter

The Tobin Tax at the ECOFIN : time for decisions

On September 22nd and 23rd of this year, in Liège, the EU Council of ministers will discuss for the first time proposals for a Tobin tax to be applied to the international financial transactions on the exchange market, the most speculative market of the world. This tax would slow down the monetary speculation that can destabilise the economy of a whole country in a single stock-exchange session; this tax would also bring in, according to the rate at which it is set and certain estimations, between 50 to 250 billion dollars a year. This is more than the current public aid budget for Development of industrialised nations. The fact that this debate is on the agenda of an Ecofin meeting at all is, in itself, a victory for the extraordinary campaign that, in a few years, has turned Nobel prize winner James Tobin's proposals into a symbolic measure of the will to seize back the democratic ground lost by democracy to the world of finance and to the pursuit of the world wealth's redistribution

What then, will the fifteen Finance Ministers decide? What angle will they really take? What mandate will they bring from their respective governments? Will they choose to sink the proposals by sending them to the IMF, or even to avoid the issue by hiding behind those governments who have already declared their opposition to the scheme? And what about the representatives of those heads of government who have already indicated their approbation – what will they do? What concrete proposals will they make to advance the project?

These are all questions that both ordinary citizens and Members of Parliament are asking themselves following the succession of statements and declarations made on the Tobin Tax during the last few weeks. We do not believe that our cause will be advanced by pulling the wool over the eyes of public opinion. People have the right to know who believes what within the European institutions. And the political representatives must state sincerely their position because that's how they should proceed in a democratic debate.

We are told that such a tax is impossible?! We cannot help noticing that taxes are already collected in many financial markets in the world, in particular in "action markets", such as Singapore: 0,2 %; Hong-Kong: 0,4 %; the United States: 0,0034 %; or France: 0,6 % to 0,3 %. These taxes are not controversial because they are not of a fiscal nature and are used to finance the functioning of Stock Exchange markets. The operators prefer to have as few taxes as possible or preferably none at all, but the market is nonetheless compelled to live with the existing ones.

We are likewise told that the market will move towards offshore centres and fiscal paradises. We can reply that the reasons for using the big financial places for exchange transactions are linked to the security, structure and interconnection of the market. The offshore centres cannot be a substitute for the big stock exchanges markets and clearing houses. Besides, all the international movements of capital can be followed (this enables the stock-exchange control bodies to carry out their inquiries). The transactions coming from or going to an offshore centre linked to an official financial body could be surtaxed if the States decided to do it.

The Tobin tax could reduce the volume of transactions and slow down speculation by making the ceaseless purchases and sales operations without any link to business or investments more

expensive: however, we are told that its level would still be too weak to be dissuasive in the case of massive attacks against a currency. This is the reason why we are asking for a close examination of the various measures accompanying the original version of the Tobin tax: one of these is that of Professor Spahn, a former consultant of the IMF, who has already been heard in the course of our public hearing, and who proposes a two-levelled tax. The first very low one, that of the classic Tobin tax, would have a fiscal as well as a redistributive function, whereas the second level, would be activated if a currency's exchange rate went out of a particular fluctuation band (like a monetary snake). It would be very high (40 or 50 %) and would freeze the sales operations of the attacked currency. A short-circuit that would avoid the collapse of a currency during a panic session.

In fact, the main argument used in this public debate by the opponents of the Tobin Tax, in particular by the most prestigious among them, the other Nobel prize winner Robert Mundell, is that the tax would run the great risk of slowing down capital movements. Supporters of the Tobin tax are of the opinion, it is true, that the unfettered circulation of capital and the free play of speculation have many more perverse effects than it has advantages and does not enable us to allocate resources sufficiently to ensure a well balanced economic development on an international scale. It is also said, that James Tobin himself declared that he thought his tax would never see the light of day. Not because he considered it of no use, but because of the opposition of too many Finance Ministers. Let us show Keynes' brilliant disciple that he underestimated the contagiousness of his idea. History is dotted with these ideas for progress which people said would never come to fruition because they would too place too much of a burden on the countries who first adopted them. Income tax, paid holiday, Social Security, to quote only a few examples, would all have had to wait a long time if we had had to get international unanimity before implementing them.

50 % of the world's exchange transactions occur in financial places within the European Union, which represents a critical mass in terms of market. Europe should take the initiative to become the first Tobin Tax zone. The repercussions of such a decision would carry far beyond our borders and the debate would therefore take on new dimensions in other countries.

That is why we ask those governments who support the idea of the Tobin Tax to pursue it with vigour during the Ecofin meeting in Liège. We would also ask the other governments to reconsider their position and to bear in mind that in order to please the markets, they are running the risk of isolating themselves from a growing number of ordinary people, elected representatives and government Ministers, both in Europe and internationally.

To quote only some examples during the last months, that Deputy Prime Minister of Sweden Lena Hjelm-Wallén, the Minister of Foreign Affairs of Finland Erkki Tuomioja, the Prime Minister of India Atal Behari Vajpayee, the President of Brazil Enrique Cardoso, have all publicly expressed their support for the Tobin Tax. For their part, Lionel Jospin and Gerhard Schröder have declared their interest in the tax and express their sympathy with the idea. A Members' of parliament World Appeal launched by MEPs and Members of the US Congress has received the support of more than 690 members of parliament from all over the world (<http://tobintaxcall.free.fr>). In 1999 the Canadian Parliament adopted by a large majority a report in favour of implementing such a tax, fixing its rate at 0% for as long as it is not in force in other countries. What is stopping Europe and each of its Member States from doing the same, and then to establish the most appropriate level along with all the other countries that have adopted the idea? Naturally, the Tobin Tax will not cure all the financial disorders of the world. But, when now more than ever we should build a fairer world, the Tobin Tax is of more value

than ever before, as are the measure that come with it – the campaign against fiscal paradises, money laundering, the fight against drugs and terrorism.

The Tobin Tax is neither a magical measure nor a miracle cure for the ills of our planet: it is a concrete proposal which enable us to begin to act against the domination of Finance and to redistribute wealth. It could result in the first cohesion fund on a world scale, another sign of globalisation. When the EU took in those European countries that were less well off, it supported those regions that were backwards, their infrastructure, their transport networks, site reconversions, training for young people: all of this thanks to EU structural funds.

The international community cannot ask developing countries to open up to world competition without first giving them the means to train their young people, to look after their sick, to provide electricity to their districts, to develop water networks, and so on. Nowadays, the repayments that many developing countries have to make each year to financial organisations in the North, amount to more than they receive in public aid for their development! And this public aid budget: far from being the 0.7% of GDP which was the objective of industrialised countries, it has fallen to 0.22%. Globalisation should not be allowed to continue without redistribution. It is a question of world justice and this principle should be top priority for Europe.

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