

The Seven Mistakes of the Opponents to “the Tax”

Jean-Marie Harribey

Professeur de sciences économiques et sociales à l'Université Montesquieu-Bordeaux IV.
Membre du Conseil scientifique d'ATTAC France

Diego Marro Ramón & Amparo. Véronique Varalli, coordinat@attac.org

The Tobin tax is becoming a major topic of debate in French political life, as well as all over the world. Having imposed this debate by means of a mobilization from grass roots, and of an ever more solid and coherent argumentation, is not the least of the victories of ATTAC and of the movement against capitalistic globalization. And this has been done so in the face of the financial lobbies, of their spokesmen in the media and in academia, and of their obedient and faithful political servants.

Nevertheless, since the discussion can no longer be conjured away, ever more powerful volleys are now being fired to block a citizens' wave that the surfers on the liberal wave had not foreseen. It is therefore necessary for us to accept the challenge and to answer the criticisms point by point.

At the beginning of the '70s, the leaders of the Western world decided to return to floating exchange rates, to grant total freedom of circulation to capital, and some years later, after 1979, they opted to re-establish the profitability of capital by raising interest rates, and by letting unemployment run its course in order to realign the relationship of social forces in favor of capital. The economist James Tobin had not foreseen the second phase of the operation but, in reaction to the first, he alerted his colleagues to the risk of increased speculation and financial instability. He proposed to put a tax of between 0.1 and 0.5% on the exchange transactions, in order to restrict them. The proposition had fallen into oblivion, swallowed by a tidal wave of liberalization. It has been resurrected at the initiative of popular movements as a form of resistance to the damage caused by financial liberalization.

Ideological Clutter

The workers whose jobs have been sacrificed for the sake of shareholder value, and the citizens from all over the world who have been told for decades that they will have to submit to the laws of the market can take hope: the list of the arguments presented by the objectors in the Tobin tax is nothing but an eclectic and disjointed collection of ideological clutter.

First mistake. One of the first arguments advanced was that of the danger of robbery. We are told [1] that if a dollar is exchanged 1000 times in the course of commercial transactions and that 0.1% are appropriated each time, at the end, a dollar of tax will have been levied on that one dollar in circulation. However, there were \$1000 worth of real goods produced and exchanged with that one dollar, so any notion of complete expropriation is extreme silliness.

Second mistake. The experts of the Ministry of the Economy and Finance and the Economic Analysis Council^[2] fear that the tax on the transactions of exchange would excessively slow down the circulation of money. From the mouth of experts, that is a double confession: first, that the tax would be very effective; and second, that they have made the choice not to touch the sacrosanct freedom to circulate capital: “It appears impossible to retreat in the movement toward financial liberalization.”^[3] If the circulation of funds slowed down, would liquidity on the financial markets be any less? Maybe, but if so, what is the problem, since we know that liquidity and speculation go hand in hand? If liquidity decreased, would the exchange rates be more volatile? So far, we have seen volatility especially following a take-off of liquidity. The liberal experts also fear that a decrease in transactions would mean that the financial operators would be less able to cover themselves against incurred risks. However, the multiplication of series of hedging transactions would be decreased but not suppressed, except, again, unless we are to believe that the effectiveness of the tax would be miraculous. On the other hand, the speculators themselves would carry the risks more, and they would have less possibility to transfer them to the international community.

Third mistake. The tax is accused of penalizing productive investment by hitting indiscriminately very short-term transactions and those with the objective of long-term investment. That is the trick of Tobin’s idea: one doesn’t have to distinguish a priori. It is the speculator himself who, by the continual back-and-forth transactions which he conducts, creates the speculation that the tax then punishes. Some 80% of exchange transactions involve back-and-forth transactions accomplished in less than one week, which means at least 104 transactions per year. At the rate of 0.1%, the penalty would therefore be of 10.4% per year, which would exercise a dissuasive effect, since in normal times, the profits that one can hope to realize from exchange shifts would not be of this magnitude in such a short period of time. For example, the liberal Chile of the post-Pinochet era during the decade of the ‘90s mandated that all foreign investors place 30% of their investment in the Central Bank for one year without interest. The control of the fund movements is thus perfectly possible, as is shown again by the cases of Malaysia – the country that recovered most quickly from the 1997-‘98 crisis – and China and India, which withstood this crisis better than many others. Finally, foreign investments are determined by many motives other than the level of taxation, notably the education level of the work force, the quality of infrastructures and the surrounding economic fabric.

Fourth mistake. The tax would be impracticable, because it would presuppose the agreement of all countries in the world. An admirable plea for democracy. The problem is that 80% of exchange transactions involve the top eight industrialized countries and that 88% take place between five currencies: the dollar, the pound sterling, the euro, the yen and the Swiss franc. And also – probably by coincidence – most of the offshore financial havens around these same countries!

Fifth mistake. Modern communications technology would frustrate the ascertainment of the transactions and their control: thus, speculators could easily evade the tax. The opposite is true. All exchange transactions today leave traces in the computer networks that private banks have themselves put in place in order to be able to make payments^[4] Would it be possible to submit to the tax the multiple currency operations that take place on the financial futures market and which appear only once, on the date of maturity? A tax at a specific, higher rate for financial futures market transactions would counteract

this inconvenience. How could one control the multinationals which would change their dollars into euros in the United States, where the tax would not apply, and would then come back to Europe, where it would apply? Nothing prevents us from broadening the purview of the tax to all international fund movement, even those not based on exchange. And how would one prevent companies and banks from instituting private electronic means of payment? Existing international agreements^[5] allow central banks to refuse access to the official payment system to all operators refusing to accept regulatory standards. Since we know that a private currency cannot exist without public cover, the danger of bypassing can be circumscribed. But of course this presupposes that the public, and the national and international authorities, regain control of the central banks, which liberalization of capital has made independent.

Sixth mistake. This is a coordinated diversionary maneuver, organized by some ministers of finance of the European Union. Rather than taxing exchange transactions, the French minister proposes to tax the weapons trade.^[6] That's a good idea, why didn't they think of it sooner! Did he thought of it just before his prime minister went to Greece to sell French weapons, in big style; what does he intend to do in regard to the clandestine trade? The Belgian minister, after having committed himself to a feasibility study of the Tobin tax, declares that it would be worthwhile to create a single world currency that would in fact suppress all exchange transactions, and hence all speculation.^[7] Obviously, it would be a lot easier to create such a currency today that to institute a tax of .1% on transactions! Whom do they think they're fooling? The prize goes to the Italian minister who suggests—don't laugh—an “anti-tax,” a kind of voluntary contribution by business to charitable or moral organizations.^[8] Obviously, if there were no capitalist enterprises anymore but only philanthropic enterprises, the problem would be solved. These so-called ministers indeed take the citizens for fools.

Seventh mistake. This is nothing but manipulation, pure and simple. The advocates of the Tobin tax are accused of wanting to have their cake and eat it, too: of fighting against speculation, while also using the yield from the tax to support development. Given that it were applied seriously, the tax would either be effective against speculation, and thus yield nothing, or it would yield a lot because it would be ineffective, and one could use significant amounts of money to help the poor countries. They point the finger at ATTAC and call it mindless. And all experts make fun of this contradiction. However, this is precisely what the association has been saying since its inception: the objective is to recover control as quickly as possible of financial fluctuation. But as we are not so naive as to believe that speculation would stop cold miraculously, there will be a yield from the tax, and to that extent, it should be used intelligently, which our adversaries pretend to ignore^[9]. One of them even goes as far as to mention the eco-tax as a counter-example^[10]. However, any tax, whatever its objective, will face this difficulty, which we have never denied. A debate is then in order as to what level of tax income would be obtained. The estimates are very broad, since everything depends on the tax rate, and hence on the volume of transactions that would continue. If speculation was reduced, for example, by 20% by a tax of 0.1%, the volume of transactions would drop from \$360 trillion to \$288 trillion per year^[11], and the yield would be of \$288 billion. Yet it is claimed that the ATTAC estimates are too high^[12]. But the paradox is that the lack of realism and the incoherence are to be found among the detractors. If the tax is applied and returns little, it will be due to the fact that speculation has been strongly reduced.

Goal attained. It is we who are realistic to think that it is necessary, but that it won't be sufficient, and that therefore, unfortunately, its yield risks being quite high. In short, ATTAC is being faulted for saying what it doesn't say and for not saying what it does say.

For a Tobin-Type Tax

Here, we are getting to the bottom of the issue. The tax on exchange transactions is a beginning and not an end. A first start at political re-regulation, in order to then proceed further: to build a new world where justice will take precedence over finance, and solidarity over profit. This famous tax, the object of so much resentment, only makes sense as part of a larger system based on a deep transformation of the fiscal system weighing on capital, on the suppression of the offshore havens and bank secrecy, on control of central banks, and on the cancellation of Third World debt.

The tax on exchange transactions can act as a model for a tax that would cover all financial transactions, particularly stocks, liabilities and all derivative products[13]. Then, a Tobin-type tax applicable in all situations would in any case gain in effectiveness because of its universality.

There is no reason not to show some resourcefulness in the face of the fertile imagination of the financiers. Paul Bernd Spahn has proposed that a dual rate be instituted[14]. One very low, when speculation is moderate, the other very high, for times of such brutal speculative attacks as occurred in 1992 and 1993, and shook the European monetary system. His suggestion is interesting because it would institute a kind of tunnel of permitted variation of exchange rates, beyond which the tax rate would be raised as high as necessary to stop the speculation. Financial liberalization has rendered impossible stability and national or cooperative monetary policy autonomy in a multinational setting. Without returning to a completely stationary exchange-rate system, the Spahn proposition permits the recovery of a certain stability. Besides, a Tobin type tax will restore a margin of autonomy to monetary policy. Thus, with a tax of 0.1% applied to exchange transactions with a horizon of less than one week, if the national interest rate is of 4% per year, the Central bank could compensate an interest rate gap of up to 11.4 % with foreign countries.[15]

The idea of a dual rate and variable rates could even be applied where a tax would be limited to only a group of countries in the world. Thus, around the euro zone, a zone of Tobin-type experimentation could be created, with a lower rate for the currencies of the non-member countries of the European Union that are nevertheless part of the "Tobin-type zone," and a higher rate for the others.

The technical arguments are one thing, the ultimate political reality is another. The opponents of all taxes have not been mistaken here. They very quickly noted that, behind the resurrection of the Tobin idea, in the face of the very opposition of its author, stood the calling into question of an economic system whose be-all and end-all is profit, of a globalization that threatens to merchandize every last aspect of human activity as well as all knowledge and natural resources, that, to that end, has over the past twenty years succeeded in imposing total freedom of capital and the abolition of all barriers to free trade, and that is delivering up the poorest peoples to the mercy of unbridled competition with the power of businesses.

They are right. It is, moreover, the only point in which they are not mistaken. The Tobin tax isn't significant unless it is a tool to give us time to conceive a post-capitalist future. [16]

[1] D. Cohen, "Les mirages de la 'Tobin Tax'," [The mirage of the Tobin Tax], *Libération*, June 29, 1998.

[2] O. Davanne, *Instabilité du système financier international* [Instability of the International Financial System], Report of the Economic Analysis Council, No. 14, 1998, p. 42. See also Ministry of the Economy and Finance, *Rapport sur la taxation des transactions de change, la régulation des mouvements de capitaux et sur les conséquences de la concurrence fiscale entre Etats*, [Report on Taxation of Exchange Transactions, Regulation of the Movements of Capital, and the Consequences of Fiscal Competition between States], Report presented to the Parliament under Article 89 of the Initial Finances Law for 2000, 22 August 2000, <http://www.finances.gouv.fr>.

[3] A. Gauron, "En créant un impôt, il faut savoir ce que l'on veut : générer des recettes ou atteindre un objectif éthique" [When creating a Tax, it is Necessary to Know What One Wants: To Generate Income, or to Attain a Moral Objective], *Le Monde*, 2 October 2001.

[4] The SWIFT network (Society for Worldwide Financial Telecommunications) counts \$1 trillion in transactions in currency per day. And the CRISPS network (Clearinghouse Inter-bank Payments System) monitors 95% of inter-bank transactions in dollars. In Europe, the European System of Express Transfer, automated for gross settlement in real time (TARGET – Trans- European Automated Real- Time Gross Settlement) permits the transfer of large payments within the EU.

[5] The Lamfalussy Minimum Standards, named after the president of the Bank of International Settlement.

[6] L. Fabius, "Je ne suis pas un 'père-la-rigueur'," [I'm not "Mr. Tough Guy"], *Le Nouvel Observateur*, 23 - 29 August 2001.

[7] D. Reynders, "De bonnes questions sont posées, mais la taxe Tobin n'est pas forcément la meilleure réplique" [Good Questions are Being Asked, but the Tobin Tax is not Necessarily the Best Answer], *Le Monde*, 9 - 10 September 2001.

[8] G. Tremonti, "Pour une anti-taxe Tobin" [For an Anti-Tobin Tax] *Le Monde*, 12 September 2001.

[9] Including J. Tobin himself: "Je n'ai rien de commun avec les praticiens de cette révolution contre la mondialisation" [I don't have anything in common with the practitioners of this revolution against globalization], *Le Monde*, 11 September 2001.

[10] A. Gauron, *op. cit.*

[11] On the basis of a tax ten times weaker (0.01%), H. Bourguinat calculates a tax yield of \$28.8 billion. That is the incoherence: the reduction in speculation would be independent of the rate of the tax (H. Bourguinat, *Finance International*, Paris, PUF, 1999, chart on p. 736). H. Bourguinat is in the uncomfortable position of recognizing that financial liberalization serves the interests of the shareholders, while believing that "capitalism will find compensation" for it (*op. cit.*, p. 761). However, on the one hand, macro economically, finance yields nothing, only the most powerful businesses capture the

value created; on the other hand, financial liberalization is the current form of the crisis of capitalism and the restructuring that it is attempting. A certain Marx once said some things on this topic that are not quoted today in the manuals of finance.

[12] H. Bourguinat, "Taxe Tobin: 'Des grains de sable'" [The Tobin Tax: "Sand in the Wheels"] *Sud-ouest*, 26 September 2001.

[13] See S. de Brunoff, B. Jetin, "Taxe Tobin : une mesure indispensable contre l'instabilité financière" [The Tobin Tax: An Indispensable Measure against Financial Instability], in *Appel des économistes contre la pensée unique* [Appeal of economists against uniform thought], in *Les pièges de la finance mondiale*, Paris, Syros, 2000. p., 183-206. Financial currency future (forward): the operators commit to buy or to sell a certain quantity of currency at a date and a rate fixed in advance. Cross currency warrant: the operators commit to buy or to sell a certain quantity of a currency at a date and a rate fixed in advance, and at a local market and at a certain place. Option on currency: title giving the right (but not the obligation) to its carrier (the purchaser of the option) to buy (purchase option) or to sell (sale option) a fixed quantity of currency at a date and a price (price of exercise) agreed upon in advance, in return for a fee. Derivative product: financial asset derived from another asset (the sub-asset), stocks, liabilities, raw materials, interest rate, or exchange rate, which serves to protect against the risks concerning the future value of the sub-asset. Currency swap: temporary swapping of currency between banks that want to modify the structure of their holdings in currency to cover themselves against a risk of exchange.

[14] P.B. Spahn, "The Tobin Tax and Exchange Rate Stability," *Finance and Development*, No. 33, June 1996, pp. 24-27.

[15] Voir B. Jetin, "The Efficacy of a Currency Transaction Tax," *Conference on Taxing Currency Transactions: From Feasibility to Implementation*, Halifax Initiative, Vancouver, 4 - 6 October 2001; Ministry of the Economy and Finance, *Rapport sur la taxation des transactions de change* [Report on Taxation of Exchange Transaction]... , op. cit.

[16] For a compilation on the Tobin tax, see ATTAC, "Tobin, tout suite!" [Tobin Now!] Attac, 2001; F. Chesnais, *Tobin or not Tobin? Une taxe internationale sur le capital* [An international tax on capital] Paris, *L'esprit frappeur*, 3rd ed., 2000 ; J.M. Harribey, "La taxe Tobin contre le capitalisme financier?," [The Tobin Tax against Finance Capital?] *Economie et politique*, No. 267-268 (540-541), July-August 1999, pp. 39-42.