

# Despite dispute

## Reflections upon a brainstorming over the currency transactions tax

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This article is based on the discussion and brainstorming that took place in More Taxes –seminar. Its purpose is to shed some light over the difficulties and disagreements we need to understand when addressing and campaigning for the currency transaction tax. In the end, all participants agreed that CTT is technically feasible, economically motivated, socially desirable and politically possible. Yet the brainstorming session ended in disagreement and frustration. As Heikki Patomäki summed in the end of workgroup discussion: *"The only thing we were agreed on was that no transactions should be excluded"* (1).

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James Tobin (1918-2002), for one, would also have been of the opinion that the CTT should cover *all* currency transactions. In his 1978 address to the Eastern Economic Association in Washington DC, Tobin said:

"The tax would apply to all purchases of financial instruments denominated in another currency - from currency to coin to equity securities. It would have to apply, I think, to all payments in one currency for goods, services, and real assets sold by a resident of another currency area... I don't intend to add even a small barrier to trade. But I see offhand no other way to prevent financial transactions disguised as trade" (2).

In the meantime (since the 1970ies) much capital has flowed beyond the reach of existing regulative frameworks. The explosion of currency transactions, caused by neoliberal financial policies and the digital revolution, resembles a tsunami after a submarine earthquake. From 1977 to 2004 the total turnover of foreign currency exchange increased by two orders of magnitude, from 18,3 billion dollars to 1880 billion dollars *per day* (3).

The global markets of 'currency exchange' are actually a euphemism for 'speculation'.

Tobin's tax has surfaced again and again, although Tobin had to constate that "the idea fell like a stone in a deep well"(4) when he first presented it 1972. But it was only rejected by the rich and powerful, and by economists who side with them. Common sense, on the other hand, considers gains made from speculative transborder money flows to be morally questionable. Such gains should not be made at all, or if they are made, the money should be spent for the common good. In other words, people tend to be in favour of a CTT for reasons of social justice. Thus Bishop Desmond Tutu of Johannesburg summarizes the view of the ordinary citizen, when he says that

"there must be something fundamentally wrong somewhere if by just speculating, millions are made. No work has been done. There has not been any exchange of good. It's just money that seems to come out of the air, the ether, and equally quickly these banks suddenly collapse where people made millions of paper money on the stock exchange without a corresponding increase in anything that is measurable." (5)

Tutu here refers to the stock exchange, but his words apply equally to the money trade. The high

probability of crisis and collapse (of banks, or currencies) which accompanies financial speculation is also known to the general public, although the means to eliminate the risks may be less well known.

James Tobin's main concern was not the ethical aspect of speculation (nor did not show much interest in how the revenue from CTT would be spent), but the stability of the international financial system. Long before today's global megaflood of capitals, Tobin feared that the "well-greased wheels" would run away, and so he proposed to "throw some sand" in them. The many financial crises in the eighties and nineties proved Tobin right in his fear. Yet one thing Tobin did not foresee was that citizens' movements would pick up his proposal and try to build broad political campaigns in order to put it into practice. Naturally, this also led to various reinterpretations and amendments of Tobin's original proposal. Nowadays, as a consequence of the growth of the money trade, even a very tiny CTT would bring in significant tax revenue. Opinions vary widely among researchers and politicians on how much money a CTT could generate per year. However, even the most conservative experts speak about *tens of billions of dollars*.(6)

The link between CTT and democracy is indissoluble. Any money raised by the CTT should be administered in accordance with the principle "no taxation without representation". Decisions upon the short-term and long-term use of the tax money must obey to democratic rules. Hence the discussion about CTT raises questions about new, democratic rules for the whole of humanity.

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After the Asian financial crisis 1997-1998 a new international civic movement was born in France. This movement referred to the currency transactions tax in its very name. ATTAC stands for "Association to Tax financial Transactions to Aid Citizens"(7). During the following five years the movement rapidly spread over continental Europe, to Latin America, to a number of African countries, and to Russia, Japan and Korea. Similar, or related campaigns for a CTT grew among researchers and students in Canada, the USA and Britain.

The spread of ATTAC builds, of course, on the above-mentioned wide-spread sentiment that "something is wrong" with the financial globalisation, but ATTAC is more than a leftist protest movement. Inspired by intellectuals and scientists, ATTAC strives to be "an action-oriented popular education movement", a massive effort to grasp the strange economic and financial realities of the globalization through study and reasoning. Thus ATTAC could be called a late child of the French Enlightenment.

One of the insights provided so far by the intellectual effort of the "anti-globalizers", as the media love to label the critical thinkers of today, is that what we have now is not a global financial system at all, but rather a global "financial non-system" (Kavaljit Singh). The conclusion is that a financial system has yet to be built, and it must be democratic.

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Like other positive developments in the people's consciousness, ATTAC was severely hampered by the world political shift which took place 9/11 2001. In a conjuncture of "war on terrorism", the CTT seemed to lose its political significance. Who would believe that a campaign for the implementation of a tiny tax on currency transactions would help to defeat the new American imperialism in Iraq, or to stop the atrocities of the Russians in Chechnya? Henceforward, the CTT could be proposed as a means of gaining control over the international money-flows to terrorists, but who would control Bush, Blair and Berlusconi, anyway?

Yet the CTT made it back to the world political agenda in 2004 as a part of a multilateral diplomatic effort. Today the CTT has more supporters than ever before, and the supporters include many well-known, democratically elected political decision-makers. The "Tobin-Spahn Law" adopted by the Belgian

parliament on 1 July 2004, although it passed unnoticed by the mainstream media, was already an important sign of change. Then came the turning-point with the summit conference "to combat hunger and poverty", which was hosted by president Lula da Silva of Brazil in New York on 20 September. Here, probably for the first time in the history of the international community, the CTT was recognized as being "technically feasible", and recommended by heads of state as an innovative mechanism to generate financing for economic and social development.

The summit in New York, which also became known as the "Lula-Chirac" initiative, was a result of North-South cooperation; in addition to the presidents of France and Brazil, this cooperation also included the prime minister of Spain and the president of Chile. Other, more or less closely related initiatives, such as the Finnish-Tanzanian cooperation in the framework of the Helsinki Process, could also be mentioned. Taken together, these diplomatic activities indicate that other solutions than those imposed on the world by an increasingly unilateralist American government are eagerly wanted.

It should be added that the CTT-recommendation, although significant in itself, is not the essence of the "Lula-Chirac" initiative. "Lula-Chirac" boosts global taxation in general. Global taxes is the main theme of the "Landau Report", which Chirac commissioned by a group of French and British specialists (including Jacques Cossart from the scientific council of Attac France) at the end of 2003. The Landau report, published a couple of weeks before the summit in New York, discusses a wide range of different international taxes, of which the CTT is only one. (8) Essentially, the global taxation proposed by Lula-Chirac aims at establishing a stable stream of financing of the UN Millennium Development Goals.

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In sum, the proposal of a CTT has made come-back, and it seems stronger than ever before. At this moment, however, we can observe disagreement among its supporters. The animated discussion between the participants in the brainstorming 19 October 2004 was symptomatic in this regard.

Heikki Patomäki and Sony Kapoor appeared as the main contrahents. Their different opinions are already documented in, for instance, Patomäki's ample critique of the extensive report on the CTT, written by Kapoor, which appeared soon after the brainstorming, in December 2004 (9). Below, I shall add a few comments to the discussion at the brainstorming.

Let the starting point be the following exchange:

*Heikki: This [CTT] is also a question about global democracy. State sovereignty is a real obstacle to global democracy. Therefore, it [the implementation of CTT] should not start from the activity of single states. In that way the power will not be affected and democracy will not be achieved.*

*Sony: The CTT is only about a small part of the world's problems. It cannot be used to change the world.*

This illustrates how our concepts of the CTT are closely related to our thinking about national sovereignty and the future of the nation-state. The problem is, that national sovereignty is an issue which tends to transcend the limits of both economical science and common sense about social justice.

So the disagreement here is perhaps not so much about the CTT as it is about *how far humanity has advanced* on its way from a world which is dominated by nation-states to a situation which could be called global democracy. Admittedly, this formulation only reveals the view of the present writer. Self-appointed "realists" may contend that global democracy is nothing but an illusion, which will never turn into reality. And some radical opponents to globalisation might object that "global democracy" is not even a desirable goal.

The dispute, in other words, concerns the *transformative potential of the CTT*. What difference can a CTT make? The answer depends on how ripe for change one considers the international political system to be. Are international global taxes politically possible now, or are they not?

Lieven Denys lectured on the day before this brainstorming at the university of Helsinki on "The Global Currency Transaction Tax as an Icebreaker in International Tax Law". The metaphor used in the title indicates that CTT would not only have significant socioeconomic consequences (as a capital control measure, and as a source for financing of the common good), it should also help to bring about a new international system.

As far as I can understand, part of the specialists on CTT (Heikki Patomäki, Lieven Denys and others) think that the time is ripe for an action directly at the international level. Thus they see the CTT as the centrepiece of a transformative international policy.

Sony Kapoor, on the other hand, seems to deny this aspect altogether. Yet the personal engagement of Sony Kapoor in favour of the CTT is probably best explained if we assume that he, too, strongly believes that it will make a difference. Kapoor just does not agree that the CTT is able to change "the world".

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Heikki Patomäki and Lieven Denys, too, add important modifications to their estimate of what the CTT can achieve and how it can be achieved. Although they are convinced that the time has come for international action, they divide that action in multiple phases, each of which may span over years, maybe decades. In the initial *transitional phase* (which is presently at hand) one government, or a group of governments, should call an international conference on the implementation of the CTT. In order to clarify what such a conference would be supposed to discuss and agree on, Patomäki and Denys (who is a specialist on tax legislation) have drafted a detailed proposal of an international treaty on CTT (10). An important part of their "Draft Treaty" is devoted to the CTTO. The CTTO (Currency Transactions Tax Organisation) is a new and independent international organisation, which would be established in *the first phase* of the actual implementation of the CTT at international level. The task of the CTTO would be to "set a uniform system of tax collection", and then, to manage the income from the CTT and decide on how the money is used. As soon as 30 states, representing at least 20 % of the global currency markets, would have ratified the treaty, it could enter into force. *The second phase* would begin when 90 % of the transactions within forex markets, all major financial centres and most other countries have joined the system which was created during the first phase.

Interestingly, the "Draft Treaty" proposal has hitherto not been particularly much discussed within the international movement ATTAC, or at the World Social Forums. References to it are rare in the growing literature on the CTT. Sony Kapoor, for instance, does not even mention it in his extensive new report.

In this regard, our brainstorming was a little step forward, because David Hillman, who coordinates the British Tobin Tax Network, clarified his opinion about the "Draft Treaty" in the following statement (the wording is inexact being rather an attempt to make a summary of what David said):

*"--- state sovereignty cannot be broken by means of the CTT. The CTTO would be of no help in this regard. If we can get the UK to adopt it unilaterally, we shall of course state our conditions [on how the tax income is used]. The states which participate in the global fund can influence its decisions. It is very difficult to resist the big powers. Our most important contribution [i.e. the contribution of the Tobin Tax Network UK -MB] is to have enlarged the CTT-menu so that the politicians have become willing to use it. This also means progress with the larger [international -MB] agenda and the redistribution of global wealth. CTTO may become a realistic goal in the*

*future, but it is not so now. Instead the UK finance ministry has already said that a taxation of pound transactions is possible. This amounts to a paradigm shift [in the thinking of the UK government -MB]. The finance ministry no longer uses the argument that the CTT has to be implemented universally from the beginning; now it admits that it would be possible to tax pound transactions separately. It is possible to tax the jurisdiction where currencies are exchanged or the currency itself. We chose the latter option.”*

According to David Hillman, the Tobin Tax Network UK is close to convincing chancellor Gordon Brown to introduce a CTT on the pound. The EU, Lieven Denys pointed out, could argue that such a unilateral option is illegal on the ground that a CTT on the pound might hinder the free flow of capital within the European area. That argument would fall away if the tax income went into a European fund. The rules of the WTO could also be applied against a unilateral CTT, or even to a CTT on the euro, except if the tax revenue went into a global fund, Lieven said.

Heikki Patomäki raised another objection:

*“How to guarantee that the tax income goes to the global South? As a unilateral system CTT might become a tax just for the rich countries. If it is not a global tax there is no point in fighting for it.”*

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How to overcome the dispute(s), we may ask, but that is not the point. The dispute over the CTT should be overcome by way of more, not less, discussion, and by action. Let us, however, be humble and recognize our own limitations. The discussion about the CTT is first and foremost a way to come to grips with a new situation which is vaguely defined as globalisation. But who can predict the outcome of this tsunami of international financial flows, which threatens to drown almost everybody and everything?

Our disputes over the CTT can help us to pose new and radical questions about, for instance, money and the future of money and about information inasmuch as information is what money tends to become, or what it already is. Does the problem of taming the international financial flows ultimately lead to questions about governance (to use a term à la mode) of information and information technology? If so, what role should we attribute to the information specialists? By the way, who is a specialist on information? Personally, I would say that the librarians are the professional group which comes closest. Should book-keeping and accounting return to the libraries where it all started long ago, in the first cities of the Sumerians? Given the liberal (in the sense of freedom-loving) values of modern libraries, such a development could bring more transparency, a pre-condition of democracy. Banks and other financial institutions are not as committed to the freedom of information as libraries.

But, again, what is a library, or a bank, in the age of the internet? That things aren't what they used to be should also be considered in further brainstorming.

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Susan George, in "Another World Is Possible If...", a book which contains a good deal of reflection and reasoning on the way to implement the CTT, arrives at the following:

*"The only hope I can see is that European governments, as a result of well-coordinated pressure applied by European citizens, decide to make Europe the first area where such a tax is applied. Acting on European states is feasible - tough to achieve, but feasible. Acting directly at the international level or begging banks and brokers to tax themselves is clearly impossible." (10)*

This conclusion leads to the claim that we need a separate European campaign - a concentration of forces - for the implementation of the CTT. That is probably so, but does it mean that we do not need a global campaign for the CTT? We also have to ask what forms of international action are "clearly impossible". Is it action at the level of civil societies, or is it action at governmental level?

During our first session on taxation (national and international) which preceded our brainstorming on the CTT, John Christensen recalled the example of the wartime "Cairo parliament", which prepared for the coming peace by study and discussion of the proposals of the Beveridge Committee (1942). When the war ended, the conservative hero Churchill was, surprisingly, defeated by the left and the new Labour government started to implement a welfare state in Britain.

Perhaps it is more realistic to see ATTAC and the World Social Forum as a new international edition of the "Cairo Parliament" rather than hope that our latter-day Churchills will implement the CTT if we only succeed in convincing them with our strong facts and good arguments?

One thing is clear: the three perspectives which have been mentioned in this article, that is, the "national", the "European" and the "global" perspectives, are all highly problematical. Heikki Patomäki, in his critique of Sony Kapoor's draft report exposes the risks related to the approach of the UK Tobin Tax Network, which is to convince the British government to introduce CTT unilaterally on pound transactions.

The difficulty of the European approach stems from, among other things, the lack of democracy at the level of European Union. We may end up in eternal lobbying of the European Commission and the European Central Bank if we invest our hope in the introduction of the CTT that way. Besides, lobbying and advocacy are not at all sufficient forms of action. The necessary "well-coordinated pressure", as Susan George puts it, has to be openly and visibly political. Many would fully agree with the opinion that an all-European democratic movement is badly needed, but has it not been proven as difficult to build such a movement as to act directly at the international level?

Finally, if we only stress the global democracy goal and neglect the national and European aspects, we will easily end up in pure theorizing and dispute. Yet the Leitmotif and common denominator of our CTT campaigns is in the perspective towards global democracy.

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Brainstormings apart, when will we start building the campaigns?

Shortly after the brainstorming, I went to Brussels to participate in the meeting of the Tobin-Europe Network at the European Parliament. That meeting became what one might fear: a frustrating exercise in lobbying. In our room the MEPs came and went: for them the CTT was just one among hundreds of important matters, not big enough to be considered as the subject of a separate Intergroup (12).

Frustrating meetings, too, may be necessary as a preparation for action. At that meeting, I presented a new website, which is to become a communication facility for the international CTT campaigns. The site is up for testing at <http://www.uttn.info/> ; however, the address will be changed to <http://www.cttcampaigns.info/> Needless to say, the website is not intended to support only one of the perspectives on the CTT which have been mentioned above. In spite of the disputes over the CTT, the site will not serve one campaign exclusively. Nor do I think that it should have "a clear European identity" (as some have proposed). Attac Japan is already a site member and let us hope there will be other non-European CTT campaign organisations joining. At the time when I finish this article, a dozen of CTT-related events (conferences, seminars) are being prepared, by Antonio Martins from Attac Brazil, and many others, to take place in Porto Alegre during the fifth World Social Forum at the end of January 2005. Indian programmers from

the Mahiti company in Bangalore have helped and will help to develop this sophisticated website. Colors and some graphics are borrowed from the Ubuntu Linux project which comes from South Africa. The idea is to share not only information and communication techniques but invite artists to share their artwork as well. More attention should be paid to the esthetic dimension ... and to the universalist spirit of *ubuntu* (13).

#### Notes:

(1) The present article is based on the brainstorming about the currency transactions tax (CTT) at the House of Sciences in Helsinki 19 October from 13 to 16 pm with Heikki Patomäki (chair), Lieven Denys, Sony Kapoor, Kawaljit Singh, David Hillman, Sari Varpama and others, including myself. I would like to thank Johannes Urpelainen who kindly put his notes from the brainstorming at my disposal. His notes are in Finnish. Direct quotations from the notes (which I have tried to translate back into English) are indented and in italics.

(2) Tobin, James: "A Proposal for Monetary Reform" (reprinted in Patomäki, Heikki: *Democratizing Globalisation. The Leverage of the Tobin tax.* Zed Books. London and New York 2001, pp. 232-240) p. 239.

(3) Bank for International Settlements, Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in April 2004.

(4) Tobin, op.cit. p 235.

(5) "Complete Interviews - Bishop Desmond Tutu", World Economic Forum in Davos, Switzerland, January 1998. Interview by Danny Schechter <http://www.globalvision.org/program/globalization/tutu.html>

(6) Thus WIDER economist A.B. Atkinson, focussing on the "by-product", i.e. the revenue from the Tobin Tax, arrives at the yearly sum of USD 15 billion or USD 28 billion, depending on the taxrate. According to Atkinson, the taxrate would probably be extremely low, namely, 0,01 (1 basis point) or 0,02 (2 basis points) per cent. See Atkinson: "New Sources of Development Finance: Funding the Millennium Development Goals", Policy Brief No. 10 from UNU World Institute for Development Economics Research (UNU-WIDER), Helsinki 2004, p. 14. Atkinson adds that "some proponents have considered taxes as high as 0,25 percent on a transaction, referred to as 25 basis points, to discourage excess currency speculation." Let it be mentioned, that Tobin himself, in the seventies, calculated with taxrates between 0,5 and 1 percent (50-100 basis points). For a thorough theoretical discussion of the Tobin tax proposal, including the important contributions by P.B. Spahn on its "two-tier" implementation, and by Rodney Schmidt on its technical feasibility within present-day national and international banking-systems, see the work by Patomäki quoted above in footnote 2.

(7) See George, Susan. *Another World Is Possible If...*, p xi.

(8) The "Landau Report", see *Les nouvelles contributions financières internationales. Groupe de travail présidé par Jean-Pierre Landau. La documentation française 2004* (<http://www.ladocumentationfrancaise.fr/brp/notices/044000440.shtml>). Parallell to this French study is the international *Report of the Technical Group on Innovative Financing Mechanisms* ([http://www.mre.gov.br/ingles/politica\\_externa/temas\\_agenda/acfp/Report-final%20version.pdf](http://www.mre.gov.br/ingles/politica_externa/temas_agenda/acfp/Report-final%20version.pdf)). The latter was presented to the New York summit on 20 September, 2004.

Recent research at WIDER (see note 6 above) and the report of the ILO Commission (2004), confirm the growing interest for the CTT proposal. UN General Secretary Kofi Annan, in his response to the WIDER report, also mentioned the CTT as a positive possibility.

However, it should also be added that "Lula-Chirac" and the other above mentioned reports and statements are not the first attempt to put international taxes on the agenda of the United Nations or international politics. The nearest predecessor of "Lula-Chirac" was the Zedillo-panel (named after former Mexican President Ernesto Zedillo), see Patomäki op.cit., p 218.

(9) See Sony Kapoor: *The Currency Transaction Tax. Enhancing Financial Stability and Financing Development* (<http://www.waronwant.org/?lid=9100>); Heikki Patomäki: "Reactionary and progressive versions of the Tobin tax" (<http://www.uttn.info/Members/NIGD/rpctt.pdf>).

(10) Patomäki and Denys: *Draft Treaty on Global Currency Transactions Tax. NIGD Discussion Paper 1/2002* (<http://www.nigd.org/ctt>).

(11) Susan George, op.cit p. 102.

(12) Members of the European Parliament, representing (at least three of the) Europe-wide political groups, can form *intergroups* on special issues. In December 2004, discussions were going on among the relatively new MEPs, elected in June, about the formation of new intergroups. The proponents of at least one of the new intergroups planned to take up the CTT as one of its issues, besides other globalisation-related issues. The intergroups are put on record and their status is to some extent formally recognized in the EP.

(13) "C'est un mot bantou, et nous devrions le faire nôtre" ("It is a Bantu word, and we should make it our own"), see the editorial by Edwy Plenel in *Le monde* 30.12.2004.

