

# A Menu of Choice for Good Reasons for the CTT

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# What is the CTT?

▣ The currency transaction tax (CTT) is a simple idea, a tax levied on every currency exchange, set at a level low enough not to hinder any transactions needed to finance trade in goods and services or long-term capital investments.

World-famous economist James Tobin first proposed this tax in 1972, in the wake of the demise of the Bretton Woods system of fixed exchange rates.

▣ Until the Asian crisis of 1997-98, interest in the CTT (or the Tobin tax) was usually triggered by major financial crises and died out when the crisis passed from the headlines.

▣ The Asian crisis gave rise to a more sustained global political movement for the CTT; this campaign has recently gained further momentum due to the Belgian law of summer 2004 and the so-called Lula-Chirac initiative of September 2004

# Finance for development

- ▣ The so-called Lula-Chirac Initiative by the Presidents of Brazil and France, joined by the Presidents of Chile and Spain as well, includes the CTT as a key measure in the fight against poverty.
- ▣ The development aid -oriented NGOs have been advocating the CTT as a means to fight poverty in the global south since the early 1990s. They reason that at least an extra USD 50 billion a year, on top of the existing aid, is needed to eradicate absolute poverty from the world. The CTT could be a way to raise (at least a part of) those funds.
- ▣ The point is thus to raise a reasonable amount of revenues without "distorting markets" and to use these revenues to complement existing ODA in the fight against diseases and extreme poverty
- ▣ The CTT would also have the benefit of stabilising forex markets and would thereby help enterprises from the developing countries to participate in world trade more effectively.

By stabilising the global financial markets, the CTT could also help to release some of central bank reserves for more productive uses

# Economic reasons for the CTT

James Tobin: *The Tobin Tax – I didn't give it that name, and I wish nobody had – has of course even more justification now than it did in 1972. Unfortunately, its recent popularity doesn't come because of belated appreciation of its international monetary significance, but because of the revenue it might raise for good international causes, not my motivation for proposing it.*

What is the economic and monetary significance of the CTT?

Tobin proposed the CTT as a device for improving the world monetary system, which people across a broad political and ideological spectrum could support.

Three problems that the CTT addresses:

- (1) Financial instability – autonomy of monetary policies
- (2) Microeconomic inefficiency
- (3) Macroeconomic inefficiency

# Improving the world monetary system

Tobin: “The mobility of financial capital limits viable differences among national interest rates and thus severely restricts the ability of central banks and governments to pursue monetary and fiscal policies appropriate to their internal economies” [we would need to throw sand in the wheels of global finance]

Obviously, the point of the CTT is also to help to prevent financial crises from occurring (the so-called Spahn model does this even more efficiently)

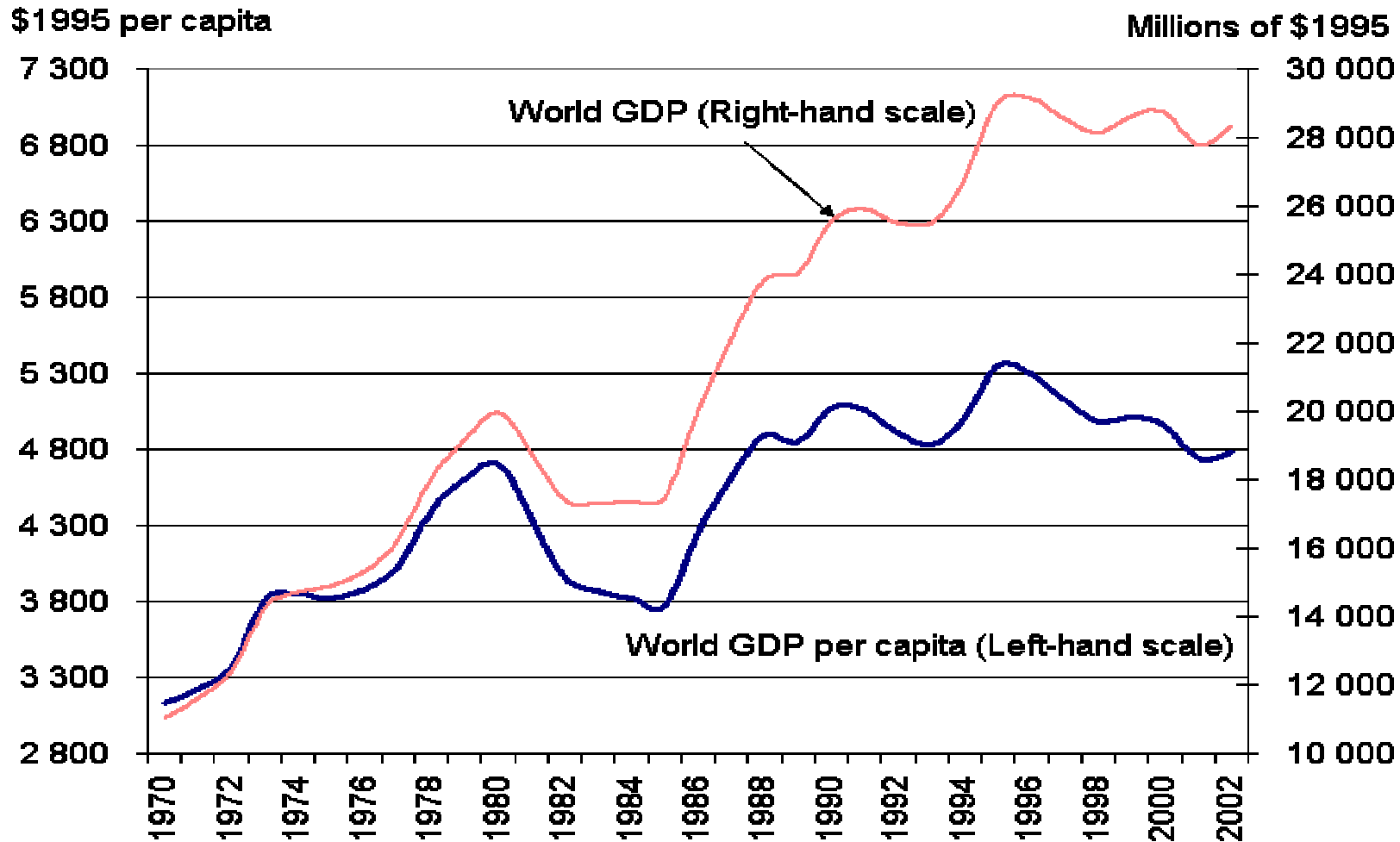
**Microeconomic inefficiency:** if there is a perception of ample profit-opportunities in the financial markets, it tends to draw scarce resources from the economy based on the production of goods and services.

The dominance of secondary financial markets tends to give power over investment to those who know nothing about the substance matter of that particular industry/business

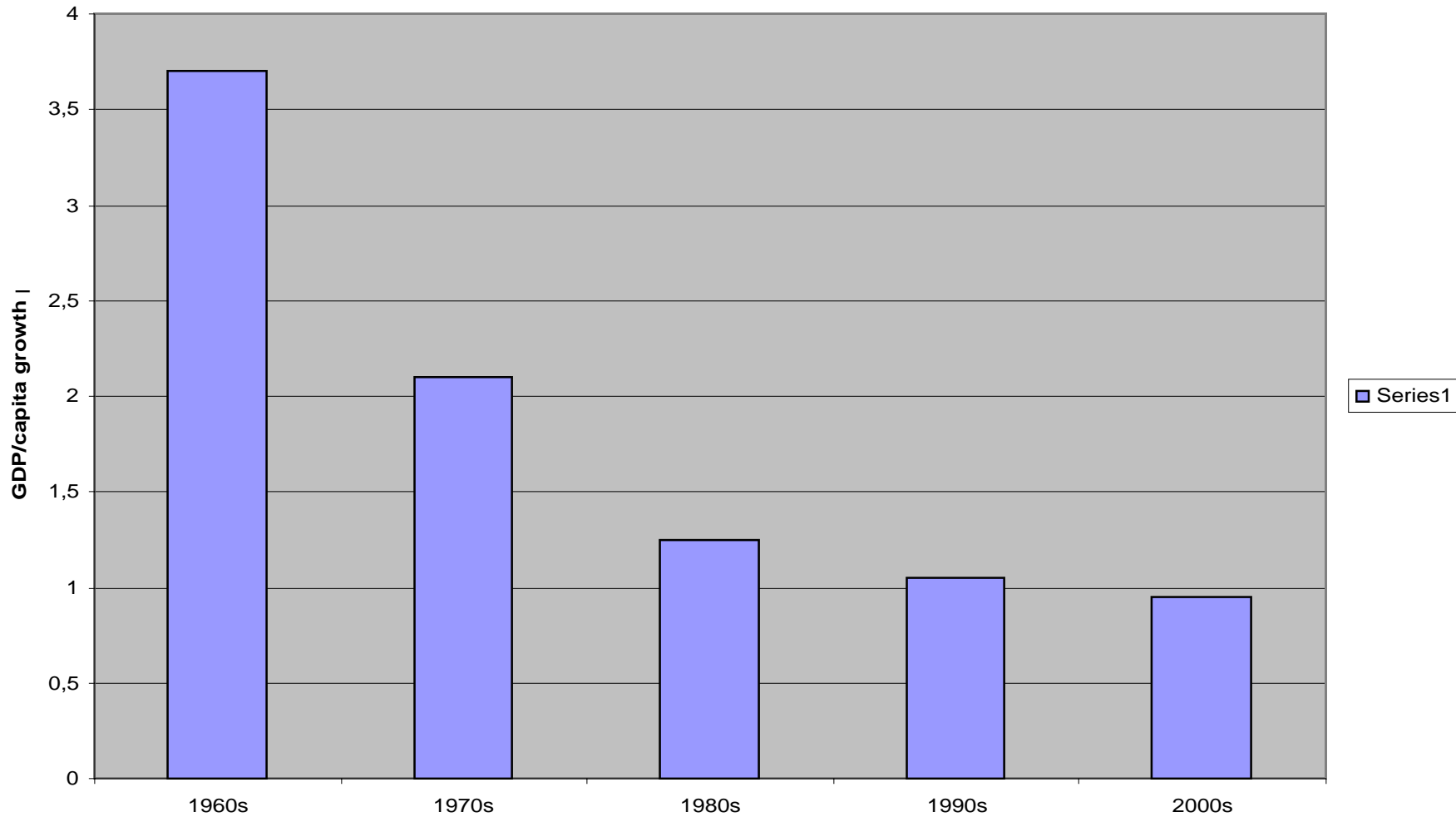
The growing absorption of resources in financial services have, since the mid-1970s, been at the expense of the non-financial sector's growth

**Macroeconomic inefficiency:** if the interest rate is determined in global secondary financial markets, instead of in relation to the national business cycle and longer-term investment opportunities, the result is likely to be disastrous as well

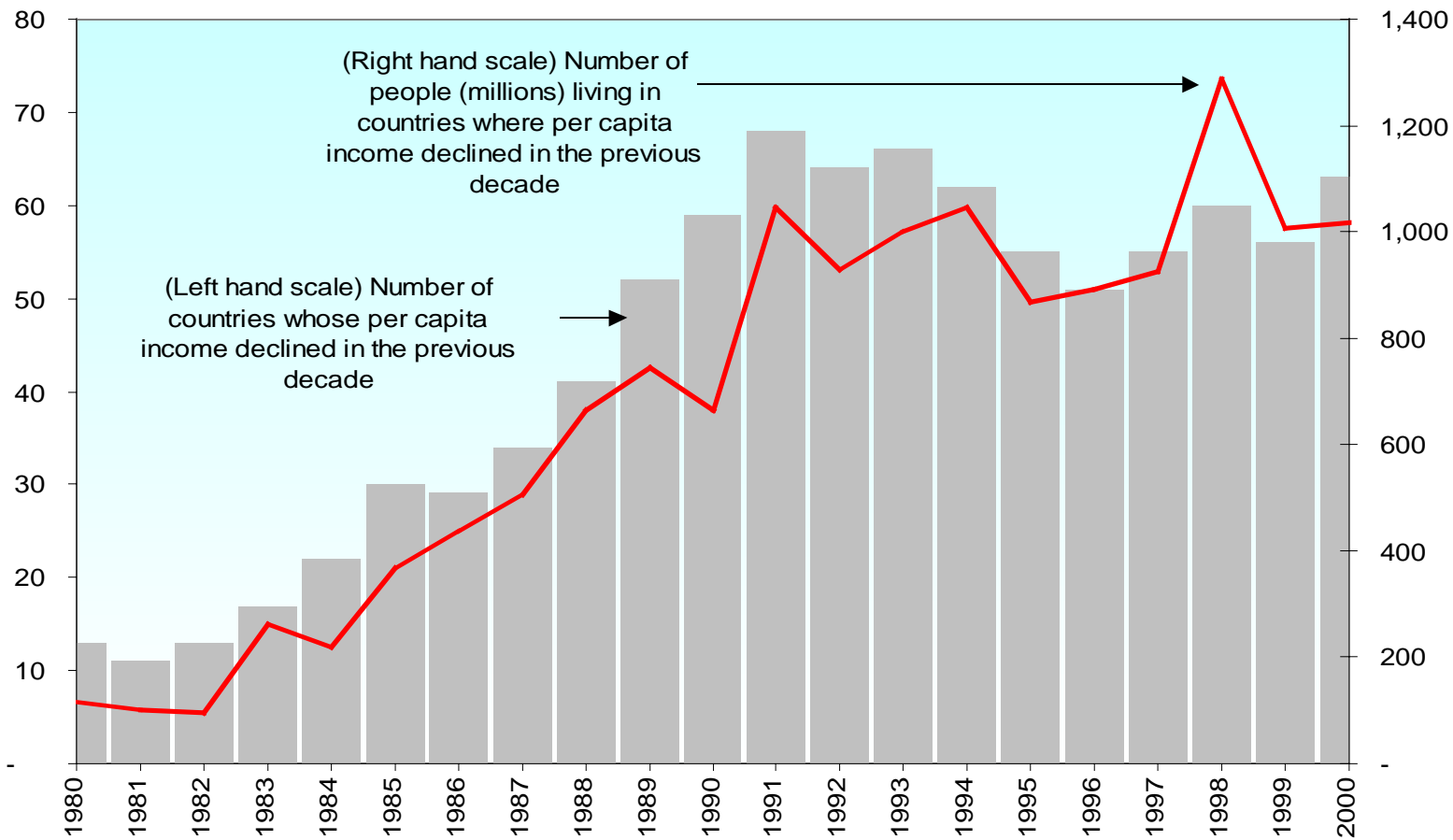
# World economy coming to a (relative) standstill



# ILO world commission report, based on World Bank's PPP-figures



# People living in countries with a declining income in 1980-2000



Sources: World Economic Outlook database (income), US Bureau of the Census (population)  
Incomes in constant 1995 dollars at current exchange rates

# Justice as fairness

In the moment of a crisis, authorities are in a **Catch-22 situation**: if you do not back the financial actors up, crises are more likely and also likely to be more severe. If you back them up, you are encouraging them to take excessive risks and thereby creating conditions for crises (besides paying for the gambling of these financial actors).

In practice, thus, the prevailing principle of financial governance is close to “**private profits, socialised risks**”

It is unfair if someone accepts the benefits of a practice but refuses to do his part in maintaining it

There is also **a further problem of justice as fairness**: those hundreds of millions of ordinary citizens in different countries, who have suffered from various financial crises since the 1970s, have in no way decided – voluntarily – to take part in the practices of global financial markets, or to accept the consequences of the financial risks taken by others.

At the minimum, justice as fairness would seem to imply some **compensation** for these past and present injustices.

Therefore, the profits of those who benefit from taking financial risks should be taxed, and there should also be global mechanisms of financial compensation (**tax-and-transfer**) to those who are vulnerable to the effects of financial crises

# Justice as commitment to reduce vulnerability

A few thousand professional investors make the bulk of investment decisions; liberalised financial markets make them free to do what they want with the available funds

However, hundreds of millions of others are made vulnerable to the consequences of their decisions

Since there are reasons to believe that actual financial markets magnify rather than minimise the implications of disparities in power and vulnerability, the first requirement is that globalising markets, transactions and relations should be adequately *regulated*; the CTT is also a regulatory measure

A genuine action-guiding commitment to enacting principles of justice in a world of disparate agents, many of them vulnerable to others' powers must also be a commitment to transform characters and powers of agents and the structure of institutions so as to reduce powerlessness and vulnerability

Justice as a commitment to reduce powerlessness and vulnerability points thus also towards a more democratic system of global governance than that of the Bretton Woods institutions

# Global democracy

Tobin's defence of national autonomy for economic policies is, in fact, an argument for safeguarding *democratic self-determination* of economic policies within the confines of a nation-state (or the EU)

However, an adequate CTT would also require a global system of surveillance and governance. States would have to collect the tax in concert with, and under the surveillance of, a supranational body. A large share of revenues would go to this supranational body. It would be entitled to allocate the revenues to various global purposes, including possibly a global intervention and compensation fund.

The establishment of a Tobin tax regime may well be the political response that will open up that structure to collective conflict and democratic revision. However, there is in fact a dual problem of emancipatory democratisation:

- The first concerns the *process of making the Tobin tax real*;
- Whereas the second concerns *the outcome* of this process, namely the Tobin tax regime and its institutional arrangements.

# Draft Treaty on Global Currency Transaction Tax

By Lieven Denys & Heikki Patomäki,  
2002

Combines all the good reasons for the  
CTT

Available at:

[www.nigd.org/ctt](http://www.nigd.org/ctt)