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Empowering the United Nations: The Emancipatory Potential of the Tobin Tax

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ABSTRACT

This paper is about levying of currency transactions tax (CTT), popularly known as Tobin Tax, on global foreign currency exchange transactions which are mainly speculative in nature to empower the United Nations (UN). The paper is rooted in the belief that the UN has a significant role to play in the post-Cold War era. One possible way in which UN can be empowered, and thereby be able to play a significant role in the international realm is by augmenting its finance component; this would also enable UN to achieve its various targets in a more practical manner. The paper, however takes its point of departure from the chaotic voices of change, most of which remain either undeveloped or are problematic. More (or less) importantly, they are utopian. In contradistinction to the idealistic approaches which indulge in wishful-thinking and circular reasoning, the paper suggests a pragmatic way to strengthen the UN. The paper begins by delving into the notion of change to emphasize its profundity which is further heightened by its rather elusive nature. Thence, the main features of the tax scheme are briefly delineated. The paper mentions one possible way of modeling the Tobin Tax. It enumerates the gains that can accrue from Tobin Tax to the international community. The aim of the paper being 'political' in nature, some of the economic aspects have not been discussed in detail though references for the same have been provided. Some of the technical 'problems' that are seen as an impediment to the successful launch of such a tax scheme are discussed; it is shown that most of these problems can be overcome. Finally, the purpose of the paper is not only to explain but also to *persuade* that it is time for international *savoir-faire* given the twin forces of globalization and communication revolution which do not follow a linear pattern of growth; on the contrary, they unleash forces which, amongst other outcomes, further aggravate imbalances between the developed and the developing parts of the world. For the less developed parts of the world, Tobin Tax, if it comes about can be a means of emancipation. The need is to build upon this nascent idea. It is with such a perspective that this paper has been essayed.

1.1 Introduction: the profundity of change

Change, both as a process, and as a concept is immensely complex to come to grips with. We do not write history entirely of our own making. Marx, in the introductory remarks to *The Eighteenth Brumaire of Louis Bonaparte* wrote that men (sic) make their own history but not under conditions of their own choosing.[1] Change in social or political realms is generally not the outcome of mere human volition. Were it the case that social or political structures could be altered by mere human volition, then the world in itself would not have presented any problem(s); society could then have been moulded in *the* desirable manner. However, we know, this is not the case. Hayek[2] had succinctly summed up the situation: most societal institutions are not the result of human design, but the result of human action. He rubbished the claims of those who believed that they could engineer any social order; the 'fatal conceit' of such persons was a more a recipe for disaster than the purported amelioration of conditions of a new social order. Hayek reserved the severest excoriation for those who believed that they could by sheer intellect design a social order. The experiments in the so-called 'communist' states are a case in point, and underscore Hayek's criticism of 'constructivism'. The issue at hand, then, is the 'most vexatious question of society': 'what is it that depends on human intentionality but never conforms to their intentions?'[3] This invariably involves the question of structure and agency and alludes to the constraints, as also opportunities in structuring any change.

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[1]Marx, K., 'The Eighteenth Brumaire of Louis Bonaparte', in D. McLellan (ed.) (1977) *Karl Marx: Selected Writings*, Oxford: Oxford University Press, p. 300.

[2]See www.independent.org/tii/content/o_ed/asimonrt.html and www.zetetics.com/mac/soceng.htm plus Hayek, F. A. (1973) *Law, and Legislation and Liberty*, volume 1, London: Routledge & Kegan Paul. I may mention that in the usage of this phrase no connection may be ascribed to the unabashed nod for capitalism from my side.

To bring about change in society there is a need to engage in questions such as- why are things the way they are; what are their generative mechanisms? It has to be interrogated whether such conditions can be overcome? Are the suggested changes feasible? Would the costs of such changes be more than their (supposed) promises? And, in any case we have to set aside a margin (which is generally not reckoned with) for the unintended consequences of any scheme. Thus, we should be wary of 'utopian social engineering'; at times 'piecemeal social engineering' in the Popperian sense can be better. This is not to accord precedence of one category over another, as such a categorization can situation-specific, but generally speaking what I have specified should hold. As the paper is about change, my point in raising such issues is-- change cannot be posited in simplistic terms. We must be chary of the simplistic solutions that are proffered in contemporary times and engage with the points mentioned infra. In other words, prior to suggesting 'models', we should engage in the possibility and feasibility of such models. Also useful in such an exercise can be lessons learnt, if any, especially from the shortcomings of past models and how they can assist in building better models. We can employ counterfactual means, as also indulge in 'thought experiments'. All these can lead to possibly good models.[4] It goes without saying that all possible outcomes cannot be fathomed vis-à-vis any social/political issue, as this is not an algorithmic calculus with some predetermined points that enable all possible calculations. Even with the best possible efforts, all outcomes cannot be predetermined and have to be dealt with as and when they arise during the *process* itself. Having shown that change cannot be the outcome of grand schemes or grand narratives, I would now like to emphasize that most

[3] Archer, M. (1995) *Realist social theory: the morphogenetic approach*, Cambridge: Cambridge University Press, p. 165. As regards 'the vexatious fact of society', it can be found *passim*.
[4]See Sayer, A. (2000) *Realism and Social Science*, London: Sage Publications.

lofty ideals with the explicit aim of bringing about global change have, barely, if at all been realized. Such ideals can stand on their own only if there is stable scaffolding supporting them.

International cooperation, though desirable, does not take place for various reasons. Furthermore, most of the proposals are either utopian or are based only on altruism; hence, they come a cropper in real life. Even targets with noble intentions such as the UN goal of 0.7% of GNP which developed countries should be giving to the developing countries is not taking place. Such a target had been set at the Earth Summit in Rio in 1992. However, there are only four donor countries that currently meet or exceed this level of aid: Norway (1.04%), Sweden (0.97%), the Netherlands (0.94%), and Denmark (0.94%).[5] Such a lackadaisical response to the UN target was taken cognizance of by the OECD's (Organization for Economic Co-operation and Development) special committee that reports on the performance of its members on aid: 'It might well be argued that that if more donors had met the ODA target (0.7% of GNP), the mass poverty and humanitarian emergencies which persist in many parts of the developing world today might have been largely avoided'.[6]

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[5] Hempel, Lamont C. *Environmental Governance: The Global Challenge*. Washington, D.C.: Island Press, 1996: 36.
[6] OECD Development Assistance Committee (2000) 'The DAC Journal Development Cooperation 1999 Report'.

At the Earth Summit in Rio, the emphasis was on sustainable development. The Summit's Secretariat opined that for sustainable development in low-income countries, an amount of $125 billion per year would be required; this could either take the form of aid or other concessions by the developed countries. Alas, there are no concrete, long-term steps which have been taken by the developed countries to meet this target. Moreover, the outstanding debts of the poorest countries, which don't seem to be payable in the near future or even distant future aggregate up to around $300 billion. Then, there is also a perceptible decline in the ODA to the developing countries. The point in enumerating these figures is show that the picture is alarming and mere rhetoric cannot deliver results. However, it is not my case to shift the blame entirely to the developed countries. The developing countries cannot absolve themselves wholly for not achieving progress and growth. There are many issues that are involved in this matrix, such as Human Resource Development, good governance, a long-term vision and so on. These traits are singularly lacking in most of the developing countries; for lack of these, they cannot pass the buck, it has to stop at their level. To blame the developed countries for all the ills that bedevil these countries has only bred complacency. Though the ultimate responsibility for generating such resources lies at the quarters of the developing countries, the international community also has a role to play and one possible means, which goes beyond mere rhetoric is indeed the Tobin tax.

Ten years after Rio and very near the impending World Summit on Sustainable Development (WSSD) at Johannesburg[7], it is time to rethink and revisit such issues. We

[7]The WSSD is scheduled for August 25-September 5 2002.

should interrogate as to the usefulness of such idealistic schemes- Have such schemes been useful? If not, why? What are the reasons for their failure? Instead of asking the question- how can such schemes succeed, we should rather be asking why is it that such schemes despite endeavours fail repeatedly? Garrett Hardin's metaphor of 'The Tragedy of the Commons', or *The Prisoners Dilemma* in game theory- have made this amply clear. There is a lesson to be learnt here: the world is not, and, cannot be run on fuzzy notions of altruism. For a mechanism to be viable, even if it makes an appeal to altruism, it should *also* serve the *self-interest* of the concerned countries. By such means, acquisition of funds for 'the commons' such as environment, amongst others, may not be insuperable. Such an approach underpins the model of Tobin Tax. It shall benefit not only the UN, but also the individual states that levy the tax, and thereby enable them to enrich their own coffers. Reckoning with these aspects, I strongly argue for Tobin Tax than for radical restructuring of which it is now commonplace to hear about. Examples of such restructuring that have been in circulation are those of world government, and the crass notion of post-Westphalian cosmopolitan order. A new beginning has to be made, so the rhetoric goes, to design a new world order. However, the reality is that 'we are in the middle of a process, not at the beginning of one, and there can be no such thing as "fresh start"' These attempts at "consciousness raising" are nothing new, then. There is a 'fundamental pessimism that underlies the superficial optimism' of such pronouncements of large scale overhaul of international structures, which the protagonists also know, are impossible to come through. [8] Apart from the aforementioned 'models', the propositions for structural transformation of the UN may

[8] See Bull, H. (1977) *The Anarchical Society: A Study of Order in World Politics*, New York: Columbia University Press, pp. 302-5.

have merit, but they can be time-consuming and, in any case, they depend on the whims and fancies of the five major powers that have the veto power in the UN. But the model of Tobin Tax does not depend, for its initiation on their idiosyncrasies. This should make clear that the model of Tobin tax is realist[9] in vein. Though I am in agreement for a change in the world order, but I pitch my remarks on a less abstract level and suggest a more practical way by which UN can play a profound role in the global affairs.[10] Having thus sketched out the limitations regarding change at the level of social and political structures, I shall now argue that we require a viable model of bringing about change.

1.2 Background

The end of the Cold War marked a watershed in global politics. The post-Cold War era saw the demise of the ideological struggle and, ipso facto, opened avenues for a greater role of the UN in global politics. Not since its inception were the circumstances seen to be so propitious for its functioning and achieving its core objectives. The period raised visions of a 'New World Order'.[11] When we think in terms of a just and humane world

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[9]I employ realism in contradistinction to naïve realism which goes only by perceptions or experiential references. This approach is realist in the sense that it looks at generative mechanisms that determine the structure and power of any order. More importantly, it has immanent belief in fallibility of knowledge. Thus, it opens the way for further models to come up and be more emancipatory.
[10]See Held, D. (ed.) *Prospects for Democracy: North, South, East, West*, Stanford, California: Stanford University Press. Though there is a vast literature on this, a reading on similar lines is Falk, R. A. (1995) *On Humane Governance: Towards a New Global Politics*, Cambridge: Polity Press.
[11]The usage of the term 'New World Order' here is not synonymous with the neo-liberal agenda. It is more a generic term which connotes an international society striving towards peace and sound governance and, above all, empowerment and emancipation of the less privileged populace of the world.

order, we cannot do so without envisaging a role for the UN. The post-Cold War period was also remarkable due to the that the concatenation of globalization and communication revolution was sweeping the globe and unleashing not only beneficent forces, but also those that were deleterious, especially so with respect to the developing parts of the world. Such forces also impinged upon, inter alia, the long-held political-legal notions. The most resilient politico-legal notion of state sovereignty has been under ustained attack by many political writers for whom the 'end of state' is near.[12] However, such views lack depth, as they only analyze parts of social/political structures rather than wholes and, thereby lead to blinkered conclusions.[13]

Atavistic notions of demise of capitalism have also showed a few spurts. I may mention here in passing that to visualize a change in terms of a world order minus capitalism seems remote.[14] Such notions again are too myopic and low in perception of how systems work and operate. State, technology, capital et al, amongst others, are implicated in the same order. All actors and processes are undergoing transformation, and consequently getting adapted to the new phenomenon of which, they themselves are constituents. This paper thus rejects the simplistic approach of 'for' or 'against'; the paper further visualizes the picture not in parts, that is in terms of state, civil society,

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[12]On this point see Ohmae, K. (1996) *The End of the Nation State: The Rise of Regional Economies*, London: Harper Collins. Also see Appadurai, A. (1996) *Modernity at Large*: *Culture Dimensions of Globalization*, reprinted in 1998, Minneapolis: University of Minnesota Press.

[13]The fact that the Westphalian order is under attack does not necessarily imply that its demise is near as has been made out to be in the debates of *endism*. Space does not permit me to go into details on this.

[14]The issue whether capitalism is good or bad is now passé. It is a sterile debate which leads us nowhere. And, as mentioned earlier in the paper we cannot change structures by merely stating them to be so. On the contrary, by doing so, performative contradictions are made, one after the other. A more useful debate can be how can we better *manage* capitalism in the given circumstances. We would do well to remember that history is open and non-linear. New systems do come up, but they are the result of a particular historical context and are contingent upon specific factors, just as industrial revolution was the emergent feature of specific historical factors, as also accidents.

UN et al, but is predicated on the view that all actors are implicated in the same order. The fad of criticizing capitalism is, after all a fad only! Such criticism could be more effective, if a viable alternative is suggested. In the absence of this, the best we can attempt is to *harness* the resources in the given scenario.[15]

1.3 The need for Tobin Tax

In this era of globalization, various 'global problems' are the cynosure of the eyes of the civil society groups, international institutions et al.[16] Such problems are multifarious and, many of them defy solution at the territorial site of any state; by very nature they transcend boundaries of the state. The more prominent problems are: of poverty, pollution, deforestation, environmental degradation, population growth, and climate change. The developing countries on their own do not have the resources to manage these problems. It also cannot be expected of private donors to come to the resolution of such issues; various states have already cut their aid budget to both to the UN and the developing countries. Thus a multilateral approach such as the Tobin tax can provide some of the requisite resources. It can also be useful in making the UN robust in its

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[15]See Strange, S. (1994) *States and Markets*, 2nd revised edition, London: Pinter. Also see by Strange, S. (1996) *The Retreat of the State: the Diffusion of Power in the World Economy*, Cambridge: Cambridge University Press. Another useful book on the changing nature of state is by Cerny, P. G. (1990) *The Changing Architecture of Politics: Structure, Agency, and the Future of the State*, London: Sage Publications.

[16]There are mutually opposing views on this notion. The issue has become vexed due to a stream of writers disputing whether all such problems can be brought under the rubric of 'global problems'. They opine that the bundling together of such problems in a disambiguating term does not serve much purpose. Further, it is not self-evidently true that such problems have a common mass of citizens who share similar concerns. Most of the problems are context or situation specific. Even if it were (momentarily) granted that the problems are 'global', would it imply that they demand global solution? Though these questions do raise some valid points, but I employ it ('global') as a generic term to look at problems that have become more severe, especially due to the unleashing of forces of globalization. The more relevant point is that they affect the developing countries that do not have the means to overcome such problems. For the views of a skeptic, see Lomborg, B. (2001) *The Skeptical Environmentalist: Measuring the Real State of the World*, Cambridge: Cambridge University Press.

functioning and also give more teeth to various agencies of the UN. Above all, this could be the first concrete step towards a humane world order. It has been rightly remarked that the first step is the biggest step. Change being a subtle process, it cannot be stated with precision all possible changes that can accrue with the implementation of the Tobin tax. It could, possibly lead to formation of a new configuration of political power at the global level. As it also has a democratizing and emancipatory potential, this could lead to further strengthening of such networks and tendencies.

We may also take a brief look at the United Nations Millennium Declaration. The United Nations Millennium Declaration had set out 'specific, quantified and monitorable goals' for development and poverty eradication by 2015 for the world. Some of these goals are-

- To halve the proportion of the poor, that is those living on less than a $1 a day.
- To halve the proportion of people suffering from hunger.
- To halve the proportion of people without access to water.
- To ensure primary education for all.
- Implement sustainable development (national) strategies by 2005 so that loss of environmental resources is reversed by 2015.[17]

Now if these goals are to be realized in an earnest manner, are not funds required for their realization? In this context too, Tobin tax is a feasible scheme, to realize these goals.

[17] See Human Development Report 2001 *Making New Technologies Work for Human Development*, UNDP, Oxford: Oxford University Press, pp. 21-4.

A few words on globalization would be in order here. Globalization has had widespread ramifications in the global arena. A major impact has been on political economy. There is a discernible trend towards ‘market economy’, as enunciated in the neo-liberal agenda by the West which is epitomized in the Washington Consensus. However, this has been a mixed bag for the developing countries that are caught in a Catch-22 situation. If they do not join the race for globalization and modernization, they are very likely to lag behind. If they do join, in the given conditions, they would be taking excessive risks and, thereby create conditions for crises. They need support in devising new policies which can ameliorate their conditions. A concurrently popular myth is that globalization along with its deleterious effects shall end soon. This belief of the anti-globalists is predicated on whimsical notions with little or no relation to reality. The academic discourse would be much better off, if this edifice of *endism* with its tomes of end-of-everything (from the state, history, geography, science and what not) is exorcised of its spirits once and for all. Such views are detached from reality and emphasize ‘being’ rather than ‘becoming’, which is the essence of life, and of social/ political change. Their attempts at comprehending an emerging phenomenon are at best limited to reinventing old terms, or imbuing them with a new meaning. Such narratives also exhibit a lack of comprehension about structure formation. Insofar as globalization is concerned we can at best *manage* it and, that is where our focus should be. And, to reiterate, Tobin Tax is one such mechanism to manage and harness the forces of globalization.

1.4 The proposal for Tobin Tax

With the US abandonment of the Bretton Woods[18] system of fixed exchange rates in 1971, the financial markets have been gradually liberalized. Instead of pegging international currencies to the dollar, the floating exchange rate has emerged. This has led to phenomenal growth in global financial flows. The magnitude of the transactions can be gauged from the fact that such daily transactions are to the tune of mammoth $1.5 trillion.[19] Astoundingly, these financial flows far outstrip the global trade in products and services. Such being the case, they do not serve any long-term economic benefit; but they do result in quick gains for both banks and investors. A fallout has been the sudden fluctuations and volatility in the financial markets which have affected most regions of the world, and more adversely the developing parts of the world. Such financial flows are short-term and speculative[20] and, are the 'prerogative' of a few private players; hence, they tend to be highly destabilizing. They quite often lead to currency crises which, as a matter of fact have become far more pervading. At least 87 countries have been affected by the same since 1975.

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[18]The Bretton Woods system came into existence after the Second World War with the express purpose of correcting monetary imbalances. It appertained to the planning of postwar monetary reconstruction by the Treasuries of the United Kingdom and the United States. The appellation is after the conference at Bretton Woods in the New Hampshire town in 1944 where the proceedings were formalized. The discussion was dominated by Harry Dexter White of the U.S. Treasury and John Maynard Keynes of Britain with their respective rival plans. The fact that the final proposal approximated that of H. D. White was testimony to the fact that the US was emerging as *the* major power (in the Western World) in the post-Second War era. The Bretton Woods system essentially refers to the international monetary regime that prevailed from the end of the Second War until the early 1970s when the Nixon regime dispensed with it. It was a fully negotiated monetary order intended to govern currency relations among sovereign states. In principle, the International Monetary Fund was imbued with the power to handle multilateral decision-making. It was also designed to combine binding legal obligations. However in practice, its functioning right through till its demise was determined by its most powerful member, namely the United States.

[19]Bank for International Settlements, *Central Bank Survey of Foreign Exchange and Derivatives Market Activity*, 1998.

[20]They can be categorized as speculative as according to Bank for International Settlements (BIS), such transactions have a round-trip maturity of seven days or less.

The financial markets presented a vastly different picture before the early 1970s. However, some dramatic developments altered the picture: the first oil crisis, the consequent emergence of OPEC (Organization of Petroleum Exporting Countries), and the generation of huge oil surpluses. According to an estimate, by 1981, OPEC countries had accumulated surpluses to the tune of $475 billion approximately, out of which $400 billion, as deposits had found way into the developed industrial nations.[21] With surpluses finding their way into the international banking system controlled mainly by the developed parts of the world, such money in gigantic proportions was eagerly awaiting further circulation/ recycling and profit realization. Another factor that favoured intensification of private financial flows was piling up of liabilities by the US during the post-Second War era. The fact that dollar during this period was as good as gold, led to (over)confidence, and consequently to ignoring the budgetary constraints on international spending; this was one reason for the emergence of a strong network of banks and financial institutions pursuing their own interests at the international level. Another development in the industrial countries gave a further impetus to this trend. There was a slowdown in the productivity growth and new avenues had to be found for this money outside the national territorial domains; and, real estates & speculative currency transactions emerged as the most convenient sites. With increasing private flows, it was only natural that the concerned banks and especially so the private financial institutions would seek lesser controls over themselves. These efforts were also manifest at the level of some developing countries that were keen to bring in such capital to their own territories. In other words, such huge financial flows, with little or

[21]Cited in Chandrasekhar, C. P. (2001) ‘Fluid Finance and Systemic Risk’, *Asian* Exchange, Volume 17, No. 1, 2001, pp. 9-28 [15]. Also see Lissakers, Karin, Bankers (1991) *Borrowers and the Establishment*, New York: Basic Books, p. 36.

no encumbrance have played havoc with the money market, and can probably even lead to its collapse. Such transactions being, quite often momentary in nature show no respect for planning at the national level.

The emergent financial system led to the creation of a series of new and fairly autonomous financial derivatives or instruments. These derivatives in turn were instrumental in shaping a new system. Consequently, the synergistic effect was that the players could trade the risks underlying assets without trading the assets themselves. With prospects for profits looming large, the banks were eager to reap the profits. This led to greater competition amongst the banks and exploration of new areas of investment, as also loan giving in diverse regions, including those that were hitherto considered risky.

Some of the derivatives that became entrenched in the financial system are swaps, options and futures. *Swaps*- in this transaction, a security is sold to a buyer who in turn sells another security of the same value. Through this exchange, the aim is to strive towards a perceived improvement in the quality of the portfolios with both the transaction parties. *Option*- in this contract, the beneficiary is given the right either to buy or sell the financial asset or commodity. This process can take place within a specified period and there is a specified price at which it can take place. However, the beneficiary does have the discretion to exercise this option or not to exercise it. *Futures*- in this contract, a beneficiary is allowed to buy or sell a specified amount of commodity or a financial asset; in this transaction, the price, however is pre-specified for a particular future date.

The initial proposal for the CTT was mooted by the Nobel laureate James Tobin in 1972. His views were sketched in a paper titled, 'A Proposal for Monetary Reform'.[22] However, the 'idea fell like a stone in a deep well'. Though there were no takers, the fact that a mechanism was required to stabilize the volatile monetary markets was a mark of his prescience. The reason why he 'cast it in the water again' in 1978 was due to his conviction that it could to some extent address the fluctuations of the monetary markets. Again, the concept did not gain much currency but, now with globalization it has resurfaced and such proposals of currency transaction tax have become synonymous with his name. Contra, most concurrent proposals for the tax scheme, Tobin's objectives were primarily economic; and, in proposing such a tax, he, in any case did not refer to the UN for levying it. It was in the International Monetary Fund (IMF) that he an agency which could levy this tax. Tobin was of the view that the policies of domestic governments 'are relatively powerless to escape or offset' the huge transactions of funds across foreign exchanges without encountering some problem or the other. He conceived of two ways to deal with the issue. One was to endeavour towards economic integration which would ultimately lead to a common currency, a common monetary, and fiscal policy. This approach, despite its appeal was not viable. Hence, he 'regretfully' veered round to the other solution, namely that of more financial segmentation between countries, whereby, the concerned central banks and governments would have greater autonomy in making economic policies that are attuned to their needs. The proposal was of an international 'uniform tax on all spot conversions of one currency into another, proportional to the size of the transaction'. As he himself said, his main intention was to 'throw some sand in the wheels' of the

[22]Tobin, J. (1978) 'A Proposal for Monetary Reform' in *Eastern Economic Journal*, 4 (3-4): 153-159.

international monetary markets and not to bring the wheels to a halt, as some anti-globalists would like to believe. Being an avid supporter of free trade, he was more interested in stability and efficiency of the system; he said that the purpose was to 'moderate swings in major exchange rates'. The idea has now caught on and anti-globalists, amongst others, have appropriated this concept. It is pertinent to state here that Tobin was not against globalization per se. Hence, the appellation (Tobin) may even be a misnomer, but now that it has caught on, little purpose is served by modifying it. Another facet of the Tobin tax scheme is that it would enable many countries to find a restored sense of autonomy which has been lost, to an extent, after the facile currency convertibility. The attribution of significance to autonomy does not completely negate the notion of interdependence. It refers more so to the external impact of national policies. A la Keynes, James Tobin reiterated the view that in the 1930s many countries turned to nationalism and protectionism which proved to be one of the factors in causing a partial collapse of the world economy. Thus Tobin tax may be seen not only in terms of emancipation but also as a means of curbing the power of the global financial markets. These global financial transactions have made many people/countries vulnerable to the vagaries of such transacations and have quite often threatened the economy and stability of countries. The tax, it is expected would reduce volatility and fluctuations. The scheme would enable states to make suitable modifications in their monetary system. It can also be seen as one of the means to subvert the dominance of finance over production which is not without deleterious effects. This has led to resources being misallocated and under-employed. And, the whole issue also opens up the debate on global democracy.[23]

As of now currency speculators trade about $ 1.5 trillion daily across borders in a market that is both huge and volatile. The proposal is to levy tax on currency exchanges, which are part of the worldwide speculative financial movements. Even a fraction of a tax on this, say of 0.1% - 0.5% can generate income which would be far more than the aggregate of official development aid (ODA) that is given by the developed countries to the less developed countries. This will put more financial resources in the UN coffers.

Given the fact that the proposal is still in its formative stages, it is obvious that there are bound to be conjectures about the revenues that the tax can yield and, what will be the impact on market behaviour. Insofar as the former standpoint is concerned, there are various figures that have been projected. The viewpoints of Felix and Sau may be presented here, according to whom for a 0.25% Tobin tax applied to global foreign exchange volumes could yield annual revenue of $393.4 billion per year. The duo has also calculated that if the tax were further reduced to only 0.1%, it would, similarly yield $179.9 billion per year.[24] However, these figures can be seen less in terms of being absolutely authoritative and, more in terms of indications, as estimates vary between a range of $100 to $300 billion for even a 0.1% tax. Estimates for other tax rates are also likely to vary, though at this stage, this is to be expected.

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[23]Patomaki, H. (2001) *Democratising Globlalisation: The Leverage of the Tobin Tax*, London: Zed Books, p. 131-2.

[24]See pp. Felix, D. and Sau, R. (1996) 'On the Revenue Potential and Phasing in of the Tobin Tax', *The Tobin Tax: Coping With Financial Volatility* edited by Inge Kaul et al, Oxford: Oxford University Press, pp. 223-254 [238-9].

Doubts regarding the feasibility of the tax scheme also need to be dispelled so as to put the issue in proper perspective. Despite the misgivings about IMF in many quarters, it would not be inappropriate to begin with a report which has emanated from it. According to Shome and Stotsky, there is scope for administering the tax, as the framework required for the same is not so onerous a task; however, this report was not sanguine about the ability of such a tax scheme to reduce the volatility of the markets.[25] Paul Bernd Spahn also is optimistic of the tax scheme coming into operation. According to him, administrative problems should not post much of a hurdle, rather the 'main riddle relates to international cooperation'.[26]

1.5 Practicability and issues of application

So far, so good. Being a novel scheme, various questions arise here. Such questions can be broadly categorized into three: at the level- of adoption & implementation of the tax scheme; of collection of taxes and enforcement of norms; and, utilization of the revenues. I shall engage in such other relevant questions, as also those that emerge at the intersection of these issues. In such an engagement, a few 'thought experiments' could prove to be useful.

Adoption and implementation:

First things first. The prime issue that comes to mind is whether the major powers would accept it or not. If not, a doubt quite naturally arises as to how the scheme can come into being? Who should be the members of such a scheme? In attempting to

[25]Shome, P and Stotsky, J. (1995) 'Financial transactions taxes', *IMF fiscal Affairs Working Paper*.

answer these questions, I opine a notion which assumes that the tax scheme can come into being only if the major powers accept it in toto is illusory. The beauty, the practicality, and hence the pragmatic nature of the model lies in the fact that it can come into existence even if countries like USA and UK do not agree to be its members. It is rather the EU countries with other groupings that could take the lead. Insofar as the issue of basic unit of membership is concerned, it has to be at the level of sovereign states. This paper, as would have been gathered by now has taken a stand that is antithetical to that of the 'end of state'. States do have a significant role to play in the international realm.[27] They alone can legislate and ensure the implementation of rules. Markets cannot thrive on their own. They need a mechanism that can ensure the underlying rules and such a task can only be performed by the states.

According to Griffith-Jones, Japan, UK and the USA together account for 55% of global turnovers. If to these three countries are added Germany, Hong Kong, Singapore and Switzerland then the figure goes up to about 78% of total trading.[28] Reckoning with such figures, it may appear counterintuitive that the tax scheme can come into being without USA and UK. But then, appearances can be deceptive and, as I shall show supra, the task is not so insurmountable.

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[26]Spahn, P. B. (1995) 'International financial flows and transaction taxes: survey and options', *IMF Fiscal Affairs Working Paper 60*.

[27]See in particular Hirst, P. and Thompson, G. (1996) *Globalization in Question: the International Economy and the Possibilities of Governance*, Cambridge: Polity Press. They have made a good case for the state as a political entity.

[28]On this point see Griffith-Jones, S. (1996) 'Institutional Arrangements for a Tax on International Currency Transactions', *The Tobin Tax: Coping with Financial Volatility* edited by Inge Kaul et al, Oxford: Oxford University Press, pp. 143-158 [148].

Collection and enforcement:

As the basic unit of adoption for the tax scheme is the state, it goes without saying that the level of collection should also be at the level of the sovereign state. Not only is this practicable, but also would encounter the least possible difficulties. As circumstances vary from one country to another, it is only in the fitness of things that the states should adapt their financial policies accordingly, as per the given exigencies. It is from the collection point of states that the revenues can be disbursed to the UN. The states can keep a proportion of the revenues which can be worked out and the rest can be given to the UN.

Utilization of the funds:

The sovereign states would be well within their jurisdiction to decide as to how the quota of their 'own' funds should be utilized. However, as the very purpose of the tax is towards emancipation and empowerment, it would only be in the fitness of things, if the funds are utilized towards related purposes. I am not in agreement with the view that at the domestic level too, there should be control by an overarching supranational body. This would be against the very spirit of levying the tax, whereby states can have a quota for themselves. Moreover, there is no evidence, as of now that any international body has overarching control over its units, that is the member states. It is to be expected of states that they will play a responsible role in disbursement of such funds. As regards the UN, it can employ it for various activities which are under its ambit. It can also disburse sums from its augmented coffers to those countries that need it the most. The details of the proportion of funds to be allocated to varied activities of the UN and to the developing countries can be worked out once the preliminary proceedings have been set into motion.

Opposition to the Tobin Tax scheme and technical problems:

As is the wont in so many cases, there is opposition to Tobin tax also in some quarters. My task is not to engage in a meandering discussion. My singular task is to show that the model is feasible and the difficulties visualized can be tackled, and, tackled properly. Hence, I shall take up the major objections and show that they are insubstantial. In any new venture, there are bound to be some problems but it does not necessarily imply that such ventures should be left mid-way.

Of course, there has been criticism that the positive expectations from the tax scheme are inflated and it cannot deliver much. I would not say that much of this criticism is based on superficial incredulity which also, may be there in some cases. The more 'logical' criticism is that the tax can harm the liquidity of currency markets. There is also the possibility that to evade tax, the currency market of the world would start to move to tax havens such as Cayman Islands which are basically tax-free. It is also stated that the exchange rates, despite the CTT would keep fluctuating. Now, these criticisms are partially correct, which means they are also partially incorrect. However, as James Tobin himself says, these criticisms miss the point that a one-parameter tax 'would automatically penalize short-horizon round trips, while negligibly affecting the incentives for commodity trade and long-term capital investments'.[29] It would seem that

[29]Tobin, J. (1996) Prologue to *The Tobin Tax: Coping with Financial Volatility* by Inge Kaul et al (eds.) Oxford: Oxford University Press.

80% of foreign exchange transactions involve round trips of seven days or less and, of these, most occur within a single day.

Then there are stated to be the twin problems of devising ‘financial substitutes for currency transactions’, and finding ‘locational substitutes’ for the extant booking sites. It is also stated that foreign exchange trades are not easy to monitor.[30] This is an appropriate place to say that not all problems can be put under the rubric of ‘technical’ problems; as a matter of fact, they are also ‘political’ in nature as they do represent particular interests of specific constellations.[31] Hence, the tax system needs to be so devised that there is adequate flexibility vis-à-vis the interests of the countries which constitute the system. It is impossible to visualize all possible fault-lines in an *a priori* manner. Besides, some problems that are visualized may not occur at all. There can be unintended consequences, too, which can be rectified only *during* the process. Hence, there should be an in-built mechanism that can have a salutary effect on such standpoints. Another criticism is that the very ‘intrusion’ of the tax mechanism would affect the ‘efficiency’ of the markets. Moreover, due to the decentralized nature of the market mechanism, it would be rather difficult to keep track of individual trades. Even if regulations were to be imposed they would require supervisory central banks and other bodies to ensure private banks’ and other financial institutions’ transactions are recorded overnight as per balance-sheet positions. But this, it is contended can be circumvented by shifting the transactions to different time- zones, and thus keeping

[30]Garber, P. and Taylor, M. (1995) “Sand in the wheels of foreign exchange markets: A skeptical note”, *Economic Journal* 105, pp. 173-180.

[31]Such a view is put forth by Patomaki (2001) with which I concur, as it is impossible to negate the political angle from any scheme that purports to bring about emancipatory change.

them in perpetual circulation; or another devious way could be that the derivative financial instruments which do not show on the balance-sheet can be used. Another possible means by which the traders can avoid the foreign exchange market is by ‘buying and exchanging securities, such as bonds or treasury bills, denominated in different currencies’.[32]

In streamlining the system, it would be imperative that all possible transactions under the ambit of the tax are defined as clearly as possible, so that as less room as possible is left for manoeuvering by way of finding substitutes. Finally a mention may be made about the rate of tax; a lower tax would be a lot more feasible, whereas a higher tax could possibly upset the apple-cart, and thereby ‘contract the markets more drastically’; it could even trigger a ‘reversal of the financial multiplication process’.[33] But, a low transactions tax is just the cushion needed to keep a check on speculations while not interfering much with the market mechanism.

1.6 A possible model of Tobin tax

Though there are various models that have been proposed, I mention the following model[34] which seems fairly reasonable. I place my optimism in it, as it makes a beginning and is not bogged down by the fact that major powers like USA and UK won’t join it. Hence, it can be said to be a ‘non-universal’ model. To ensure its smooth implementation, a two-phase model would be better, as it would lead to a gradual

[32]Garber, P. et al *op cit*.
[33]Patomaki *op cit*, p. 164
[34]See Patomaki *op cit* chapter 5, especially p. 157.

follow-up and redress problems, if at all they arise. The model also takes into account some of the major problems that can possibly accrue.

First phase:

Given the consternation that the big powers may not join the scheme, it is the EMU countries that can take the lead along with other group of countries in the first phase. Otherwise, a bigger group of non-euro EU can go ahead with this. A group of countries that cover about 20% of forex markets should be able to make a good beginning. The group of countries that decide to take the leap should make an open agreement, whereby any other country can join the scheme at a subsequent stage. This is to facilitate the ultimate aim of the tax system which is to have as near a global tax as possible. It would be in the fitness of things, if at its very inception, it is specified that a supranational body will orchestrate the functioning of the system and all parties that join the tax system would be bound by it. As regards the treaty that would usher in the scheme, opinions may range from one end of the continuum that the treaty should be of indefinite period to the other end of the continuum that it should be for a specified period. This apparently simple issue is not all that simple, and is best left to the states who decide to commence the tax scheme. One major problem that can be easily visualized is currency exchange transactions can be shifted to other tax havens which for obvious reasons have not joined the tax system. To counter this, there should be a punitive tax on capital inflows/outflows that emanate from or inject into such tax havens, so that they are tackled to cover all possible loopholes. Then, for the main currency transaction tax, it can be a small underlying transaction tax. In those cases, where the counter party is from a zone that is not within the tax system, the banks within the system would have to pay the full amount. There is also the possibility that domestic-currency lending to non-domiciled actors can corrode the system. To counter this, a tax on the higher transactions should be imposed.

Second phase:

When all major financial centres and countries have joined the tax system, the stage would be set for the second phase of the tax scheme. This would be the time for a universal and uniform tax which could be at a slightly higher rate. This would also be the time to contemplate abolishing the cross-border credit tax. However, to keep the system well oiled and check loopholes in the system, it should continue with punitive tax against the tax havens.

1.7 The organizational structure

The state has had a monopoly power of taxation which along with its ‘power’ of waging violence (or war) has singularly been the defining feature of sovereignty. Thus, if Tobin tax comes about, it could be seen as an effect of the present transformation of the state system; it could also cause some change(s) in the future political order which we cannot envisage now. It, possibly could even lead to a new democratization wave. These are conjectures but they are in order; they are not to be seen in terms of prophecies, but as horizons for various possibilities of the future and, there is no gainsaying that the future affects us all. It could even be a means to counter the deleterious effects of neo-liberal agenda against which we often hear rhetorical statements but do not witness any concrete action.

Any new mechanism needs to be interrogated at a deeper level as to its viability. The same holds true for the Tobin tax system. The following issues need to be taken into account- How would the member states be represented? How could parity be maintained amongst them? How could transparency and accountability be ensured? What would be the parameters for distribution of resources? How would the governing body be elected? What, if any would be the role of civil society actors and various other stakeholders who are affected by various decision but as of now have no role in decision making?

Reckoning with the fact that this tax system will be altogether new, it would not be inappropriate to either have an altogether new organization for its functioning, as new tasks quite often require new structures and organizations to deal with them; or, the Economic and Social Council in a modified form could be assigned this task. It indeed is a moot point whether a new organization will be more effective, or an extant organization of the UN to cope with tax scheme. The only possible gain of an established body is that it would already have a structure with some in-built legal mechanisms which can be further augmented. Depending upon which choice is made, the task of overall surveillance and disbursement of resources should be handed over to such a body. As already stated, James Tobin had visualized such a role for the IMF, but this may not be a feasible idea given the distrust of the developing parts of the world towards such a body, especially due to the ideological bias vis-à-vis the neo-liberal agenda. It is also accused of lack of transparency and accountability, which also is a reason why many developing countries are not particularly enamoured of it.

Some of the issues that need immediate attention by those parties that concur to form the tax scheme are aptly summed up by Patomaki (2001).[35] These include where the headquarters should be, which invariably would have to be in one of the participating countries; laying down details regarding all the tax norms, that is beginning with the first-phase basic taxes, then going on to the additional surcharge, and the punitive tax on transactions vis-à-vis the tax havens; explicating the structure and decision-making rules of the body; if and whether there should be any exemptions in the initial phase, though it would be better not to exempt any state, as exception to the rule sets precedence for more exceptions; determining what would be the global and national share: a possibility could be, (depending upon whether the states are developed or not) that the OECD countries given their affluence keep 30%, whereas others could keep 60%, and rest of the finances can then go to the common pool; as surveillance should aim for fool-proof measures, the incumbent task would be to lay down norms for tax-evasion and also delineating the administrative machinery for the same. It is of utmost importance that the supervisory mechanism is as sound as possible. Though experience tells us there are no foolproof measures, this does not imply that we should not strive towards them. A step in this direction can be calling for regular reports from the concerned states. However, a lot will ultimately depend on how far the member states are able to make concerted efforts so that the scheme develops into a self-organizing mechanism which is the best possible recourse for success. Rather, a system that has incentives to encourage compliance shall be more successful, than one which is rooted solely with evolving

[35]See Patomaki *ibid*, chapter 7.

punitive measures at the level of states. To ensure that the mechanism remains viable, it is important that if the member states have some teething problems should not be left to fend for the problems themselves; rather, there should be concerted action to ensure that such states are provided adequate technical and financial support to ensure the best possible results. It goes without saying that a tax scheme which is expected to augur democratization, shall itself be built on a structure that is essentially democratic.

1.8 The Tobin Tax network

The campaign for the Tobin Tax is no longer confined to the academic level. The deleterious effects of globalization have especially led civil society groups, NGOs, social movements et al to raise the issue to a wider platform. Discussion and dissemination of information about it has been raised at various political levels, too. Some of the more significant campaigners are Association pour une Taxe sur les Transactions financieres pour l'Aide aux Citoyens (ATTAC, France), International Cooperation for Development and Solidarity (CIDSE, Europe & North America), Halifax Initiative (Canada), Network Institute for Global Democracy (NIGD, Finland), Tobin Tax Initiative (USA), and War on Want (UK). Such initiatives are emblematic of the growing resurgence of civil society actors.[36]

[36]Details about the activities of these organizations can be further gathered at their websites, namely, www.attac.org (ATTAC), www.cidse.be (CIDSE), www.web.net/~halifax (Halifax), http://www.nigd.u-net.com/campaign.html (NIGD), www.waronwant.org (War on Want), and www.tobintax.org (Tobin Tax Initiative). These are the organizations at the forefront of the campaign. For those who want to know about more such organizations and their activities, they can check the following website www.ceedweb.org/iirp/camnet.htm

At the level of sovereign states, some of the countries where the issue has been taken up in more than a token manner are Canada, Finland and France. As a matter of fact, the House of Commons of Canada is the first legislative body to have passed a resolution to such an effect in 1999; it was stated that 'the government should enact a tax on financial transactions in concert with the international community'. Though it is still behind the desired level of action, nevertheless it is a step in the right direction. The French National Assembly has also voted in favour of the Tobin tax. The then French Prime Minister, Lionel Jospin in August 2001 gave unstinted support to the Tobin tax. Given the fact that France is now a member of EU, the decision cannot be given a legal hue, unless and until other EU members pass it. However, this can be construed as a good precedent which can pile some pressure on other states to take cognizance of the tax and study it at a greater level. The increasing significance of the tax can be gauged from the fact that it was an issue for the 2001 Presidency of EU by Belgium. In Finland, the Tobin tax was an agenda in the parliamentary elections held in 1999.

Even in UK, there is some support for the tax scheme, despite the fact that it will go along with USA in not joining the tax scheme in the initial stage. An Early Day Motion in UK calling for action on Tobin tax received fairly widespread support: there were 147 signatories, and six parties gave their support. The Swedish Deputy Prime Minister Lena Hjelm-Wallen has also declared her support of the Tobin tax. And, a mention must indeed be made of the financier, George Soros who himself has indulged in wild financial speculations. Would it not be an oddest of oddity if he too, were to support the tax system? Yes, he also is supportive of the tax scheme which should be seen as indication of a realization that is dawning upon some actors in the financial realm to check the volatility of the markets. Though UN has taken cognizance of the issue, but due to varied reasons, it has not been able to proceed further in the matter. This is despite its commitment to look at Tobin Tax as a means of providing 'new and innovative sources of funding for social development and poverty eradication programmes'. During a special session of the UN General Assembly in 2000, a study was agreed to by 147 countries; it, apparently has been diverted to a panel of 'eminent persons' appointed by the Secretary-General. However, there has been no positive report by this group.[37]

1.9 Stakeholders participation

On a different but not unrelated plane is the issue of stakeholders participation. This appertains to the aspect of decision-making at various international institutions. Though the discussions are purportedly held at a level of parity, most of the stakeholders, especially from the developing countries do not have an equal voice in such fora. Tobin Tax can play a role to alleviate this hiatus. However, to assume that such a measure in itself would suffice to remove all disparities would be asking for the moon. We can at best strive towards this ideal and, like all ideals, it shall remain an unfinished project but by striving towards which, we can hope to reduce the gap as much as possible.

Furthermore, the UN is involved in various activities for which adequate funding is not available. Some of the important issues relate to poverty eradication, peacekeeping missions and related activities, disease prevention and humanitarian aid, environmental

[37]See http://www.waronwant.org/tobin/update2.htm

restoration, conservation and preservation projects, and disaster aid projects. Tobin tax can go a long way in tackling these issues and tackling them well.

1.10 Conclusion

I hope I have been able to sketch the mechanism of Tobin Tax, as also its possible advantages in a fairly reasonable manner. As knowledge is intersubjective, by bringing the issue into the public sphere, the subject becomes a matter for discussion, whereby if there are perceived to be any shortcomings, they should, then be further looked into. I may reiterate here that the paper is 'political' in its aim and has for obvious reasons not gone deeper into technical (economic) aspects.[38] The paper is predicated on taking a step towards a change- a humane world order. There can be objections, and criticisms which are nothing new but, then, there is nothing concrete that has been suggested which is either unproblematic or fully developed. Unless an alternative model is posited, I believe any criticism is automatically weakened to a great extent. There is a popular saying: 'you cannot beat something with nothing'; hence, any refutation should be accompanied, *at the least* by an equally viable model, if not more. No such model appears to have cast its shadow on the political horizon, and hence it is much better a task to forge ahead and make an attempt for a fairly viable model than indulging in pure 'analysis-paralysis'.

[38]For greater details, especially the economic ones, the readers may refer to Patomaki, H. *Democratising Globalization: The Leverage of the Tobin Tax*. London: Zed Books, 2001 that is very lucid. Another useful book is by Inge Kaul et al (eds.) *The Tobin Tax: Coping with Financial Volatility*. Oxford: Oxford University Press, 1996.

As was mentioned at the beginning of the paper the task is also to *persuade* the international community that the states need to act in unison. It also needs to be mentioned that perceptions of international community/ individual states do undergo change over a period of time. The change may be the outcome of the very process of evolutionary growth, or could be due to the influence of other factors. An illustration of a recent political event shall make this clear. Before September 11, the US had condemned the move on the part of EU for minimum declaration standards for financial institutions. However, post-September 11, the same moves are being welcomed to keep a check on 'dirty' accounts as part and parcel of the 'war on terror'. Thus nothing is static in the international realm. Tobin tax could even turn out to be a means of long-term cooperation at the global level, and thereby foster cherished values of the international society.

I have also shown how some other models are too idealistic. *Contra* such models, Tobin tax scheme does not indulge in any solipsistic fantasies, or lean on any ideological hue(s). It does not aim at radical restructuring and, if it comes about it shall be in tandem with other tax systems of the states. It is also commensurate with the pragmatic notions that I have enumerated at the beginning of the paper. It beholds good promise and it shall be the task of international community to take the plunge for it.

Gloom-and-doom predictions have been galore in the contemporary period. Given the fact that in any matrix, there are constraints, but opportunities too, there should be no room for skepticism, or at least pessimism. It is important to harness the forces unleashed by globalization. In such a scenario, I am inclined to place my optimism in the Tobin tax scheme against the pessimism of anti-globalists, who have inchoate views about globalization, about capital and even about reforms. Just as the Luddites could not stop the Industrial Revolution, I don’t foresee anti-globalists or, for that matter any other constellation of ‘forces’ being able to stall the ‘march’ of globalization. There are times when opportunity knocks the door softly and I believe that one such opportunity is provided by taking steps towards the implementation of the Tobin tax scheme; to not hear the gentle knock at this point of time would be to let a golden opportunity slip by.

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