



A CURRENCY TRANSACTION DEVELOPMENT LEVY (CTDL) **Highlights from the 5 December 2006 Oslo Workshop** **Input to the 6–7 February 2007 Second Plenary Meeting of the Leading Group**

On 5 December 2006 members of the Leading Group, representatives of international institutions, experts and NGOs gathered in Oslo to continue the discussion on the merits of a currency transaction tax for development, as proposed by the British NGO Stamp Out Poverty and others. The discussion benefited from a new Stamp Out Poverty paper commissioned by the Norwegian Ministry of Foreign Affairs.¹ Several arguments resembled those made in the segment on solidarity levies on aviation. While not purporting to fully reflect the lively discussion, these are some edited and extracted highlights:

The Tobin tax and the CTDL: *big difference*

- Whereas the Tobin tax, originally proposed in 1972, was aimed at significantly altering behavior, the CTDL is not. Whereas the aforementioned aimed at “throwing sand in the wheels” of money markets in order to slow speculation, the object of the CTDL is solely to raise revenue for development.
- While James Tobin prescribed high taxes, the taxes proposed by Stamp Out Poverty and others are set at very low levels, e.g. at 0,005 % (half a basis point), i.e. too low to significantly alter the behavior of market agents, but high enough to nevertheless mobilize significant revenue, especially if applied on a broad scale.
- Many of the well-rehearsed arguments against the Tobin tax, repeatedly used also in the current debate, are not applicable to the CTDL.

Financial transaction taxes no rarity

- In the EU, the UK, France, Belgium, Ireland, Finland and Greece have financial transaction taxes.
- The UK stamp duty on shares transactions, levied at 0,5 %, raises £5 billion per year.
- Perhaps somewhat paradoxically, the US securities transaction tax, in operation since 1934, may be the best current analogy to a currency transaction tax.
- The striking feature of financial transaction taxes, not being their rarity, is the exemption of transactions of *currency* (as apart from e.g. shares and bonds).

A rationale similar to solidarity levies on air travel

- The basic underlying idea of the CDTL is to redistribute wealth from the most prominent beneficiaries of globalization to those who have been left behind.
- The funds mobilized could be used to address some of the weak spots in the development effort, e.g. investment in the provision of clean water and basic sanitation, human resources for health and an expanded Central Emergency Response Fund (proposal by Stamp Out Poverty).
- As in the case of solidarity levies on aviation, a CTDL is easily and unilaterally implementable, essentially as a domestic tax, at minimum collection costs, with no effects on national tax sovereignty.

¹ *Taking the Next Step*, written by Sony Kapoor and David Hillman of Stamp Out Poverty.

- Notably, the proposed CTDL implies much lower levels of taxation than the plane ticket levies so far introduced.

“One of the more feasible” taxation proposals

- While almost any tax can be avoided, the key issue is whether avoidance would be worthwhile.
- The recent arrival of a single, global, real time settlement system for foreign exchange (Continuous Linked Settlement Bank; CLS), the adoption of international accords on bank capital adequacy and, indirectly, the development of pervasive money laundering and anti-terrorist financing rules would make the avoidance of a CTDL extremely costly – so costly that very few would find it worthwhile.
- The arrival of the CLS – which covers all transactions on a gross (instead of just net) basis, and which is expected to cover 90 % of all foreign exchange transactions – means that foreign exchange now has the kind of single settlement system that has long existed for shares.
- Since central banks are intimately involved in currency settlement, in a way that they are not in shares settlement, the collection of a levy on currency transactions would be easier than with shares.
- By way of comparison, a currency transaction tax would also be significantly simpler to operate than valued added taxes (VATs)
- There are no strong legal arguments against unilateral implementation of a CTDL.
- The remaining “backbone” skepticism among mainstream economists could, in large part, be attributed to their not having read and studied the latest work on a CTT for development.

Technical questions remain

- Although it is important to distinguish between the Tobin tax and the CTDL, problems of tax avoidance (migration and substitution of tax-free for taxable instruments) remain.
- Problems pertaining to the need for transactions surveillance (is there a need for a large apparatus?), property rights (who owns the transaction and, thus, the tax revenue?) and the “timing” of the taxation (at settlement only?) have yet to be fully and credibly addressed.
- The alleged unilateral implementability remains questionable.

A political non-starter?

- The strong remaining opposition against currency transaction taxes, especially in banking and finance circles (perhaps the world’s most powerful lobby) and among mainstream economists, can in large measure be attributed to *perceptions* of risk.
- Since a substantial currency transaction tax *would* affect behavior, *would* throw sand in market wheels and *would* reduce profit margins, the fear is that taxation-prone governments will go beyond a *low-tax* CTDL, if and when the implementability of a levy has been demonstrated, for fiscal reasons.
- As for the thinking among governments, Norway’s hesitation in introducing a new solidarity levy on air travel, as apart from relying on an existing CO2 tax, may in itself help explain why a CTDL will not “fly”.

A call for a CTDL trial

- There were substantial technical difficulties in establishing an innovative mechanism such as the International Finance Facility for immunization (IFFIm), but they were not insurmountable difficulties, given the political will to overcome them. The same logic should be applied to the CTDL.

- The continued throwing of arguments back and forth between CTDL proponents and CTT/Tobin tax naysayers may not necessarily be very fruitful.
- The time has come to establish a second development levy, by way of a trial, piloted by one country, such as Norway or another country, unilaterally implementing the CTDL, thus following France's lead on the plane ticket levy.

The need to build a broader constituency

- The constituency that is now pushing the CTDL remains too narrow. In order to bring this agenda forward, more constructive engagement of market players, central banks and ministries of finance is needed.

THE PANEL:

Henrik HARBOE, Norwegian Ministry of Foreign Affairs (Chair)

Avinash PERSAUD, Intelligence Capital Ltd. (Lead speaker)

Rodney SCHMIDT, The North-South Institute, Ottawa

Lieven A. DENYS, Free University of Brussels

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