



A CURRENCY TRANSACTION DEVELOPMENT LEVY (CTDL) Moderator's Summary from the 6 February 2007 Roundtable Discussion at the Second Plenary Meeting of the Leading Group in Oslo

On 6 February 2007 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 development levy (CTDL), as proposed by the British NGO *Stamp Out Poverty* and others. The discussion benefited from a *Stamp Out Poverty* paper commissioned by the Norwegian Ministry of Foreign Affairs, finalized just before the conference.¹ While not necessarily fully reflecting the lively discussion, these are some of the highlights:

A proposal fundamentally different from the Tobin tax

- The CTDL was born at a different time, addresses different issues and is meant for an entirely different purpose than the Tobin tax.
- By applying a tax rate as low as 0,005% the CTDL represents an effort to “get under the radar screen”, in the sense that it doesn’t aim at changing market behavior; it only aims at “skimming” the markets.
- Whereas the proposed Tobin tax was seen as costly from the perspective of market players, the CTDL is put together in such a fashion that tax avoidance would be far more costly than staying within current settlements systems.
- In contrast to the Tobin tax, the CTDL will (probably) not reduce the liquidity in international markets, given the very low taxation level proposed.

A tax with a mission – to address MDG “weak spots”

- The CTDL is “a tax with a mission”, e.g. to provide funding for clean water and sanitation, human resources for health and the Central Emergency Response Fund (CERF) (not necessarily excluding other end uses).
- It could nevertheless be argued that the Tobin tax was more coherent than the CTDL, in the sense that there was a clearer and more obvious link between the aim of the Tax (to “throw sand in the wheels” of market speculation) and the measures prescribed than between applying a development-motivated tax on currency transactions and the end uses proposed for the CTDL.
- On the other hand, it could also be argued that taxing one of the main beneficiaries from globalization in order to fund poverty reduction in a more and more globalized world, would be a very *coherent* endeavor; a worthwhile effort to re-distribute abundant wealth “from the winners to the losers of globalization”.

A proposal nevertheless with residual problems

- In a market where profit margins are often counted in a basis point or two, a levy of half a basis point may be seen as cutting into profits.

¹ “*Taking the Next Step*”, Stamp Out Poverty (Sony Kapoor and David Hillman), February 2007.

- Issues related to possible tax avoidance, gross vs. net settlements, instrument substitution (derivatives), legal enforceability, implications vis-à-vis tax havens and the question of whether or not to focus on foreign exchange transactions only (as apart from financial transactions more generally) merit further analysis and discussion.
- However, these issues do not seem insurmountable.

...and a proposal still facing stiff opposition

- The discussion of the CTDL suffers from a profound lack of active and argumentative participation from those most opposed to the idea, resort to counter-arguments no longer applicable, and/or an unfortunate distortion of arguments in favor of a CTDL.
- The remaining opposition to the idea from powerful lobbies negatively affects the *political will* to give the CTDL a fair chance.

A need to engage key players and decision-makers

- The time is ripe to engage the financial sector, central banks and ministries of finance in a real debate, aimed at narrowing down the real problems and obstacles, followed up by problem-solving, *if* the CTDL is found to be implementable or worthy of a pilot/trial effort (to gather empirical evidence).

Suggested next steps for policy-makers

- Leading group countries open to the idea of a follow-up on the CTDL should consider establishing an *international task force*, with participation from all key stakeholders, including financial market players, central banks, ministries of finance, NGOs, developing countries and independent academics.
- Such a task force could report to the UN General assembly and/or provide for a (Leading Group) input to the post-Monterrey Financing for Development process, more specifically the 2008 “Monterrey+5” review conference in Doha.

THE PANEL:

Henrik HARBOE, Norwegian Ministry of Foreign Affairs (*Moderator*)

Sony KAPOOR, Stamp Out Poverty, United Kingdom (*Lead speaker*)

Randall DODD, Financial Policy Forum, Washington, D.C. (*Co-lead speaker*)

Peter WAHL, WEED (World Economy, Ecology and Development), Germany (*Commentator*)