

Opinion & Analysis

Tax on speculative trading a great way to raise billions



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The 'Tobin tax' first mooted decades ago is gathering support, both for the money it would yield and the effect it would have on markets

BUDDY, CAN you spare a hundred billion euro? That's roughly the amount that needs to be transferred annually to developing countries by 2020 to assist them in adapting to climate change and to developing low-carbon technologies.

Without such a firm commitment, and the hard cash to fund it, next month's crunch UN climate conference in Copenhagen is effectively a dead letter. The timing looks inauspicious: where, in the middle of the deepest recession since the 1930s, is that kind of money going to come from?

Imagine for a moment there was a relatively simple way of raising tens, even hundreds, of billions of euro annually that didn't cost the overwhelming majority of taxpayers a cent, didn't depress economic demand or legitimate investment and placed zero drain on national exchequers.

What if instead the effect of this measure was actually to stabilise the international financial markets by penalising purely speculative trading and discouraging the predatory short-term "financial engineering" that contributed to crashing the world's financial system? And by cutting out the sharks, this could also help restore the legitimate function of the markets – that of matching ideas with investors.

If this all sounds like a pipe dream, we have in fact known how to do this for almost four decades. It's called the Tobin tax. It was first mooted in 1972 by Prof James Tobin, whose concern was that as the post-war era of fixed currency exchange rates came to an end, speculative trading could distort currency values and endanger the productive economy.

Tobin mooted a levy of about 1 per cent to make purely speculative short-term trading less profitable. He was ahead of his time. Speculative trading did indeed go on to contort currency markets. Traders, with the assistance of powerful networked computers, have also succeeded in twisting much of the financial market into a kind of electronic pinball, with billions ricocheting blindly across continents in split seconds in pursuit of instant profits.

This financial gaming has nothing whatever to do with bona-fide investment, yet it has been rampant since Tobin first predicted that, unless taxed, this is precisely how the markets would behave.

To get an idea of just how colossal this global financial casino has become, each year some \$900 trillion is traded – entirely tax free. If Tobin's suggested tax were levied at even one-tenth of the level he advocated, this could yield \$900 billion a year. With just a fraction

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of that cash on tap, imagine what real gains could be achieved in reducing chronic poverty, eliminating child labour and funding environmental and biodiversity protection.

And there should still be enough left over to finance the United Nations' entire Copenhagen climate commitments to the developing world.

What is truly amazing is that all this could be achieved relatively painlessly. This is not some utopian socialist political fantasy. The Tobin tax concept was given strong public backing in September by the head of the UK's Financial Services Authority, Lord Turner. He

described much of the City of London's activities as "socially useless", adding that these levies should be used to rein in the culture of risk-taking and greed. "Such taxes have long been the dream of development economists and those who care about climate change – a nice, sensible revenue source for funding global public goods," Turner added.

The concept is gathering support across the political spectrum. Nicolas Sarkozy, Angela Merkel and UK foreign minister David Miliband are all known to be Tobin tax fans, as is Barack Obama's economic policy chief, Larry Summers.

Unsurprisingly, bankers, brokers and their economist cheerleaders bitterly oppose any levy, ironically claiming it would risk disrupting the global financial markets. Imposing such a tax automatically on electronic transactions can cope with the usual problems of tax havens. Once it's impossible to trade on a major exchange or in a particular currency without being levied, compliance becomes inevitable.

Internationally traded services, from aviation and freight shipping to arms exporting and the financial markets, have one thing in common: they all have global impact but have long evaded paying their share, by dint of their transnational nature. It's a free

ride the world can now ill afford.

What we tax says a lot about our values. In the Ireland of 2009, such fripperies as adult incontinence pads, surgical dressings and wheelchair hire all attract a VAT rate of 21.5 per cent, yet betting is VAT-exempt and is instead subject to a token 1 per cent levy. The old saw about death and taxes comes to mind when you consider that coffins too attract VAT at 21.5 per cent.

While 1 per cent may be a ridiculously low levy on gambling, it's still precisely 1 per cent higher than the taxes on financial spread betting, a new, rapidly growing niche for amateur stockbrokers which is completely tax-free and entirely unregulated. With financial spread betting, no one even bothers with the pretence that this has anything to do with investment. It's online gambling on the movement of shares you don't even own.

Armed with just a credit card and a laptop, from the comfort of your own home you could quite plausibly bankrupt yourself in a matter of hours, with no red tape or nosy regulators to hinder you. The purpose of taxation should be to favour socially useful activity over destructive speculation; the reality is often the opposite.

John Gibbons blogs at www.thinkorswim.ie