

Development Needs a New International Financial Order

SHORT AND TO THE POINT

International Currency Transactions Tax (Tobin Tax)

Information material for congregations and
grassroots groups



Who? - Where? - What?

This booklet has been conceived as part of a Kairos Europa series dealing with the topic, **Development Needs a New International Financial Order**. In the series, the following works are also to appear:

- ▲ Short and to the point: The International Financial System
- ▲ Short and to the point: Economy and Finances as Questions of Faith
- ▲ Short and to the point: International Currency Transactions Tax (Tobin Tax)
- ▲ Liturgical Materials
- ▲ Standard Lecture
- ▲ . . .

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Introduction

„You cannot serve both God and Mammon,“ said Jesus (Matthew 6.24). What did he mean by this? A few verses earlier, he expounded his radical alternative: „Do not store up for yourselves treasures on earth . . . For where your treasure is, there your heart will be also“ (verses 19 and 21). To what is the storing up of treasures in opposition? To the prayer, „Give us this day our daily bread,“ or to translate it more precisely, „Give us the bread that we need for today.“

We get even closer to what Jesus meant when we consider the story of his temptation by the Devil (Matthew 4). Having been challenged to make bread out of stones, Jesus took his answer from chapter 8 of the Book of Deuteronomy (Moses V): „He (God) humbled you . . . to teach you that man does not live by bread alone but by every word that comes from the mouth of the Lord“ (verse 3). By what means did God reveal this in Israel? „He . . . fed you with manna“ (ut supra).

The story of the feeding of the people of Israel on their way through the wilderness away from subjugation and toward the Promised Land is told in Exodus 16 and represents the fundamental biblical teaching on economics: the economy is nourished from God's good gifts. Thus, no-one should, to the detriment of others, gather more than he and his family require for their daily needs. Those treasures that exceed one's requirements become rotten, as Exodus 16 relates, or are corrupted by moth and rust as Jesus puts it. Furthermore, this money-grubbing and striving for riches means the turning away of one's heart from God and those nearest to one, thus destroying the lives of others and one's own life (Deut. 8).

Financial speculation is the hoarding of treasure at the cost of the community (and nature) in its most unadulterated form. The economy is becoming completely directed toward the goal of short-term profit and is thereby sapped of all vitality. As a result, entire national economies are ruined, as we have seen in the Asian crisis. Therefore, the participation in financial speculation is out of the question for churches and congregations following in the footsteps of Christ. What does this mean with respect to their dealings with banks, pension funds, and so on, which are involved in such speculation? And, beyond the necessary refusal of churches, are there ways and means of at least reducing and controlling such devastating speculation, or are there alternatives that might be developed with the goal of directing available economic resources toward meeting the needs of people?

If what has been said is true - and rarely is a biblical subject and its relation to the present-day as clear-cut as in this case - then the subject of financial speculation and possible counter-measures such as the Tobin Tax must be a subject of discussion for church organizations.

Ulrich Duchrow

International Currency Transactions Tax (Tobin Tax)

What is actually an International Currency Transactions Tax (Tobin Tax)?

An International Currency Transactions Tax is a tax that is levied when one currency is exchanged for another, i.e., both by the buying and selling of a currency.

The introduction of such a tax was proposed as early as the 1970s by the winner of the Nobel Prize for Economics, James Tobin, and is of greater relevance today than ever before.

James Tobin, the winner of the Nobel Prize for Economics in 1981, suggested the taxing of international currency transactions in 1972, with the aim of stabilizing exchange rates and preventing short-term speculation. He formulated this as "putting some sand in the gearbox."

And why should it be introduced?

In international financial centers, there is a daily turnover of more than 1.5-billion US dollars. At most one-tenth of this is used to finance international trade involving goods and services. The rest is used for speculative transactions

Currency dealers speculate on a particular currency rising or falling in value. Not only do they earn from such fluctuations but, by their dealings, they actually accentuate these constant ups and downs. Carefully planned and targeted speculative foreign-currency offensives have even provoked severe financial and economic crises as, for example, in Asia in 1997.

The consequences for the country in question can be pretty well catastrophic, involving a rapid rise in debts, unemployment, or a recession.

And how can an International Currency Transactions Tax help?

This tax would raise the cost of foreign exchange trading and thus deter currency dealers from short-term speculative transactions. Because, if a sum of money is exchanged several times, the tax is due again on each occasion. Short-term currency transactions involving the exchange of a single sum of money dozens of times per year or sometimes even several times in one day would, as a consequence, become markedly more expensive as compared to long-term dealings.

A currency dealer would have to consider whether the projected profit is sufficiently high to make it worthwhile to pay the „price“ (e.g., 0.25% of the „stake“). The transaction would only be carried out if a dramatic fluctuation in exchange rates were to be expected. As a result, far fewer speculative transactions would be initiated. This would stabilize the ups and downs of exchange rates and reduce the volatility (swings) of the financial markets.

What would be done with the tax revenues?

In addition to the stabilizing effect, a tax of 0.25% would be expected to yield tax income of up to \$250,000 million per year. This could be used in the fight against

In order to present this effect in a simple way, ask yourself the question: how do I become a millionaire?

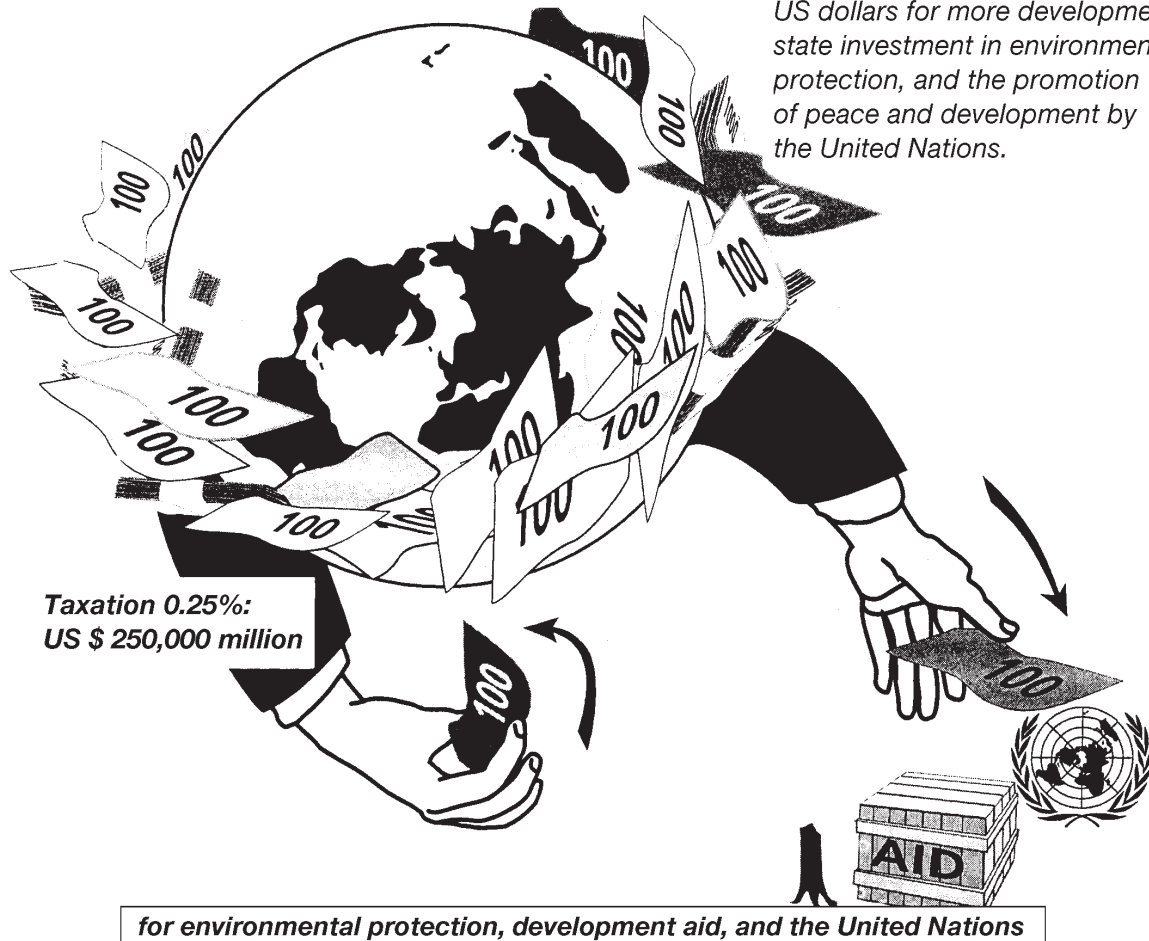
You anticipate the devaluation of a currency, e.g., the Indonesian rupiah. First of all, you need to acquire debts in this currency. That means, for example, you take out a loan of 7 million rupiah and exchange this for US dollars, i.e., to the value of \$700,000. Now you wait until the Rupiah is devalued. If we assume that the exchange rate of the Rupiah then falls by 70%, you now pay back your loan. In US dollars, this is now only \$210,000. Thus, you have made a profit of about \$490,000.

That's the logic underlying exchange-rate speculation. The weak point is, of course, that one would need to be considered suitable for receiving such a large loan in the first place. Consequently, it is, as a rule, institutional investors who speculate in this way. Such speculation takes place on a daily basis as short-term speculative transactions. With a capital investment of just 500,000 Euro and an exchange-rate fluctuation of 0.01%, you can make a profit of up to 5000 Euro. This no longer has anything to do with real economics. The money only serves its own increase.

The Tobin Tax: Less Speculation and More Social Equality

A Tobin Tax of 0.25%
on international capital transactions . . .

. . . would yield about 250,000 million
US dollars for more development aid,
state investment in environmental
protection, and the promotion
of peace and development by
the United Nations.



Source: epd
Adaptation: Kairos Europa

poverty and other pressing global problems, in the form of a worldwide intervention fund for countries in a state of crisis..

How high should the tax be?

We recommend a rate of 0.25%, as this would reduce the turnover on the international financial markets yet have a negligible effect on long-term investments and trade transactions.

Would the International Currency Transactions Tax lead to a decline in international trade?

An argument that is constantly being raised against this tax is that it would raise the costs of international trade.

In reality, though, swings in currency-exchange rates have a negative effect on international trade transactions, as these are made unpredictable and expensive by such fluctuations.

In fact, trade should increase as a result of an International Currency Transactions Tax, because stable exchange rates allow better planning and prognoses for trade transactions.

How could the tax be raised?

At present, 88 % of all currency transactions involve the five most important currencies (US Dollar, Euro, Yen, Pound Sterling, Swiss Franc).

We recommend that the tax be introduced via an international agreement supported by national laws. It should be due by every purchase or sale of currency. The tax could be collected via the responsible national bank.

Offshore Centers

Some years ago, the central banks set up a clearing system (S.W.I.F.T.) that is compulsory for all currency dealings and which, even now, automatically deducts certain costs and fees.

What about tax havens (offshore banking centers)?

Of course, speculators could transfer their activities to so-called tax havens. However, these places are increasingly coming under critical attack, and they should be abolished because they encourage tax evasion, the laundering of drug profits, and illegal dealings.

It is true that the hunt for profit makes speculators increasingly inventive when it comes to evading their tax obligations. However, the transactions involved in such evasions are complicated and lead to additional costs, so that transferring to a tax haven is often not a financially interesting proposition. And if it is, the illegal evasion is still necessary.

Tax havens or offshore centers

- ▲ disregard international regulation efforts
- ▲ present stability risks for the international financial system
- ▲ assist tax evasion and avoidance
- ▲ encourage detrimental tax competition between countries
- ▲ facilitate money laundering and drug dealing

Although there is no generally accepted definition of offshore centers, these include not only the widely known and exotic financial havens like the Cayman Islands, Antigua, and the Seychelles but also important financial centers like Dublin, London, Liechtenstein, and Switzerland.



Cartoon: Gerhard Mester

Could the International Currency Transactions Tax prevent crises like the Asian crisis?

The Tobin Tax is not a panacea for all of the problems and risks of the international financial system. And it has never claimed to be one. Thus, it could not have prevented the Asian crisis, where surprise speculative offensives resulted in profit expectations of 40-60 %.

The International Currency Transactions Tax is an instrument for times when the financial markets are functioning in a 'normal' way. As Tobin put it, the tax should 'put some sand in the gearbox' and thereby contribute toward stabilization.

As financial and currency crises always have complex and manifold causes that may not include speculation, further measures would be necessary to prevent such a crisis as the one in Asia. The International Currency Transactions Tax is directed against the problem of speculation.

And who speculates?

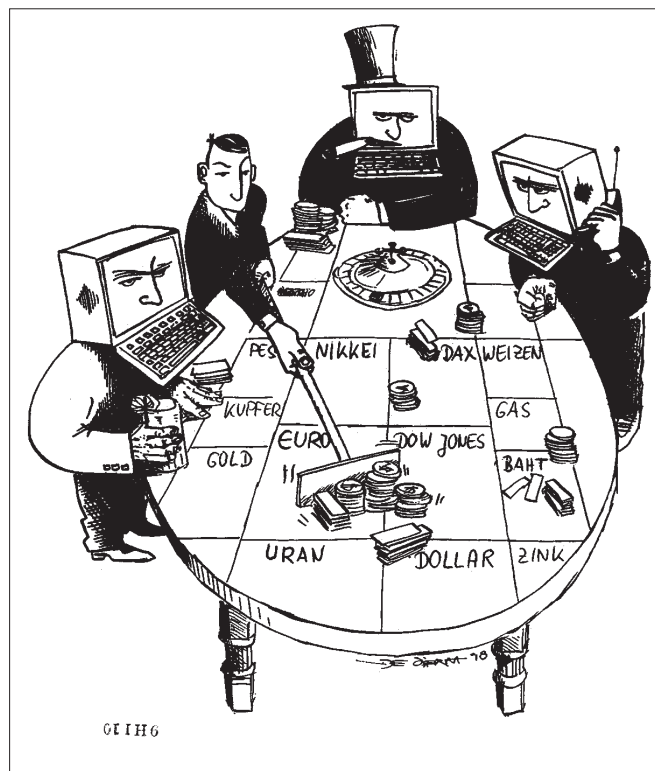
Currency speculation is principally practiced by banks (investment banks), pension funds, the highly speculative so-called hedge funds (where capital is pooled; as a rule, they employ large sums of money for financial speculation and take correspondingly high risks), and insurance companies. Banks are by far the biggest 'global players' of the financial markets. More than 80 % of currency trading takes place between banks.

One example: in just 1 year (1998), the National Westminster Bank made a profit of 432 million pounds sterling from currency speculation alone.

Who is in favor of the tax?

The International Currency Transactions Tax is supported by economists and politicians from all over the world.

There is an international campaign for its introduction that is supported above all by non-governmental organizations, social movements, and trade unions. ATTAC, the „Association for the Taxation of Financial Transactions for the Benefit of the People,“ was founded in France in 1998 and already has more than 25,000 members. In the meantime, there are ATTAC movements in 26 industrial and developing countries.



In Germany, the ATTAC network came into being at the beginning of 2000. Kairos Europa was among its co-founders. Members include many individuals, including scientists and members of the German parliament (Bundestag), along with 50 non-governmental organizations: political, church, and local initiatives (Kairos Europa, Pax Christi, BUND, trade unions, WEED, and so on). The two most important demands of ATTAC Germany are:

- ▲ The introduction of an International Currency Transactions Tax
- ▲ The closure of tax havens

In the meantime, several national parliaments and governments, e.g., in Canada, Belgium, Finland, etc., have spoken out in favor of this tax. However, there is also a great deal of opposition to the Tobin Tax, e.g., in the USA.

The churches are also showing their engagement

During its general assembly in Harare in 1998, the World Council of Churches (WCC) pronounced a recommendation to show engagement in favor of a 'new financial system, including a tax on financial transactions (Tobin Tax)' and to co-operate with relevant initiatives.

In this respect, Kairos Europa presents itself as an organization that works very closely with the WCC, makes available material dealing with the subject, can provide advice concerning activities, information and training and . . .

SHORT AND TO THE POINT

What can I do?

Support activities aimed at the introduction of the Tobin Tax. Give your support to ATTAC:

- ▲ Take part in petition activities
- ▲ Found a local working group of an ATTAC regional group
- ▲ Talk with your parliamentary representative and inform him or her about the Tobin Tax
- ▲ Become a member of ATTAC
- ▲ Examine the financial investments of your congregation/church
- ▲ Make the issue a subject of church services . . .

More information about the subject can be found in

- ▲ How many cheers for the Tobin Transactions Tax? Arestis, P. /Sawyer, M. (1997), Cambridge Journal of Economics, 21, 753-768
- ▲ The Tobin Tax and the Exchange Rate Stability", Spahn, Paul Bernd (1996) in: Finance and Development, Vol. 33, No.2, 24-27
- ▲ The Tobin Tax, Coping with Financial Volatility, Mahbub ul Haq, Inge Kaul, Isabelle Grunberg, Oxford 1996
- ▲ Justice, The Heart of the Matter, WCC 2001

Further Kairos Europa publications

- ▲ Towards a Just International Financial System, Kairos Europa Documentation of a Conference in Frankfurt/Main, January 2001, in English
- ▲ Colloquium 2000 ... im Streit mit der Globalisierung
- ▲ Regaining Control of Capital Markets, Kairos Europa Documentation, Bad Münster am Stein, 2000
- ▲ Alternatives to Neo-liberal Globalisation, Kairos Europa Documentation of Two Hearings in the European Parliament, Brussels, 1999
- ▲ Alternatives to the Global Financial and Economic Mechanisms of Debt and Impoverishment, Strategy Workshop, Kairos Europa Documentation, 1999

Kairos Europa

The Greek word, ΚΑΙΡΟΣ (*Kairos*) means: the time is ripe for a necessary (but also feasible) decision.

KAIROS indicates, in the event of crisis, the moment for a change of direction and a new beginning. The KAIROS thus experienced is the start of the liberation of oppressed people.

Kairos Europa is a European network of ecumenical initiatives, groups, and individuals who are actively engaged in achieving a just Europe. The point of departure of the Kairos movement was resistance in South Africa against apartheid in 1985.

The European network was founded in 1990 and today has more than 500 members throughout numerous European countries, e.g., Belgium, Germany, Great Britain, Italy, Poland, Spain, and Hungary.

Kairos Europa works in several Kairos Centers and „program lines“ dealing with various subjects:

- ▲ A just world financial system
- ▲ Local alternatives to globalization
- ▲ Living together in plural communities
- ▲ The identity of ethnic minorities
- ▲ The exchange of exiled young persons in Europe
- ▲ Spirituality and solidarity

The individual „program lines“ work autonomously and independently, although they do develop joint activities like, for example, the Strasbourg „Parliament from Below“ (1992), the Action Days in Brussels (1999), etc.

There is a close exchange with representatives of the civil society from the global south, particularly from southern Africa. The representatives of the various Kairos Centers and „program lines“ comprise the membership of the executive committee that is responsible for the co-ordination and administration of the movement.

Decade to Overcome Violence

Millions of Christians and many churches throughout the world took part in the Jubilee campaign with the aim of achieving a far-reaching cancellation of debts for the poorest countries at the turn of the new millennium. This awakening in our churches and congregations should not be allowed to lose momentum after the year 2000.

The opposite should be the case - a genuine and comprehensive Jubilee year entails further aspects, as they have, in particular, been demanded by social movements from the South (Jubilee South):

- ▲ The question of which debts are indeed in accordance with the law and which are illegitimate - such as those debts stemming from immoral contracts or those taken on by corrupt dictators.
- ▲ The question of unfair terms of trade and the restrictive practices of markets of the North against many products from the South.
- ▲ The lack of any direct access of the poor to the sources of wealth, land, and capital.
- ▲ The structural-adjustment programs in the South imposed by the IWF and World Bank in the interests of the North.
- ▲ Ecological destruction caused by economic growth driven by profit maximization.

In these matters, one of the main problems is the role of the financial markets and their dominance of the economies and societies of the lands of the South and North, of the East and West.

In view of the increasing sufferings of the poor and the whole world in all regions of the globalized world, Christians and the churches are called upon to listen to Jesus and the word of God in the whole Bible.

We are challenged not to give up now but to increase and deepen our efforts beyond technical questions relating to debt cancellation - to spread the „good news“ of

the Gospels to the poor and to re-establish just relations among people and with the earth.

Taking up and dealing with this challenge is exactly what the churches and the initiatives involved in the Jubilee campaign demand from us.

This is also precisely what the World Council of Churches (WCC) and the World Alliance of Reformed Churches (WARC) decided in their general assemblies in 1997 and 1998.

They called upon their member churches to work on alternatives to neo-liberal globalization, in order **to overcome structural violence** practiced by the present world economy and, in particular, the financial system. They appealed to us for „a binding process of progressive recognition, education and confession (processus confessionis) concerning economic injustice and ecological destruction.“

Regional conciliar meetings should give further contour and focus to the „confession“ and activities of the churches in all continents, so that the next general assemblies of the WARC (2004) and the WCC can arrive at clearly formulated and mutual decisions.

In a letter of May 2001, the WCC, WARC, and the Conference of European Churches (CEC) appealed to the churches of western Europe to give concentrated attention to questions concerning the financial markets and the financial system.

In June 2002, there is to be a meeting in Holland aimed at helping the „confessional process“ of the churches toward mutual standpoints, possible modes of activity, and political demands.

In October 2002, Kairos Europa is planning a hearing in Brussels, where these standpoints, possible modes of activity, and political demands will be presented to EU. This will only be a success, though, when congregations, synods, and ecumenical groups accompany the movement 'from below' or even press ahead.

For this reason, Kairos Europa is producing a series of educational materials concerning this process for congregations and other groups.