

The Currency Transfer Tax

A presentation by David Hillman of Stamp Out Poverty at the UN Financing for Development Conference - Doha, Qatar, 29 November 2008 - at the side event: Innovative Financing to serve development: *from Monterrey to Doha towards a scaling up*

Thank you Chair, and let me thank the organisers of this Side Event, most especially the Leading Group, for inviting me to present to you.

What is it that we are looking for with Innovative Sources of Finance for Development? Long-term, predictable revenue streams to achieve Global Public Goods – to create sustainable benefits that save and improve people's lives.

Why have people, NGOs and renowned authorities been speaking for some time about a levy on currency transactions for development? Well for one simple reason: of all the markets to choose from it stands apart from the others because of its sheer size. It makes all others look small in comparison. Of all possible income bases this is (to use a French phrase) the *crème de la crème* – why, because the market we are talking about here is the trade in money itself - making this the biggest untapped revenue stream in the world.

We have known for a long time the potential of using elements of the financial markets to generate revenue. Financial Transaction Taxes have for many years been applied on instruments including bonds and stocks. They exist in many countries including India, Columbia, the US, China and the UK – indeed the tax on share transactions in the UK (at 0.5%) brings in billions of pounds each year to the Treasury. Given that taxing financial transactions is not unusual, what perhaps is extraordinary is that currency transactions have remained exempt from taxation for so long.

The volume of the foreign exchange market is immense and growing. In 2004, the market was worth \$1,900 billion a day (\$1.9 trillion), which equates to \$500 trillion a year. By 2007, it had reached \$800 trillion a year – a 71% increase. 2008 figures reveal it is worth more than \$4 trillion a day, that's more than \$1,000 trillion a year. In this financial crisis unlike most other areas (of the financial market) the FX market is still growing. This is, therefore, a very robust income base.

But let's face it when we talk about so many 'billions and trillions' it is very hard to get a handle on the amounts involved. Let me attempt to illustrate it. A pile of \$100 bills of my height (about 6 feet) equates to 1 million dollars. In 2004, the amount traded in a day: \$1,900 billion dollars would have amounted to a pile of \$100 bills 1,000 miles high – a spike of money reaching far into space. But that's only one day's trading. The annual amount traded that year (given there are 250 trading days a year) equates to a pile of \$100 bills reaching for 250,000 miles. And 250,000 miles from here is the moon. So the size of the market in 2004 equated to a pile of \$100 dollar bills that reached from the surface of the earth to the surface of the moon. But that was 2004 - what about now? Well, essentially the market has doubled in the last 4 years. Which means the pile of \$100 dollar bills would not only stretch all the way to the moon – it would reach all the way back to the earth again. All we are saying is that a tiny slice of that enormous pile of money could be redistributed to meet life-saving needs – is that too much to ask for in a Financing for Development conference?

What makes this proposal technically feasible? First and foremost, the market is fully electronic. Collection is computerised. Payment is automatic when a currency trade is settled. So it is efficient and inexpensive to implement with little scope for avoidance.

Secondly, the rate of the Currency Transfer Tax of half a basis point or half of one hundredth of 1% (0.005%) is too small to alter decision-making in the market and yet high enough to yield a substantial revenue stream.

(It is not, by the way, a rate devised by Stamp Out Poverty but proposed by City of London think-tank, Intelligence Capital - whose President, Avinash Persaud, has just been appointed to the UN President's taskforce on the Financial Crisis under the leadership of Professor Joseph Stiglitz).

In work for the UN University last year, Professor Rodney Schmidt undertook the most detailed econometric modeling to date, showing that at a rate of 0.005%, this micro-tax is too low to affect the structure of the market – whilst at the same time producing potential revenue of the order of \$33 – 60 billion a year.

Thirdly, UNITAID, which is principally financed through aviation levies (and has helped drive down drug prices and develop new treatments for HIV/AIDS, TB and malaria) is an important precedent for the use of nationally collected tax revenue, pooled internationally, and spent on a global public good. As well, it has operated on a 'coalition of the willing' basis not requiring universal participation for it to work. This is equally a key precedent in respect of the Currency Transfer Tax. Critics often say that a currency tax requires all countries to take part or it cannot be done. That is a myth I wish to combat - countries can apply a currency tax on transactions of their own currencies if they wish to do so. This argument of universal participation – the so-called multilateral argument - is a blocking tactic and simply isn't true.

The fourth point I'd make is to ask you this question: do you think it's true that a country that wanted to implement a currency transaction tax on its own currency, couldn't do it? Of course they could, if they wanted to – we are not facing, therefore, a technical barrier, but a political one.

However, given the financial crisis, it is important to consider is this a good or a bad time to promote such a measure? Given that the banks are under stress is this the right time to propose a tax on a hitherto untouched area of their business? On this point I will refer to the amount of coverage the proposal is now receiving in the press. The British press has recently argued for the currency tax to be introduced to raise funding to bail out the banks. Jeffrey Sachs has argued that it be used to expand the IMF's war chest. The Austrian Government has been arguing that it be used to finance the EU budget. Additionally, in respect of the need for climate change financing, in the run-up to the major conference in Copenhagen next year, a levy on currency transactions looks certain to be part of discussions relating to paying for *Adaptation* to Climate Change. So I would argue this is, in fact, a more likely time to move forward on this proposal – it is becoming more politically possible. And it is worth noting that there is no monopoly on this idea.

So, as I move to conclude, I put to you, in times of greater financial stress when the world is facing a multitude of interlinking crises can we afford the luxury of leaving untapped such a rich source of revenue as a tax on currency transfers? We look forward to the next Leading Group conference in Paris in the spring of 2009 and acknowledge the Group's role in driving forward Innovative Development Financing. With discussion of a Currency Transfer Tax to bail out banks or to contribute to the IMF, if we are serious about making this proposal happen and taking the prize for development financing – then we have to mark out a clear path to its implementation under the auspices of the Leading Group, as the next solidarity levy to follow on from UNITAID. The time for words is over and for action to begin. Let us agree that a core group of countries in the Leading Group take this proposal forward. Indeed I appeal to Philippe Douste-Blazy, in your UN capacity and with your role in the Leading Group, to help set up a meeting of those countries most interested in making a Currency Transfer Tax happen, so that we can accelerate progress, and be in a position to make an announcement when the Group next convenes in Paris - and bring this proposal, of such enormous potential, to the world.

Thank you for listening.