Financing for Development:
Tobin Taxes & National Tax Systems

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Outline
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1. Taxation and Development

- Context:
  - Financing development = expensive and long term
  - WB: an extra $40b+ per year to reach the MDG targets
  - Capital costs: water, environment etc.
  - Current costs: ARV Drugs etc.

- 2008 Doha declaration (and earlier Monterrey consensus, 2002) signalled need for both international and indigenous sources

- Looking at both these sources with a taxation perspective

2. International Sources

- Long attention on a 'Tobin tax'
  - Origin in 1972
  - A very small tax on global capital flows

- Other terms have appeared recently:
  - Robin-hood tax: variant of Tobin
  - Financial Transactions Tax (FTT) = Tobin tax

  - Financial Activities Tax (FAT) = similar to a VAT on bank profits, remuneration and liabilities would have to be higher %

- All had been ruled out, but a growing consensus
How a Tobin tax might work:
  o EU proposal (September 2011):
    Â 0.1% on trading of bonds and shares
    Â 0.01% for derivative products
  o Likely exclude internal-bank transfers/trades apply to open market activities and movements
  o EU proposal = EU only
  o referred to as a FTT
  o Positive movements in the USÉ

How much?
  o Depends on where and what included
  o Certainly ú15b-û25b, maybe a lot moreÉ

Why do it?
  1. Would allow Governments to more closely monitor the activities of financial institutions
    o as we have seen, Governments have to pick-up the pieces when these go wrong
    o have also seen that Governments (and their agencies) had limited insight into the nature and scale of financial transactions when the US sub-prime issue emerged and the recession followed
    o from a societal perspective, worth implementing an FTT that provided as a bi-product immediate info on financial movements and liabilitiesÉ even if it raised no money.
Why do it?

2. Revenue to do something useful:
   - many and increasing number of groups claim use of the revenue:
     - Governments to address Budget deficits & banking costs
     - Development community to finance development
     - Environmental community to address climate change
     - National policy goals (not yet, but)
   - Note, revenue will be volatile

3. Dampen short-term speculation and volatility

Impediments?

1. Technical challenges
   - there are some, but few and they are resolvable: IMF

2. Universalism or EU solo-run
   - ideal would be all world implement FTT at once but not realistic
   - EU could do it alone for internal transactions, but could have high distortionary effects
   - EU + US would be feasible
   - where FTT is universal: consumer would absorb the tax
   - where FTT is not-universal: absorbed into profit margins of financial institutions
Impediments?

3. Displacement and loss of financial activity
   o displacement = yes, some activity will move, but rates are small and many trades are unavoidable
   o if too much of a concern, could structure FTT to tie it to origin of the activity (along lines of CCCTB proposal)
   o losses of activity = likely, but this targeted on short-term volatile trades and these of limited material benefit to the welfare of society in fact, might be welfare-enhancing
   o job and GDP costs: to be traded off against potential revenue source

Overall, suspect it’s time has come

3. Indigenous Sources
   A challenge for the development community
   o Encourage/facilitate indigenous sources of revenue via a domestic taxation system
   o provide stream of sustainable revenue for governance and development
   o issues:
     Â governments not all places yet
     Â governance issues: collecting, managing, using etc
     Â broad base implies making some of the poor poorer
     Â weighing up short and long-term interests

   Â Case studies: Rwanda, Sierra Leone, Namibia
   Â Rwanda: Annual taxpayers day national obligation
4. Some Conclusions

Å International and indigenous sources of development finance are necessary into the longer-term.

Å International:
  - mixture of: exchequer, Tobin-like tax, NGO sector
  - but what mix?

Å Indigenous:
  - sustainable national taxation systems
  - also a role for a fairer trade system (esp. related to transfer pricing)

Some References


