Financing for Development:

Tobin Taxes & National Tax Systems

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Research for new economic policies

Outline

1. Taxation and Development
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   Tobin, Robin-Hood, FTT and FAT
3. Indigenous Sources
4. Some Conclusions
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1. Taxation and Development

Å Context:
- o Financing development = expensive and long term
  - Å WB: an extra $40b+ per year to reach the MDG targets
  - Å capital costs: water, environmenté
  - Å current costs: ARV Drugsé

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

Å Looking at both these sources with a taxation perspective

2. International Sources

Å Long attention on a óTobin taxô
- o Origin in 1972
- o a very small tax on global capital flows

Å Other terms have appeared recently:
- o Robin-hood tax: variant of Tobin
- o Financial Transactions Tax (FTT) = Tobin tax
- o Financial Activities Tax (FAT) = similar to a VAT on bank profits, remuneration and liabilitiesé would have to be higher %

Å All had been ruled out, buté a growing consensus

How a Tobin tax might work:

- EU proposal (September 2011):
  - Å 0.1% on trading of bonds and shares
  - Å 0.01% for derivative products
- Likely exclude internal-bank transfers/tradesé apply to open market activities and movements
- EU proposal = EU only
- referred to as a FTT
- Positive movements in the USé

How much?

- Depends on where and what included
- Certainly ú15b-ú25b, maybe a lot moreé

Why do it?

1. **Would allow Governments to more closely monitor the activities of financial institutions**
   - as we have seen, Governments have to pick-up the pieces when these go wrong
   - 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
   - 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:
     - Å Governments to address Budget deficits & banking costs
     - Å Development community to finance development
     - Å Environmental community to address climate change
     - Å National policy goals (not yet, buté)
   - 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 onceé 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

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

Overall, suspect it's time has come

3. Indigenous Sources

Å A challenge for the development community

- Encourage/facilitate indigenous sources of revenue via a domestic taxation system
- provide stream of sustainable revenue for governance and development
- issues:
  - Å governmentsé not all places yet
  - Å governance issues: collecting, managing, using etc
  - Å broad base implies making some of the poor poorer
  - Å weighing up short and long-term interests

Å Case studies: Rwanda, Sierra Leone, Namibia

Å Rwanda: Annual óTaxpayers dayõé national obligation

4. Some Conclusions

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

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

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

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