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Germany makes push for global financial tax

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Germany is aggressively pitching a new twist on an old idea as G20 leaders gather in Pittsburgh: a global tax on financial transactions.

German Finance Minister Peer Steinbrück laid out the details of his plan in an opinion piece in the Financial Times yesterday, warning of social and political unrest if Wall Street isn't forced to share the burden of the crisis with Main Street.

"Financial market participants need to show they understand their role in causing the crisis, and that they are willing significantly to contribute to preventing its recurrence," Mr. Steinbrück wrote.

Picking up on an idea that has been gaining momentum in Europe, Mr. Steinbrück urged the G20 to implement a co-ordinated 0.05-per-cent tax on all financial trades within their borders - a measure he estimates would raise \$690-billion (U.S.) a year to pay for the cost of the crisis.

"There is a clear-cut case for a global financial transaction tax: It would be just, would do no harm, and would do a lot of good," he argued. "If there is a better idea for fair burden-sharing, let's hear it. If there isn't, let's have this tax now."

If the idea sounds familiar, that's because it's old, and widely discredited in the financial industry. The late Yale economist and Nobel laureate James Tobin first pitched the idea of taxing international currency trades in the 1970s.

Prof. Tobin saw such a tax as a way to thwart currency speculation, and famously urged "throwing sand in the wheels of international finance."

His ideas gained a renewed following in the aftermath of the Asian financial crisis of the 1990s.

Mr. Steinbrück would go even further than Mr. Tobin, who died in 2002. The German minister proposes taxing trades in all types of financial instruments, including foreign exchange, stocks, bonds, derivatives and over-the-counter transactions. And he would target mainly institutional transactions by exempting retail investors.

The vast majority of those transactions are conducted on exchanges in G20 countries.

Mr. Steinbrück joins French President Nicolas Sarkozy, Lord Adair Turner, Britain's chief financial regulator, and top European Union officials in advocating a Tobin-like levy on financial transactions.

And yet even supporters acknowledge the G20 is unlikely to embrace the tax. German Chancellor Angela Merkel conceded earlier this week that "100-per-cent agreement" is unlikely.

Critics have long argued that a Tobin tax would not work.

If it was too large, it would divert financial flows to jurisdictions outside the G20, and if it's too small, it wouldn't curb excess speculation and debt, which are widely blamed for causing the global financial meltdown. Either way, financial

institutions would find ways around it.

"We should focus our attention on things that actually fix our broken financial system, and this isn't it," argued Mark Calabria, director of financial regulatory studies at the Cato Institute in Washington.

Mr. Calabria said taxing transactions is "completely wrong-headed" because the volume of trading was never the problem. Excess debt is, he added.

"There are a lot of better ways to do this," Mr. Calabria said. "This is just an attempt to raise tax revenue."

Countries could, for example, put a tax on the debt issued by financial institutions, he said.

But proponents say taxing financial transactions would discourage short-term speculation in favour of longer-term investing.

And it would raise significant amounts of money that government could put to good use, such as foreign aid to poor countries.

Even skeptics say the idea is worth exploring.

Dani Rodrik, a Harvard University professor of political economy, said the Tobin tax would do little to address the longer-term misalignments in financial markets - Americans consuming too much, the Chinese exporting too much and much of the world taking on too much debt.

And yet Prof. Rodrik said those flaws aren't reason enough to reject the idea out of hand.

"A Tobin tax is a good place to start if we want to send a strong message about the social value of the casino known as global finance," he wrote in commentary for Project Syndicate.

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