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

How much?
- Depends on where and what included
- Certainly €15b-€25b, maybe a lot more

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 liabilities, 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
   - 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 society 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

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:
     - governments not all places yet
     - governance issues: collecting, managing, using etc
     - broad base implies making some of the poor poorer
     - weighing up short and long-term interests

Case studies: Rwanda, Sierra Leone, Namibia
   - Rwanda: Annual taxpayers day 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)

Some References


