quarterly report

First quarter 2001

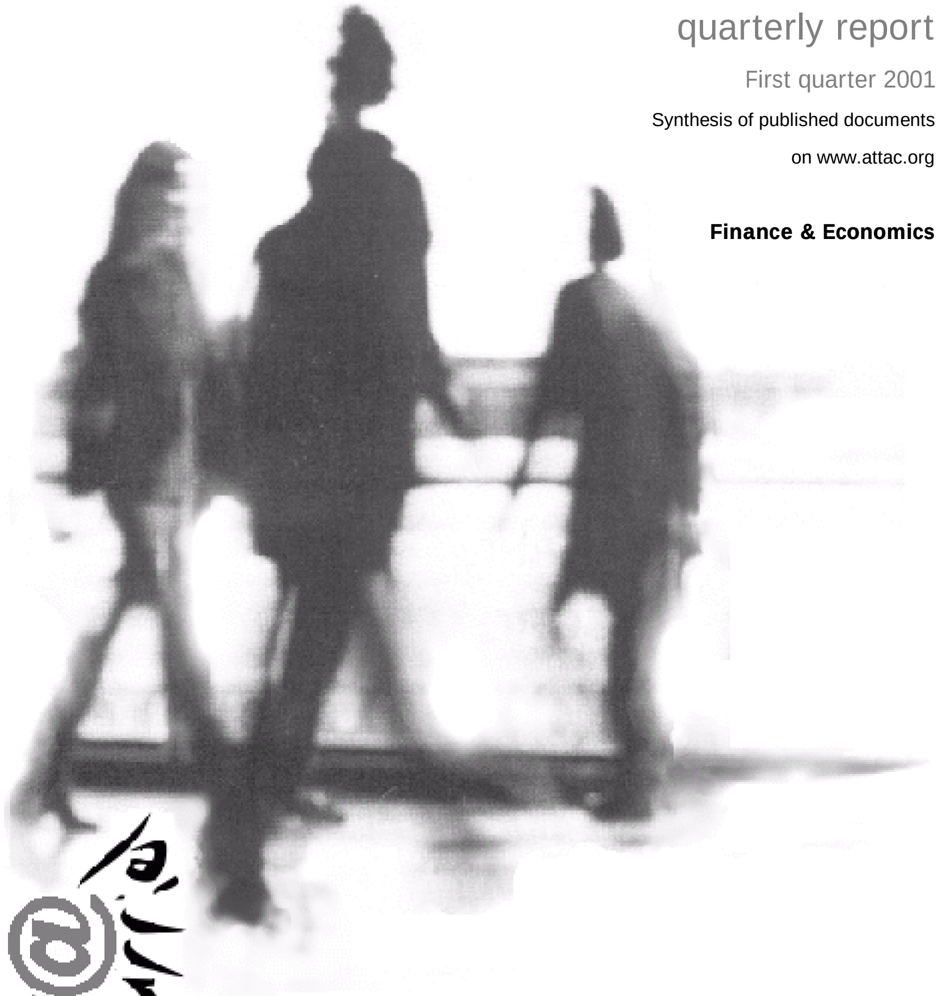
Synthesis of published documents

on www.attac.org

Finance & Economics

Finance & Economics

contents



foreword

?**2001, Tobin in Europe.**

As the Vice Prime Minister of Sweden, the country heading the European Union at the moment, declared herself in favor of the Tobin Tax, and as the Government of Belgium, the future head of the European Union next July, has to deal with a lot of pressure from the civil society but also from elected representatives, the Currency Transaction Tax seems more than ever one of the main serious proposals. Even the European Bank Federation had to react out of the blue, of course dismissing it without real arguments. Right now financial crisis have hit markets and further its way into countries' economy such as Argentina's. The financial dictatorship is at work, especially when Transnational Companies such as Danone, Dim, Moulinex… are laying off thousands while announcing huge profits. What they want is to create value for the shareholders with the aim of raising profit continuously. In this context the standard return of capital must be in two figures, while the standard for workers put out of their job should be in four. The level of profit from the shares exceeds the economic growth, around 3%, which is a sign of unbalanced distribution of wealth.

?**Disclaimer**

The documents published hereafter do not represent ATTAC's point of view. They can express the opinion of other organizations, of thematic study groups, of local chapters, of researchers... It is about being able to share expertise and knowledge to build togehter this other world that is possible and to take back our future. All documents were puplished on ATTAC's website or e-newsletter.

attac
association pour une **t**axation des **t**ransactions financières pour l'**a**ide aux **c**itoyens

9 bis, rue de Valence 75005 Paris / attac@attac.org / http://attac.org/
Téléphone 01.43.36.30.54 / Fax 01.43.36.26.26

1 > And Now What?

And Now What? Lines of thought and proposals for reform

There is no lack of precise and reasonable proposals to improve the present defective architecture of the international financial system and to assure a harmonious functioning of the international economy. What is lacking is the political will, on the part of great powers of the G7, to implement these reforms and to attack the interests of a minority of financial agents. It is today well known that governments, whatever their political stripe, only act under pressure from mobilized social actors and citizens. Such mobilizations have already succeeded in calling into question both the Multilateral Agreement on Investments (MAI), elaborated within the OECD, and the present functioning of the World Trade Organization. But there is still a long road ahead…

By Dominique Plihon

Professor University Paris XIII - CEDI

From the collective book : "The Pitfalls of World Finance" " Les pièges de la finance mondiale " SYROS september 2000.

Translation: A. Grumberg, S HastingKing, M. Aubert & Barbara Strauss, volunteer translators coorditrad@attac.org

Original document including charts and footnotes:

http://attac.org/fra/list/doc/plihon2en.htm

Is the world economy behaving like the cartoon character who goes on running when he's already over the edge of the cliff ? We know how that ends : the character keeps running as long as he thinks he's still on land, and crashes as soon as he can give a look around and understand the situation.

We might well think this is the case, as we witness the optimism with which the international financial system pursues its expansion despite its growing instability. What is at stake is not only the financing of the economy but, as is shown throughout the book, the economic activity itself. Therefore the possibility - to say no more - of a financial crisis carries with it the threat of a major economic crisis.

Hence the urgent necessity for a structural reform of international finance, which has played a leading part in weakening productive investment and aggravating inequalities inside every country as well as between rich and poor countries. If there can be debate about the possible main lines of reform, as here set out, the necessity for reform itself should now be beyond doubt.

The crisis is still ahead

Persisting risks of a financial crisis.

In 1997-98, the South East Asian financial crisis and the recession it induced in main neighbouring countries was finally confined to the limits of the region. Neither did the Russian crisis in 1998, the South American one in 1999, or American NASDQ crisis this year provoke any global crisis. Does this mean that all risks are obviated? Several reasons lead us to doubt it.

First ,the after-effects of the last crisis are still being felt within emerging countries : Asia, including Japan, is still convalescent, and the admission of China (whose development rate has considerably slowed down since the Asian recession) into the WTO will increase competition between exporting countries in this region (1).

The second reason is the persistence and weakness of an international economy based on debt. Although one could have expected that after the "third world debt crisis", which began in the eighties, banks would have been more cautious with loans, financial globalisation has had the opposite effect : debt running increasingly out of control (2), due to bank accounting opacity (3) and financial liberalization. Yet the risk is both real and sizeable. During the financial crises in 1997, for example, the estimated debt of private Indonesian institutions quadrupled in 2 months ; regarding South Korea, the inital estimate of 20 billion dollars, in mid november 1997, had to be re-evaluated up to 100 billion at the beginning of December, then to 200 billion.

The highly diversified structure

of these debts made it difficult for banks to deal with them : for instance, international creditor banks could negotiate re-scheduling of payments, in conjunction with accredited and mandated partners, on only a small amount of the Asian debt. The major part of this debt was irretrievable.

The t hird source of concern is the fragility of world economic growth, which since the Asian crisis of 1997-98, relies on the dynamism of the American economy alone. This dynamism, however, is mainly due to a big increase in domestic consumption, thanks to the growing debt of households and to the progression of added value - sometimes real but sometimes only expected ! - in their stock exchange assets (4). But progression of this investment income relies mainly on financial bubbles (5) and, as stressed in the book, on the added value of businesses being tilted away from employment and productive investment. This progression therefore spawns the conditons of its own exhaustion.

To sum up, the American economic perfomances that have been so much praised rely upon high levels of debt, international as well as domestic, public and private. Private debt (businesses and households) has almost tripled from 1994 to 1999, rising from 4,160 billion in 1994 to reach 11,000 billion dollars in 1999 (divided more or less equally between housholds and businesses), representing 68 % of the GDP.

"Creeping crash" in Wall Street

The situation is becoming hazardous to the point that, in June 1999, the annual report of the Bank for International Settlements expressed concern at the fact that American individual insolvency had reached a level never before attained. As to firms, they allocated more than half of their new debts to buying their own shares back (6). From now on the debt level of businesses is more than three times their own securities (i.e. mainly shares) !

Besides, American investment tends to rely more and more upon "financial sector businesses" (banks, pension and investment funds, brokerage firms, etc.) : their weight in the GDP has more than doubled in a quarter of a century (see chart below), and most importantly, their share of investment in equipments (mainly computers) has reached more than 21 % of total American business investment in 1998. This leads D. Henwood (1999) to use the term 'parasitism' in relation to the financial sector, in preference to 'new age' or 'new economy'.

[...]

Furthermore, the quotation level reached on the American stock exchange, and in its wake, on Europeen markets, is extraordinarily high even when compared to other speculative bubble periods. Signs are numerous. For instance, the market prices/dividends ratio is extremely high, reaching a record level of 50, compared to an average over a long period (the last forty years) of around 20 ! Dividends have, of course, risen over the last ten years, but share prices have risen on a much larger scale.

Overvalued quotations are higher on the NASDAQ, the high technology shares market. In April 1999, the French review Conjoncture Paribas calculated that stock capitalization of AOL, Yahoo!, Amazon.com, eBay attained 125 billion dollars, while their income - not their profits! - reached only 3.5 billion dollars (7).

All ingredients are there to produce a reverse tendency opening the way to a significant drop of the Wall street stock market, which could then precipitate a crash following the slightest economic or political shock. The starting point could actually be on the NASDAQ (whose rates attain astonomical heights) or from non residents selling part of their assets. The fall of financial asset prices that would follow their sale could be worsened by the necessity for the Fed to raise interest rates to cope with mistrust of the dollar currency (8).

A crash of the Wall street market would cause a sudden drop of shares held by pension funds, immediately hitting millions of retired Americans, and would threaten the debt circuits which are the real springs of high household consumption and business dynamism.

If a crisis should occur, it is doubtful whether the European countries and Japan could be a substitute for the US as a shield against world recession. As far as European countries are concerned, both their ideological and political dependence on the lure of the "new economy", and the degree of dependence of their stock exchanges upon that of New York, have probably become too heavy to allow them fully to counteract the effects of a Wall Street crash on their own markets and their own economies.

As for Japan, its state of fragility (9) makes it incapable of playing a central part in the event of a world recession. More than ever, observers are reduced to crossing their fingers and praying that Wall Street will continue miraculously to avoid a crash!

Towards a new regulation of the international financial system.

The international financial system, as organized to day, does not insure correct financing of economic activities, and does not allow lasting and balanced economic and social development on the planet. However, faced with that challenge,the answers proposed by experts and politicians are often inadequate and sometimes dangerous because they fail to attack the two major causes of crisis : they attack neither excessive financial liberalization which has surrendered the international financial system to blind forces and the dictatorship of the markets ; nor the lack of sanctions against the banks and the international investors of industrialized countries, which are responsible for speculative capital movements and their devastating effects.

As we shall see, we must go beyond these timorous answers if we want to achieve a viable architecture for the international financial system.

Over-timid reform proposals in response to the crisis of emerging countries

No need to travel far from France to understand the philosophical drift of proposals to solve the crisis of emerging countries : a careful reading of reports commissionned by the French government will do. Their main point, as stated in the Economic Analysis Council report on "The Instability of the International Financial System" [O.Davanne, 1998] is to overcome the chronic difficulty of the markets to "recycle developed countries' savings in the direction of developing countries" (p.17). In other words, the aim is to consolidate the bases of a system that allows pension and financial investment funds freely to invest their liquid assets on any market where the fact of holding bonds and shares allows them to draw high income (through rates or dividends) and rake in the added value. Which is what socalist MP Jean-Claude Boulard, a recent convert to the virtues of pension funds, puts so bluntly : "the real contribution of these funds is to be able to tax a part of the external growth. (…) For instance, while helping finance the development of countries such as China, pension funds will tax China's internal production." (10)

The general philosophy of these proposals is simple : if international finance is not correctly filling its role, this is because certain obstacles prevent it from working freely, the main one being the lack of "transparency" that has characterized emerging countries. Had this transparency existed, "market discipline", in other words the control by international creditors, could have worked, by putting pressure on indebted businesses and countries to make them follow better policies.

<< 1 Proposals for improving transparency include obliging banks to give supervising authorities better information on the amount of their commitments (with the beginnings of a control of "off record" operations), monitoring banks' balance sheets with a strict enforcement of the Cooke regulations (11) and other means of the same sort. It is noteworthy that this requirement of "transparency" is somewhat selective, since banking secrecy is not brought into question!

One of the complementary measures recommended is to put the local banks of emerging countries under the control of international banks . This is recommanded in the Davanne report (p.22) with "the opening of bank capital (of these countries) to international institutions which have managed to develop efficient systems of internal control". However, knowing how the banks of wealthy countries, whose risk-management system is held up as an example, have not been able - or have not wanted - to detect the huge vulnerability of the banking system of emerging countries, one has to wonder about the actual reach of such a recommandation !

Other proposals aim to satisfy the demands of the big investment funds for more security and a "better international environment" for their investments. The Davanne reports seeks to find means to overcome "the defect of the present functioning of the markets (which) is the very short horizon of investors" (p.19).According to the author, the best way to get investors to adopt "a longer horizon" would be to protect them against risks, to deploy security nets for their operations on a planetary scale, like the ones that numerous financial institutions (Savings banks in the USA, or Credit Lyonnais in France) have enjoyed without cost or sanction..

This is the aim of the proposals of the liberal American economist, Jeffrey Sachs, great castigator of the IMF since the beginning of the financial crisis in Asia. He reproached the IMF for not acting as last-resort lender for Thailand and most of all for Indonesia (Jeffrey Sachs supported Sukarno and his regime up to the end). Hence he

In France, the provisional budget for 1999 also included proposals for reform of the IMF.The Ministry for Economy and Finance haughtily rejected a Tobin tax, but nevertheless flaunted an ambition to persuade G7 countries to start work on a "new Bretton Woods", in other words, on no less than a new global agreement on monetary cooperation between States. This sonorous speach hid a certain dearth of precise proposals. There was no question of adopting a new exchange system, nor of abolishing the international hierarchy of money based on the domination of key currencies, the main aim being the establishment of a "real political managment of the IMF, by turning the present Interim Committee into a Council" in which France would take its place with the other G7 countries. Next, in the provisional budget for 1999 (p.72), followed the usual string of recommendations about transparency and circulation of information, and for joint management, with the private sector, of financial crises as these broke out, etc., etc.

The fever having dropped and with it, the necessity for political leaders to appear ready for action, the provisional budget for 2000 has not renewed these proposals. Basking under an unexpected bright spell, France has forgotten the crisis. The horizon of the French government, and the"model" it dreams of, at least according to journalists, is the "new economy", the illusory and dangerous nature of which (especially for the underprivileged) we have pointed out.

The main lines of a new public regulation for the international financial system

The governments of the main industrialised countries of the G7 share a large responsibility in the recent and uncontrolled explosion of international finance: it was they that decided to deregulate all the financial operations to ensure that capital had complete freedom of movement. At the outset, at the end of the seventies, this was motivated by the need to finance huge budgetary deficits with the help of international funds. (D. Plihon,1996). With their decision to liberalize financial operations, the G7 countries have opened a genuine “Pandora's box”, from which have sprung the “animal forces”of the market, to use the expression of J.M.Keynes.

The result is that we have witnessed a general retreat of public regulation before the logic of markets. Henceforth, the dominant actors on the international scene are multinational businesses and banks, and international investors (primarily "Anglo-Saxon" mutual and pension funds). The policies implemented by national governments and central banks are to a great extent dictated by the imperatives of profit and fiscal orthodoxy imposed by these private transnational actors

The perverse effects of the rise to power of international finance are well known: on one hand, there is an exacerbation of inequalities not only between rich and poor countries, but within each country as well, to the advantage of those sectors that stand to profit from globalization. On the other hand, there is an increasing economic and financial instability: crises have become more numerous and more serious than they were in the past. These crises exacerbate inequalities and the phenomena of exclusion that affect the poor in every region of the globe.

This disorderly evolution of international finance shows that, contrary to what is taught by liberal doctrines, markets are not able to regulate themselves. If it is true that market mechanisms are a central element in the system of our modern economies, it is nevertheless true that these markets cannot be left to themselves and must be controlled by public authorities.

We have before us two opposing conceptions of international and financial market operations. On the one hand, there are those who want to push liberalization even further, to make markets even more free; on the other side are those who think markets are fundamentally imperfect and demand new forms of international regulation. It is interesting to note that this debate has taken place inside the international financial institutions. The “liberal” viewpoint is defended by J. Fischer, assistant director and strong man behind the IMF, who is considered the most likely successor to M. Camdessus. The “reformist” vision was proposed by J. Stiglitz, another American economist, a Keynesian who was forced to resign his post as vice-president of the World Bank at the end of 1999. So much for the victory of liberal ideas.

Giving Power Back to Public Authorities Confronted with Markets

The thesis that we will support here is that governments, and hence those who have elected them, should be given back the capacity of decision they have lost. They should be able to implement the policies of their choice and not only those imposed upon them by markets. While there are numerous ways in which this objective can be obtained, we have distinguished five general types of reform in the international financial system. Each rests upon the assumption that the stability and right functioning of the system must be understood as a public good which requires strong public regulation.

1/ Reintroduce control over movements of capital and over private actors

Some countries, notably Chile and Malaysia, have successfully imposed measures aimed at controlling the entry and exit of capital. These measures have protected them from the destabilizing effects of international finance. The Tobin tax, which would be applied at the international level, is another possibile course of action. The idea is to tax exchange transactions, the buying and selling of currencies pitted against each other. This tax is designed to strike in a selective manner speculative operations based upon to-and-fro exchanges between currencies. The Tobin tax, which is advocated by groups that want to put an end to international speculation (such is the case with ATTAC), naturally meets with fierce opposition from countries which are making a profit from liberalization, starting with the United States and Great Britain, where the main centres of international finance are located.

Another course of action is that which is advocated by the French government: the elimination of tax havens, meaning countries or small islands where there are no tax regulations, or just minimal ones, to financial activities (Monaco and Luxembourg are among the world's 80 tax havens…). Half of the world's capital flows pass through these havens! One of their main functions is money laundering, operations that involve 2-5% of the global PIB, some 600-1500 billion dollars. Two measures would contribute to eliminating these havens: the recognition of the right of States to interfere and get information on international financial activities (raise the veil of bank secrecy) and the right to contest the total freedom of financial transfer without notification or justification (F. Chesnais, 1999). We should note that these measures would be in strict application of the principle of transparency so dear to liberals.

It is also important to reinforce the control over private actors. Some of them escape from any form of regulation and surveillance:--well-known examples of these are the hedge funds, the famous bankrupcy of one of which (LTCM), during the crisis of the emerging Asian countries, threatened to destabilize the American financial system.

2/ Circumscribe the evolution of exchange rates

Exchange rates—that is, the relative price of currencies—are strategic variables for all countries. The exchange rate conditions the price of imports and thereby the cost of living, as well as the price of exports and thereby the competitiveness of firms. From this it follows that instability in currency exchange rates, as a result of liberal market mechanisms, are prejudicial to national economies. It is neither possible nor desirable to return to the era of fixed exchange rates that was in effect through the 1970s, before the coming of financial globalization. Today, we know that one of the causes of the monetary crisis experienced by the South Asian countries after 1997 was the overly-rigid linking of their currencies to the dollar.

The difficulty in this case is to find a balance between two apparently contradictory requirements: there must be a certain stability in currency exchange rates even as these same rates must be left flexible enough to adapt to transformations (more or less rapid) in the international environment. There have been several proposals advanced on this problem: the most interesting of them is the notion of "Target areas" outlined by the American economist J. Williamson. This proposal is based on two ideas: (i) countries undertake to define balanced exchange rates that would enable them to satisfy the national objectives of full employment without inflation and a equilibrium in the balance of payments; (ii) countries would make their exchange rates evolve toward this target, accepting margins of fluctuation of plus or minus 10 to 15%. This approach would require firm international co-operation from States to define reference exchange rates and then act upon markets in a concerted way. Such an approach was only applied once, in the context of the Louvre agreements in 1987, which were aimed at stabilizing the dollar. However, the lack of political will on the part of the great powers within the G7, and an excess of national selfishness, explain why the major financial powers have been unable so far to establish durable monetary co-operation. Maybe the coming of the Euro, which should give new balance to the relations of force between the U.S. and Europe, will lead to better co-operation.

3/ The Prevention of Financial Crises

Had the measures here presented had been applied, the risk of devastating financial crises would have been significantly reduced. However, as J.M.Keynes showed more than sixty years ago, such crises are a fundamental characteristic of financial markets and can never be entirely eliminated. Many proposals have been made to foresee crises and prevent their emergence.

For the IMF and those who defend liberal finance, the main measure to be taken is the improvement of the quality of information. According to this view, crises in emergent countries have occurred because the international financial community was not informed of the exact situation in these countries. Thediscovery of the the critical state of banks and external finance, previously underestimated, would have provoked a brutal loss of confidence of investors and massive capital flight. In order to avoid a repetition of such episodes in the future, it has been proposed that debtors—those who would receive international financing—demonstrate greater "transparency" by making their accounts public. This would permit the drawing up of advanced indices of vulnerability and would oblige debtors to achieve better management of their affairs. While it is necessary to improve the quality of information, this measure is nonetheless insufficient because past experience (the debt crisis of 1982 for example) has shown that investors often turn a blind eye where their debtors are concerned.

Another, more fundamental, proposal must therefore be implemented. This is the idea that liberalization must be progressive for countries on the way to development (the notion of sequencing recently adopted by the IMF). It is well known that recent crises in developing countries have resulted from a too brutal and too poorly managed liberalization, often imposed by international monetary authorities (the IMF in particular). These countries were obliged to open themselves up to international markets over a period of a few years in ways that industrialized countries had themselves taken several decades to realize. Two fundamental preconditions must be met before a country can open itself to international finance. The country in question must have a solid financial system that is able to withstand international competition. Economic theory has long recognized that new industries must be protected during the initial phase of development—the same logic should be applied to the financial sectors of emerging countries. Secondly, it is imperative that these countries create competent (not corrupt) controlling authorities and effective systems of risk management before they welcome foreign capital. These conditions are far from being met in most developing countries.

Another essential measure concerns international actors—notably banks and investment funds. These are largely responsible for financial crises because of their speculative behaviour, which involves abrupt and brutal movements of funds, the destabilizing result of which is only too well known [D. Plihon, 1999]. The objective—which now appears to be accepted by the international financial community—is to implicate these actors directly in the solutionof the crises they cause. This means that, through mechanisms that have yet to be defined, they would be obliged to contribute financially to setting on their feet the countries struck by crises. To a certain extent, this is a simple application of the principle “you break, you pay ” Such a measure would present a double advantage: it would make it easier to locate resources to help afflicted countries on the one hand, and would discourage speculation because those who cause trouble would be held responsible for it. This would reduce what economist call “the morality risk", which is the temptation for the player to take excessive risks when he knows that there will be no sanction.

4/ Management of crises and “systemic risk”

There remains the problem of how to manage crises once they are under way. The aim is to reduce the disastrous effects of crises by preventing them from destabilizing the whole financial system and productive apparatus. This is the problem of systemic risk, which arises from the spread of a failure from an individual bank or financial institution to a national group of financial institutions and to neighboring countries. This happened in South-East Asia during 1997. One of the ways to reduce this systemic risk is to furnish emergency liquidity to banks and financial institutions that find themselves in difficulty. The experience of recent crises has shown that there are three ways to manage systemic risk:

--The central banks can intervene directly, injecting public funds into the financial system that is in crisis. This is the traditional approach.

--Another option is using the budgeted funds of States, which is the taxpayers’money. This has been used several times over the past two decades, notably by Sweden, Norway, France (Crédit Lyonnais) and in developing countries, in order to recapitalise banks that are in trouble. This intervention of the State as a "last-resort lender ” derives from the fact that the cost of saving banks is too high to be financed by the central bank.

--The third method is the injection of private funds, furnished by private financial actors. This method was imposed by the American Federal Reserve during the salvage of the LTCM hedge fund.

This last approach should be generalized because it forces those financial actors whose speculations were responsible for the crisis to bear the costs associated with it. The role of public authorities would be to co-ordinate crisis solutions, and not to finance them through public funds. This alternative is radically opposed to the liberal proposals presented earlier, which would create a safety net for banks and international investors.

5/ The problem of the role and reform of international institutions

There can be no well-coordinated operation of the international financial system unless first of all the function of international institutions is clarified. The three main institutions are the International Monetary Fund, the World Bank and the Bank for International Settlements. There is a double objective to be attained: democratization and efficiency. These institutions are at present controlled by the main financial powers , first among them the United States, because in each institution the decision-making power is based on the amount of capital a State brings to it. It is essential that the internal balance of power within each institution should be altered in favor of developing nations. It is equally essential that mechanisms should be developed for a better control over these institutions, particularly by national parliaments.

The role of the IMF is currently being debated. Its functions consist in the promotion of international monetary stability in such a way as to favor the harmonious development of international trade exchanges. However, the IMF appears to have expanded its prerogatives these last years, in violation of its own statutes, by intervening in the management of national States in ways that go well beyond its role as guardian of international monetary stability. In particular, under pressure from the international financial community, the IMF has forced developing countries to liberalize their capital accounts, balances of payment and financial systems in ways that are not required of them under the terms laid out by its statutes (Article IV). The IMF must be compelled to respect its own statutes.

Another necessary transformation: the United States alone has a veto power within the IMF (and the World Bank). This mechanism ensures their pre-eminence in these institutions. This anachronistic feature must be abolished. It is up to the Europeans, who will soon be a unified monetary power, to speak with a unified voice, to combat this American domination, promote a system of representation more equitable for all the countries involved and protect the interests of the less favored countries!

As to the World Bank, contrary to the IMF, its role should be expanded, so as to enable it to lend to the poorest countries on favorable terms. However, it has been noted that for more than ten years World Bank loans have stagnated while the international movement of capital, directed for the most part toward the wealthiest countries, has shown an explosive increase. It has become most urgent that public funding should be developed, outside the market conditions; as the only way to satisfy the need for economic and social (health and education) equipment in a great number of developing countries. A possible use for the revenues collected through the imposition of the Tobin tax would be to finance these loans and thereby to lighten the burden of third world debt

As for the BIS, its present function is the elaboration of “prudential” international rules, which are designed to limit excessive risk for financial actors. The best-known of these rules is the Cooke ratio, which requires international banks to respect a minimum ratio (fixed at 8%) between their own funds (capital and reserves) and their risks (assets weighed against risks of default). In this case as well, a double evolution seems to be necessary: to reinforce the representation of developing countries (emerging countries already participate in certain working groups within the BIS), and enlarge the field of application of this institution's "prudential surveillance”, which for the moment only concerns international banks. The current arrangement, as has been shown, allows other financial actors (hedge funds, pension funds), whose responsibility in international crises has been clearly established, to escape all forms of supervision and regulation.

As we have seen, there is no lack of precise and reasona-

> And Now What?

<< 1

ble proposals to improve the present defective architecture of the international financial system and to assure a harmonious functioning of the international economy. What is lacking is the political will, on the part of great powers of the G7, to implement these reforms and to attack the interests of a minority of financial agents. It is today well known that governments, whatever their political stripe, only act under pressure from mobilized social actors and citizens. Such mobilizations have already succeeded in calling into question both the Multilateral Agreement on Investments (MAI), elaborated within the OECD, and the present functioning of the World Trade Organization. But there is still a long road ahead…

(1) Especially as a yuan devaluation is still scheduled.

(2) G. Lamfalussy himself, Head of the Bank of International Settlements, pointed out back in 1994 that since the middle of the 80s, he had had no reliable information as to the exact amount of bank commitments, nor about the structure of their medium-risk or high-risk credits (Euromoney interview, June 1994, p.40)

(3) For instance, the practice known as "off record", an account which has no precise rules and which records, in particular, operations concerning derivatives (forward deals, options and swaps, used by financial operators to protect themselves in case of unforeseen variations in interest or exchange rates), most of which are speculative in nature.

(4) In his lecture to the American Congress on February 17th, 2000, Alan Greenspan, Chairman of the Fed, estimated that the effects of the value-added stock, interests and dividends of the consumption of wealthy and middle-income American households had added one point to economic growth. Therefore it came near 3.7 or 3.8 % from 1997 to 1999, instead of the 2.5-2.8 % reached in the previous years.

(5) A financial bubble occurs when stock quotations are far away from their actual economic value and therefore are liable to drop all of a sudden as they fall back to their real balance value.

This fragility is even more worrying when private persons have borrowed money to buy stocks on a market that seemed to be risk-free. The long Wall Street rise is a new phenomenom whose structure stems from the US retirement system, and from the importance of incomes that lack any link to productive activity or business.

(6) This rather surprising practice is explained in chapter 1.

(7) P. Blanqué, "US Credit. Bubble.com", Conjoncture Paribas, April 1999

(8) A rise in interest rates leads to a drop in the value of issued bonds where these offer lower (hence less attractive) rates

(9) See Chapter 7

(10) "All things considered : it's "yes" to pension funds" Le Monde, November 13th 1998

(11) The Cooke regulations aim to oblige banks to have enough capital to underpin their commitments, so as to limit the risks of credit. proposed guaranteeing maximum security for investors, and suggested setting up a new global institution, other than the IMF, which would issue money without condition or delay to preserve governments and banks from bankrupcy

■ 1

2 > Tobin Tax. Speculation and Poverty

Tobin Tax. Speculation And Poverty.

The primary function of such a tax was not to regulate markets but to change the way operators behave and to generate a fiscal income. Contrary to Tobin's initial proposal, its aim must be to collect funds for development. Indeed, considering the current state of poverty in the world, this is an absolute necessity. What kind of amount can we hope to raise? It is of course impossible to reach an accurate answer, since the result depends on the tax rate and on the amount of taxed transactions. But we can refer to some current figures. Considering that some USD 1,500 billions are exchanged every day on the money market and that it is open 240 days a year, projections could be as follows: a 0.25% tax would yield USD 600 billions a year with the amount of money exchanged falling to $ 1,000 billions a day; 300 billions if it falls to USD 500 billions; 450 billions if the total amount shrinks to half its current volume at USD 750 billions, etc.

By ATTAC Liege

Liege@attac.org

Translation: Sebastien Chauvin, Robert Corner, Anne Chailleu, Christine Pagnoulle, volunteer translators. Philippe Agard, coorditrad@attac.org

Original document including charts, glossary and footnotes:

http://attac.org/fra/toil/doc/attacliegeen.htm

A- Introduction

One of the most worrying developments in the evolution of modern and so-called developed societies is the "financialisation" of the economy. This trend, thriving as it does on the unfettered movement of capital and the extraordinary expansion of modern technologies, is directly linked to the globalisation of the economy, i.e. the existence today of genuinely global markets. It can nevertheless not be claimed (despite the assertions of the neo-liberal globalisation lobby) that globalisation remains a purely financial affair to be managed uniquely according to its contributions to market profitability.

The leit-motif for the adepts of the now sacred market is that of maximum and immediate profit, which in turn inevitably encourages the development of speculative activity. Speculation today has taken the upper hand; it has such a hold that, like some concert maestro, it can now direct all aspects of the human comedy. Comedy, for some, perhaps, but tragedy, more likely, for most. For it is this "financialisation" of the economy that now ensures that less and less of the wealth existing or being created in the world is being used to satisfy the genuine need for vital services and supplies of the planet's population; it is also to this phenomenon that we owe the ever more frenetic attempts to reduce the costs of all types of production. From here it is but a small step to the industrial mergers, rationalisation programmes and redundancies dominating the headlines.

Profitability for profitability's sake has become the golden rule in the system. The aim of capitalism is no longer to generate productive activity, but rather to pursue financial gain, with the new industrial corporations preferring speculation to any other business form. This purely financial view of corporate objectives has turned the general economy into little more than a battleground for mighty industrial predators. Populations suffer unheeded, passive observers as events unfold, condemned to bear the brunt of wave after wave of layoffs and the stifling effects of structural unemployment. In British economist John Maynard Keynes's own words, "Speculation does no harm when it is only a bubble above an ongoing flux of productive activities, but it is no longer the case whenever the productive activity is no more than a bubble within a speculative whirl. It becomes urgent to reverse this evolution of society".

Portfolio investments on the financial markets (stocks, bonds, derivatives, and other financial instruments) are the mainstay of financial speculation. They involve funds from four types of institution: the pension funds, insurance companies, mutual fund companies, and the major international banks. Over the past ten years the volume of funds invested has more than doubled and can today be valued at nearly 28,000 billion US dollars. This exceeds the gross domestic product of all the industrial countries put together. 50% of these funds are controlled by American operators.

85% of these portfolio investments are particularly volatile. They are a real threat to the global economy and, in particular, to developing countries. They explain the booms experienced in the world's stock markets in the last few years. These highs (particularly in 1997 and 1998: up by 50, 80, even 200% in certain emerging countries) are nothing other than speculative gaming leading to sadly tragic results in Mexico, Brazil, Indonesia, Korea, Japan, Russia, etc. The volume of trade on the American stock exchange, which leads the world, increased by 31% in 1997 and 27% in 1998. More particularly, the Dow Jones index rose from 3000 points in 1991 to 11000 points in April 1999. This new wealth however was very unequally distributed – it is estimated that 85% of these stock exchange windfalls benefited only 10% of American households. Human life attracts far less interest today than money.

Riccardo Petrella argues that the waves of deregulation undertaken by governments since the 1980s follow a particular logic: "Genuine power is detained by the financial markets, and politicians are nothing but clerks to this power." "Apartheid, he adds, still exists, but it is now economic." How indeed can one not to be affected by the searing divide tearing the world's population into increasingly unequal parts? Since, on the one hand, 15% of the world's population owns 85% of all existing and annually generated wealth (i.e. almost everything); the remaining 85% of the population, on the other hand, have to do what they can with the 15% that is left for their needs (i.e. almost nothing). The image may be somewhat approximate; it nonetheless describes the reality staring us in the face.

In 1960 20% of the world's population earned 30 times more than the world's poorest 20%; by 1995 they earned 82 times as much. The UNDP's 1998 Human Development Report notes that although the production of consumer goods has doubled since 1975, inequality has risen by stunning proportions: the gap between the wealthiest 5% and the poorest 5% in the world, which was 30 to 1 in 1960, is now 74 to 1.

At the same time certain individuals have acquired personal wealth superior to that of some countries. The private estate of the richest 145 people in the world exceeds the gross domestic product of the whole of Sub-Saharan Africa. At the dawn of the 21st century, the richest three individuals own as much as the gross national product of all the less advanced countries and their 600 million inhabitants.

And the gap continues to grow: in over 70 countries the income per person is inferior to what it was 20 years ago. On a planetary scale 3 billion people – half of humankind – live on less than 2 dollars per day. Whilst the level of goods and services available has reached unprecedented levels the number of those lacking housing, employment, and calories is continually increasing. Of the 4.5 billion inhabitants of the developing countries almost a third lack access to drinkable water, one fifth of their children suffer calorie or protein deficiencies, and about two billion people – one third of humankind – suffer from anaemia. Not to mention the issue of education for all!

In global terms therefore, poverty is in fact the rule, and affluence the exception. The inequalities are growing apace, and the rich are losing touch with the poor.

There is a direct link between this reality and the development of "corporate governance", whose leading objective is to reduce the human payroll to a minimum – in favour of "value added" for the shareholders. Employees in this system are just another (adjustable) factor of production. There are a number of recent examples revealing how executive management has sacrificed employees to pamper its shareholders. Unilever announced a rise in 1998 profits of 41% over its 1997 figures, with at the same time the loss of 3000 jobs over two years (the unions claim that 10,000 jobs were lost). In France Michelin reported a six-monthly profit of 12 billion Belgian francs, representing a rise in profits of 20%, whilst simultaneously announcing the laying off of 7500 workers. In the UK, Railtrack, the private company responsible for the maintenance of the British railway network since privatisation in 1996, announced, with apologies, a profit of 236 million pounds just a few days after a dramatic railway accident causing 35 deaths and 250 injuries. The accident was attributable, in part, to the poor condition of the network, itself a consequence of course of the cost-cutting required to guarantee shareholders their "rate of return". The chief executive of Elf-Aquitaine, Mr. Jaffré, in his battle with Total-Fina, has stated his intention of raising shareholders' earnings from 7.9% to 14%, whilst at the same time announcing the laying off of 1500 employees (out of 4000) in the company's "Exploration-Production" division.

There's something of a paradox in these scenarios: In our courses on political economy not so long ago we were being taught that the merging of businesses leads to monopoly control and the stifling of free competition. Today however, we are told that this is the only way a company can achieve a position sufficient to guarantee an adequate level of profitability; i.e. a comfortable return for its shareholders.

All this, of course, is supposed to benefit the consumer. Is it the case? In 1998 in the United States 677,795 jobs were axed; the following year American companies announced an almost 20% increase in profits. The wave of layoffs has now reached Japan, once the stronghold of life-long employment. Japanese bankers and shareholders are now more interested in high returns on their investments than in merely capturing a share of the market. Recent examples are Nissan (whose restructuring programme has cost 21,000 jobs, including 16,500 in Japan), Nippon Telegraph and Telephone (who have announced 20,000 job losses over three years), and the merger of two Japanese banks (with the loss of about 10,000 jobs). Even in the 29 affluent countries of the OECD, 37 million people are unemployed, including 18,000 in Europe. There is no shortage of funds, but the competition for them puts hundreds of thousands of jobs in the balance. Underlying this is the logic of "corporate governance" and the "financialisation" of the economy, both of which are presented as factors essential for development.

There is clearly an urgent need to respond with some form of action in the face of such stark realities. The question is how? For some years now calls have been growing for the introduction of a Tobin tax. ATTAC is also calling, amongst other things, for such a tax, which is even considered by some to offer an overall solution. This document proposes a modest assessment of the potential effect of such a tax. What impact could it have, both on financial speculation, and on poverty? Does James Tobin's original idea offer an adequate solution, and what scope could there be for other related measures?

B- The Tobin Tax: definition and objectives

Following the abolition in 1971 of the system of fixed exchange rates introduced under the Bretton Woods agreements, it became clear that the fluctuation in exchange rates could be explained not only by the interaction of economic "fundamentals" (i.e. inflation rates, budgetary deficit, trade balance, public debt, etc.), but also by operations of purely speculative nature, that is to say transactions with no productive purpose other than the pursuit of financial gain.

It was therefore no coincidence that in 1972 James Tobin, a professor at Yale University, former advisor to J.F. Kennedy, and holder of the Nobel Prize for Economics, suggested the imposition of a 0.25% tax on all currency transactions (foreign exchange operations). Since then the idea of a "Tobin tax", as it has come to be called, has regularly been evoked by those who would like to reduce the impact and risks of speculation.

In 1977 Tobin himself devoted the whole of his presidential address at the Eastern Economic Association to an examination of this tax. He saw it as one measure among others to improve, if only to a limited extent, the efficiency of macro-economic policies, since the income earned from the tax could be used by the central banks to defend their currencies.

Tobin was directly inspired by Keynes in this idea. Just as Keynes had recommended that a price should be paid for access to the stock exchange, Tobin proposed that currency speculation should also carry a charge, analogous to a casino entrance fee. Needless to say, neither Keynes' recommendation nor Tobin's has yet been put into practice.

Tobin's idea is very simple, since it would introduce, at international level, a tax with a single parameter. At the same time the tax shows a certain sophistication, inasmuch as its essential property would be to automatically penalise short-term shuttle transactions without discouraging to any significant effect the trade in goods or long-term capital investments.

Since the tax would oblige speculators to conduct more subtle analyses of market conditions, it is also likely that it would encourage them to adopt a more long-term view in their operations. The tax would also put a brake on the incessant movement of capital generated by the difference in interest rates from one country to another. This in turn would give countries a little more autonomy as far as their monetary and macro-economic policy-making is concerned.

Since the basic strategy of short-term speculators is to shuttle successively from currency to currency exploiting their changing rates of exchange, such a tax, however small, would be charged to these speculators several times a day. It is estimated that at present 80% of international monetary transactions involve 'round trips' of five days or less.

Since the daily number of transactions is colossal (1500 billion USD per day in a normal period – see p.16), it is almost certain that a significant amount of income would be generated – although exactly how much is difficult to assess, since the number of transactions liable to be taxed would naturally decrease in proportion to the severity of the tax. The income generated in this way was not for Tobin the main issue; he saw it as a by-product which would probably be redistributed multilaterally, since the tax would necessarily have to be applied on an international scale. The amount of income generated would ultimately depend on the rate of the tax, and on the volume of short-term transactions persisting after introduction of the tax.

We should note that Tobin's proposal concerned monetary transactions only, and not operations on the stock exchange (see p.7-10). ATTAC prefers for this reason to discuss a "Tobin-type" that could be applied to any financial transactions, i.e. to income from stocks and bonds and other assets, and in particular to the derivatives market.

Unlike Tobin, the founders of ATTAC consider that the income from a Tobin-type tax should be placed in a development fund for the eradication of poverty. In such a perspective, the tax can indeed be seen as an instrument for the raising of funds, to be dedicated to the struggle against social and economic inequality in the world. In this new form, it would correspond to a tax on capital itself, and would be applied uniformly across the planet. This then begs the question, of course, of how to manage and redistribute the income earned, which is a major and separate discussion in itself.

Whatever its potential in material terms, the Tobin tax is an important first step, and one of educational and symbolic value for the citizens of the world. Campaigners fighting to introduce the tax join a battle that is in fact taking place on two fronts: citizens across the world are converging with demands on their political masters – demanding that they in their turn force the world of high finance to return to the democratic arena at least some of the power which it has so illegitimately been accorded, and which gives it sole control over the future direction of our societies.

In order to give a clear and accurate view of the potential of a Tobin tax, we will examine how the financial markets have been operating and developing since James Tobin's initial proposal in the early seventies. This should help us understand to what extent such a tax would be capable of achieving its two main goals: a reduction in financial speculation and the relief of world poverty.

C - The financial markets

The financial markets include: 1) the foreign exchange markets where currencies are exchanged (long-term capital markets where bonds are exchanged), 2) the stock exchanges where stocks and bonds are traded (short-term capital markets), and 3) the derivatives markets, where derivatives are bought and sold (forward contracts and transactions). We'll look at these one at a time.

What is the foreign exchange market?

There are a host of different currencies in the world – among others the Japanese yen, the US and Canadian dollars, the Russian rouble, the British pound, and the French and Belgian francs. These different currencies have no material basis - i.e. they are no longer defined in relation to the fixed standard of a precious metal such as gold or silver. They have no intrinsic value on their own but symbolise in effect a certain value, and are therefore entirely dependent upon the confidence they inspire.

"Foreign currency" is a relative term, indicating any non-local currency. Thus the US dollar is foreign currency for French or Belgian citizens, whilst the French or Belgian franc is a foreign currency for citizens of the USA.

Different currencies are subject to supply and demand. If you go to South Africa for example, you will need to buy rands; by the same token, if you import South African products you will have to pay in rands rather than your local currency. You thus add to the demand for South African rands. At the same time there is also a supply of foreign currencies: in whatever country they are working, the large commercial banks can order a supply of rands and obtain them for you. The foreign exchange market consists of these transactions.

The quotation systems

The exchange rate, or price, of a given currency is the price of one unit of this currency expressed in another currency. There are however two ways of fixing the price of a currency – of quoting it, in the jargon:

· direct quoting – mainly used on the London market – which means specifying the value of a local currency in terms of a foreign currency. For example: one Belgian franc in pounds would give: 1 BEF = 0.016 GBP; [1]

· the pound sterling itself could however also be expressed in Belgian francs: 1 GBP = 62 BEF; in such a case we would say that the Belgian franc is quoted indirect against the pound. This is by far the more common practice[2], with only the UK quoting direct.

We will therefore adopt this second "indirect" approach; we will use the term rate of exchange as the price of a foreign currency expressed in terms of the local currency. It would follow from this that a rise in the rate of exchange of a particular currency would indicate a depreciation of that currency, with a fall in the rate indicating its appreciation (in the first case more francs would have to be paid in exchange for one pound, and in the latter case fewer).

The three types of exchange rate system

There are three main types of exchange rate system:

· First, the fixed-rate system (or pegged exchange rate system), in which the monetary authorities (the central banks) fix a level of parity between currencies (i.e. a reference level or range, below or above which the rate of exchange is not allowed to move), based on a standard such as gold, the dollar or more recently the ECU. In this system the monetary authorities (central banks) intervene to ensure that the rate of exchange remains within acceptable limits – 5% above, 5% below, for instance – with regard to the reference standard. The International Monetary System for example was based on the gold standard until the 1976 Jamaica agreements, whilst the European Monetary System was based on the ECU . Such fixed-rate systems (like the one in force until 1971 under the Bretton Woods Agreement) can be undermined by major speculative attacks. Devaluation could in such cases go beyond the tolerated levels – exceeding 5% in our example - given that the monetary authorities can be powerless against large-scale transfers of capital. The central bank reserves – the stock of ready funds in the country or countries under threat – would be insufficient to offset the outflow of speculative capital. A devaluation of the currency becomes inevitable – the traders sell the currency or currencies concerned 'en masse'.

· Secondly there is the system of free or floating exchange rates, in which the monetary authorities avoid direct action and leave the exchange rate to float at the will of the market (of traders, that is, who buy and sell currencies). This has been the system in operation since the disintegration of Bretton Woods. In financial jargon this is referred to as the dirty floating regime. Pure "floating" only exists in theory – experience has shown that a self-regulating market is nothing but a myth, since any speculative activity threatening a currency invariably attracts intervention by that currency's central bank (or the IMF), which will try to save what it can. Hence the term dirty floating.

· And thirdly we have an amalgam of the two: the crawling or sliding peg – the authorities fix a rate of parity (a range with lower and upper limits to be respected) with another currency or basket of currencies (the reference standard), but this rate is now only valid for a fixed period of time, six months for example, at the end of which the rate (range) is reviewed, and thereby allowed to change gradually over time. This is the system in use in South Africa and Israel for example.

In the "dirty" free exchange rate systems predominant today, exchange rates vary with supply and demand, whilst the central banks make intermittent and regular interventions to protect and stabilise their local currency.

Just as the price of apples will rise if demand outstrips supply, so the rate of exchange of a currency will tend to increase if demand for it exceeds supply. The opposite is of course true when the supply of a currency is greater than the demand for it.

The exchange rate is determined on a specific market, the foreign exchange or currency market. This is a genuinely global market. Exchange operations are conducted on a continuous and almost 24-hour basis: at 8.30 a.m. Paris time the European markets open trading; at 6 p.m. Wall Street starts its operations and continues until 11 p.m.; Sidney then takes over, before handing over to the East Asian markets and finally the Middle East; after which the cycle starts over again. Moreover, with the global networks run by Reuters or Telerate information can travel almost instantaneously, so that the markets can respond in real time.

The two types of foreign exchange market

As with the stock market, the foreign exchange market includes both a spot market and a forward market.

· The foreign exchange spot market handles operations taking immediate effect – the recording of movements between financial institutions (large-sum operations in different currencies for international investment). It is on the spot market therefore that short-term transactions take place.

· The foreign exchange forward market handles operations agreed upon today but concerning a transaction that will take place at a future date fixed by contract (it is here that derivatives are bought and sold - see below).

Two forms of speculation, and arbitrage

Two of the main forms of speculation take place on the foreign exchange market, reflecting the two different faces of the foreign exchange market (spot speculation and forward speculation):

· The first involves immediate short-term currency dealing. A trader will thus buy or sell foreign exchange on behalf of a financial institution, with the sole aim of making a profit in the process. (For example, a trader, confident that the euro will lose 5% against the dollar in the course of the week, will sell his euro for dollars and then buy them back when the exchange rate falls; thus if the euro really loses 5% against the dollar the trader makes a profit of 5%.)

· The second form of foreign exchange speculation involves anticipating changes in exchange rates, by trading on the forward market. This type of forward speculation is made possible by the trade in derivative products, an activity which is becoming more and more common and is having a significant impact on traders' behaviour on the foreign exchange market. Derivatives are so named because they derive their value from so-called "underlying" transactions (we come back to this below).

· Hedging is yet another practice; it involves exploiting minor differences in a currency's exchange rate from one financial marketplace to another. For example, a trader on noticing that the euro is quoted at USD 1.08 in Paris and at 1.09 in Frankfurt will buy in Paris to resell in Frankfurt. As a result of this, the rate of the euro will climb in Paris and fall in Frankfurt – the exchange rate climbs if there is buying and falls if there is selling, like shares or other commodities. The trader however has already made a profit by buying in Paris more cheaply than s/he will sell in Frankfurt.

>> 2

What is the Stock Exchange?

In the interests of clarity let us first recall the nature of the Stock Exchange. The stock exchange is the market where shares and bonds are traded. A bond is a title to borrow; the issuer, a borrower, 'sells' a bond to a buyer, but is obliged to reimburse the sum at a specified rate over a specified period of time. Shares are titles to ownership of a company. A company will issue shares to be bought by investors; when the company ceases its activity its capital is shared amongst share-holders.

A stock exchange is thus the place where businesses are funded, through the issuing of either shares or of bonds on the stock exchange's primary market (the period of the market when stocks and bonds are first issued, ending on the day following payment of the subscription).

Such shares and bonds may be resold on the secondary market of the Stock Exchange - the greater the demand for a company's shares, the higher its value (and vice versa). This secondary market can of course lead to speculative dealings, with traders buying in on a large scale low-priced shares (e.g. at 100 units) and then reselling when they consider that the share price has risen sufficiently (by selling at 150 units, they make a profit of 50 on the operation). The history of international finance is littered with devastating crashes. The stock exchange rises in response to massive share purchasing, creating a so-called speculative bubble (stock prices are irrationally high), and then collapses when these same shares are sold off in large numbers – this is what happened both in the 1929 Wall Street crash and in South-East Asia in 1997, following the speculative fever of the twenties and nineties.

The stock exchange (where stocks and bonds are traded) should not be confused with the foreign exchange market (where currencies are traded). The term financial markets is used to cover all kinds of market, i.e. the foreign exchange market and the stock exchanges, and also the markets in derivatives, which we will look at in detail below.

A history of the international financial system

The foreign exchange market has not always been what it is today, a global market working in real time without any form of regulation, and handling an enormous volume of transactions. There was even a time, before 1958, when this particular market did not exist, as the world's currencies were not inter-convertible. Three different stages can, and should, be distinguished in the development of the global foreign exchange market.

1. We start in 1958, when, on the one hand, the currencies of the ten richest countries in the world are rendered convertible, i.e. the commercial banks are no longer obliged to return the foreign currency they hold to their central banks, and private individuals can change francs for example into any other convertible currency., In the same year on the other hand the United States records a balance of payments deficit, which is destined to grow. The American deficit had of course the advantage that it allowed the rest of the world to acquire American dollars, but there was a more serious disadvantage, in that it paved the way for a new, highly speculative, and hugely proportioned market in eurodollars. The term may seem strange, but its meaning is clear: a eurodollar is nothing other than an American dollar invested with a bank outside the United States. But, you may ask, what is the point of placing dollars in a European bank rather than in the States? - Because, quite simply, the rate of interest on the deposits was more favourable in the former than in the latter. The fact is that, as the table shows, the eurodollar market grew at an extraordinary rate.

This mass of wandering eurodollars gradually grew to such proportions that it eventually came to be used for speculation on a large-scale, to such an extent, in fact, that it brought about the downfall of the international monetary system: there were more dollars in circulation than there was gold to guarantee them. Now, as we will see below, this link between the dollar and gold was the central pillar of the Bretton Woods system. To protect Bretton Woods, the United States were going to have to devalue the dollar (by reducing the value of the dollar the total value of the dollars in circulation would be brought back in line with the value of the gold reserves held). Nixon refused and decided to put an end to the Bretton Woods Agreement.

2. We have arrived at the second stage in the period between 1971 - 1973 in which the system of fixed exchange rates created by the Bretton Woods Agreement was to crumble. This system was established in 1944 around two basic elements:

– first, there was gold, the fundamental pillar around which the system was built, since the exchange rate of every currency was defined by a fixed weight of gold (35 dollars for one ounce of gold was the benchmark);

– secondly, there was the fact that the fixed parity between currencies (in terms of their value in gold) was a binding rule: the dollar for example was worth 50 Belgian francs; member countries were therefore obliged to intervene on all exchange markets to ensure that that market's rate remained within 1% up or down of this bilateral parity.

The Bretton Woods régime was to crumble in two stages. On Sunday 15 August 1971, Richard Nixon announced the end of dollar-gold convertibility – and the end thereby of gold as a standard of exchange. Two years were to pass before the corner-stone of the Bretton Woods Agreement, fixed currency exchange rates, were to be abandoned. This finally came about on Sunday 11 March 1973, when the Finance Ministries of the nine European Community countries, who had been some of the last to remain faithful to the system of fixed exchange rates, decided to float their various currencies vis-à-vis the dollar.

3. The European countries, after attempts to stabilise their currencies with the European Currency Snake in 1973 and the European Monetary System (EMS) in 1979, completely liberalised their foreign exchange markets. This led in 1992-1993 to the collapse of the EMS under the weight of massive speculation on the Italian lira and the British pound.

The adoption of floating exchange rates had a significant impact. The major currencies were to suffer from high instability (economists refer to exchange rate volatility), leading in the end to the establishment of a range of new instruments (derivatives) aimed at protecting the investor from exchange rate risk, i.e. losses following movements in exchange rates). At the same time, the floating exchange rate regime revealed once again what had already been observed after the First World War: unregulated exchange markets whose rates vary with foreign currency supplies and demand, are speculators' markets, completely exposed to the "herd effect" – "a rise brings on a rise, and a fall a fall". The floating of the currencies went a long way therefore towards turning the exchange rate markets into speculators' markets.

The floating of the exchange rates gradually spread to all the other markets, including the stock exchanges. In the

United States, and then later in Europe, this led to what was called the Three D movement (the Three D theory came from the French economist Henri Bourguignat):

(i) Decompartmentalisation of the financial markets: the barriers fall between national markets (for example, in the United States the distinction between deposit accounts and current accounts) and international ones (traders can operate from one to another), culminating in the "Big bang" on the London markets in 1986.

(ii) Deregulation: access restrictions to the markets are almost completely relaxed, leading to a rise in the volume of trade (investment rises when it becomes cheaper to enter a market), the development of a number of new financial instruments, and the abolition of the distinction between the commercial banks and the investment banks specialised in stocks and bonds.

(iii) Dis-intermediation: given the furious competition between banks following decompartmentalisation and deregulation, the role played in the past by financial intermediaries (the banks in particular) diminished, with financial operators avoiding intermediaries to save on costs. Dis-intermediation allowed investors to communicate directly on the marketplace, without having to pass through agents.

The derivatives market

As we have seen, the seventies saw a general movement towards a floating of currencies, which spread in the eighties to all of the financial markets. To counter this phenomenon of overall instability, which threatened to undermine international trade (given that it was no longer possible to make accurate predictions for overseas investments, since their value depended directly on the exchange rates in the markets concerned), the banks started to bring out new insurance products against future risks: on payment of a premium the banks supply currencies and other assets to their clients at rates set in advance by contract. This opened a new activity in derivatives, which took off in the seventies and had found a place in specialised stock markets by the eighties. To understand how these function we can look at the two main types of derivatives:

· options: an option gives an operator the right to buy or sell from the issuer of the option a financial asset (such as shares or currency) at some future time and at a predetermined price. For example: the Chase Manhattan Bank may issue a 6-month option to buy dollars at 1.05 euro. This means that the bank promises to deliver dollars at 1.05 euro in 6 months' time. At the same time as this a Spanish oil importer prepares to buy 1000 dollars' worth of oil in 6 months. He will quite logically seek to protect the value of his investment (by making sure that the dollar will not rise in value during the 6-month period – if the dollar rises to 1.10 euro, he will have to pay 1100 euro instead of the 1050 he would have to pay if the transaction was completed today with the dollar at 1.05 euro). To be on the safe side, the Spanish oil importer will take out an option to buy on the dollar (at 1.10 euro and at 6 months) as issued by the Chase Manhattan Bank. To do this he pays the Chase a premium (like an insurance premium). By purchasing the option, the Spanish importer gains the right to buy dollars at 1.05 euro in 6 months' time. He is therefore covered against any rise in the dollar in the next 6 months by the option bought from Chase (even if the dollar climbs to 1.20 euro, the importer is guaranteed dollars at 1.05 euro and therefore the possibility of paying his oil at 1050 dollars rather than at 1200). Should the dollar fall (to 1 euro for example), the importer will not exercise the option – he won't pay more for the currency than it is really worth (preferring to pay the market rate of 1000 dollars rather than 1050) and will chose to forfeit his premium instead (to the Chase's advantage). The option in this case is the derivative; the dollar is the underlying cash product from which the final operation derives (hence the term derivative).

· swaps: a swap is an exchange contract between two parties, who exchange one currency for another at the spot rate (the currencies exchanged are therefore the underlying products from which the operation derives) and who, at a later pre-determined date, reimburse each other at a pre-determined rate of exchange. For example, a commercial bank in possession of yen has a need for pounds sterling over a two-year period. The bank will set out in search of a partner in possession of pounds and confident that the pound will fall in value against the yen. At the end of the two years, the two parties return their yens and pounds at the exchange rate initially agreed by contract (it is therefore to the bank's advantage if the yen has risen against the pound, and vice versa for the other party).

There are two types of forward market:

· the organised markets, which have clearing houses to regulate them, provide a trading partner, and prevent any transactional irregularities. Standardised derivatives are traded on these markets, and investors must prove their solvency (deposit an initial margin) and regularly cover any losses (margin call).

· the over-the-counter markets which are subject to no controls and which lack all transparency. The over-the-counter markets are unlike any other stock market (or organised market) in as much as their operations are decided by common accord of the parties concerned. Such operations are not standardised and are therefore generally not transferable (although they are well adapted to the needs of the contracting parties). They are of interest in so far as they offer the advantages of any made-to-measure product. This type of market has no formal obligations; for over-the-counter trading to take place, it suffices that two parties agree on the terms of a contract. This is the made-to-measure market where anything is allowed at zero transparency. New derivatives are created here on a daily basis (the term is financial innovation); in the United States a bank needs only to prove the social utility of a new product and find two parties interested in it. In Europe there are no restrictions at all to hamper financial wizardry. Swap contracts are for the most part traded over-the-counter. It happens that the foreign exchange market is riddled with swap transactions; this has a major impact on its development and on the possibilities of regulating it.

There is not a single operation today that is not associated with a derivative product. It is normal in fact for several derivatives to be associated with a single operation; this results in a series of wagers on wagers and widespread speculation on market correlations, enmeshing the markets together. At the end of the day, despite the fact that derivatives were born of the need to counter instability (the trend towards floating currencies described above), they engender further instability in the form of waves of devastating speculation (to which we return a little later).

The foreign exchange market today

How it works

The foreign exchange market can no longer be physically located at a particular address; in its present form it is an international electronic network in continuous activity. The market is a computerised forum where the entire supply and demand in foreign currency comes together.

The foreign exchange market is nothing other than the electronic interconnection on a planetary scale of arbitrage tables (an arbitrage table is the traders' workspace in a bank), drawing on the services of telecommunications providers and specialised clearing houses. This is a permanent network like the internet, to which only its members have access. It is therefore a unique virtual space comprising a host of specialised computers in global interconnection.

This is a far cry from the time when single transactions were performed by a particular client; in fact, in this market everything happens in quotas of 10 or 100 million dollars (or their equivalent). Any bank, therefore, seeking to trade on the market must first have access to the necessary quota, or be obliged to pay more for the operation.

This means that any bank operating on the international market will specialise its operations: one bank will specialise in Greek drachmas, the other in euro, etc. The two banks trading in almost all currencies, and thereby dominating the foreign exchange markets, are the Chase Manhattan Bank and Citygroup. It is thus that a few international banks can "control" the foreign exchange market, banks for the most part based in New York and London.

The global interaction on the foreign exchange markets is carried out by SWIFT (Society for Worldwide Interbank Financial Telecommunications), whose headquarters are in Brussels and which is responsible for clearing the transfers required in foreign exchange transactions. Access to the foreign exchange market is only granted to financial institutions affiliated to SWIFT (6600 financial institutions in all). All the commercial banks on the foreign exchange market have a SWIFT account.

As banks trade, they keep SWIFT informed of their dealings, and these are booked to their respective accounts (the currencies do not actually leave their home countries). When the BBL for example sells dollars for euro to the Dresdner Bank, the two banks confirm their transaction with SWIFT and their dollar and euro accounts are automatically updated. BBL's credit in dollars will be seen to fall at SWIFT whilst its euro account will rise, with the opposite being true for the Dresdener Bank's accounts. At the same time, SWIFT will notify its official dollar correspondent that the BBL's balance has fallen in favour of the Dresdener Bank – and vice versa as regards his euro correspondent.

The presence of SWIFT is a reliable gauge of the solvency of any financial institution trading on the market. Institutions cannot in effect operate if their accounts managed by SWIFT are not sufficiently provisioned. SWIFT is thus the agent responsible for settling the balance of all foreign exchange operations (whenever you deal in a foreign currency you will see the SWIFT reference number on the ticket).

The technical feasibility of a Tobin-style tax is obviously favoured by such a centralised and interconnected system of exchange; everything is automated, centralised and "memorised". To implement a Tobin-style tax, it would suffice to place a charge on any automatic clearance operation carried out by SWIFT; in addition it would be entirely possible to detect any transaction emanating from a tax haven – and therefore to penalise it. We will come back to this later; suffice it to say that the facts of this matter prove the technical feasibility of introducing such a tax.

As for the market itself, it is made up of providers, whose computer networks enable traders from all over the world to negotiate with each other. The Reuter and Knight-Ridder networks are the main ones. In concrete terms, investors on the foreign exchange market work from their arbitrage tables, which are nothing other than immense halls filled with computers. Most of these machines are terminals linked to data exchange companies. These latter differ from other data providers in that they enable transactions to be concluded directly, and under secure conditions.

Whilst, therefore, SWIFT is responsible for clearing foreign currency operations, the providers handle the market, linking up traders who are seeking to negotiate deals which are made possible and certified by the system itself. In our example of the BBL and the Dresdener Bank, these two banks will communicate via Reuter's, for example, and have the balance of their trade settled at SWIFT (no foreign exchange transaction can be confirmed without intervention by SWIFT). As far as access to the system is concerned, as we have seen, only market professionals guaranteed by SWIFT may benefit from its services. For Reuter's and their like, access is available to all comers, as long as they pay the monthly subscription fee (in excess of BEF 100 000).

For information, besides SWIFT (which is an international clearing house) there are national agencies specialised in clearing national trade. For example, in the USA the CHIPS clearing system (Clearing House Interbank Payments System) is comparable to SWIFT, but operates on a much smaller scale and, especially, more locally, since the CHIPS only settles dollar transactions between banking institutions. CHIPS is run by the New York Fed. (the American central bank). Foreign banks may subscribe as long as they have a presence in New York.

As we have seen, traders on the foreign exchange market buy and sell the foreign currency they please; the more a foreign currency is bought, the more it increases in value. similarly, the more a currency is sold, the faster it loses value. However, any foreign exchange operation is vectored by the American dollar, the reference currency for all other currencies (to a certain extent we are operating in a dollar-standard system).

For this reason, when making an investment, a trader seeking to change pounds sterling for Swiss francs, will first change the pounds for dollars, and then the dollars for Swiss francs (which happens automatically of course).

We can say in conclusion that any exchange operation involves three different processes: first, the dealing site handles the placing of orders (at the arbitrage table or trading floor): two traders enter into contact and negotiate the operation. Secondly, the transaction is cleared in the settlement site and confirmed (including therefore the updating of the appropriate accounts by SWIFT): the operation has effectively taken place. Finally, the booking site handles the administration and management of the clients' accounts, with the orders to buy or sell being recorded (accounting level).

(...)

D – Tobin Tax : Objections and feasability

Recurring objections to the implementation of a Tobin tax are based either on mistaken assumptions or on mere ideological positions. Here are the main ones:

* The Tobin tax cannot work miracles. One cannot expect it to both regulate the market and to raise an income to be redistributed.

Answer: This argument has been used by many "experts", first of all Olivier Davanne, the author of the negative report on the Tobin tax (commissioned by Lionel Jospin when still a brand new Prime Minister in 1997). Nevertheless, this is attributing to the promoters of the tax intentions that they don't have: the purpose of the tax is to raise an income and, to use Tobin's own words, to introduce sand into the wheels of international finance. Nobody claims that the tax can regulate the market on its own.

*The bulk of change operations are hedging operations. A Tobin tax will result in their disappearance, and the transaction volume will dwindle dangerously, which will reduce to nothing the income to be redistributed.

Answer: The hedging technique consists in evening the change markets (for instance, if the euro's exchange rate is 0.87$ in New York and 0.89$ in London, the hedger buys euros vs dollars in New York and sells euros vs dollars in London, making thus a 0.02$ profit and tending to even the quotations of the euro in New York and London.) But even a volume of transactions divided by two would leave a daily turnover of 750 billion dollars, which is considerable: a 0.1% tax would raise annually 180 billion dollars, ie more than twice the amount required to provide universal access to basic social services (this amount is estimated at 80 billion dollars by the UNPD in its "Report 2000 for human development").As for the disappearance of the hedging technique, it would by no means result in the collapse of the market, for the volume of transactions would remain sufficient to guarantee the financing of the real economy (the volume of transactions would actually return to its level in the early 90s - see the table on page 16). It is furthermore accurate to question the necessity to even the market within a few minutes rather than within a day...Actually, this is in nobody's interest except some speculators', greedy for a quick profit. Indeed, the speculative attacks, as observed in Asia, are responsible for the collapse of the system and its dreadful economic and social consequences. Those who would be taxed most heavily would be the "institutional investors", ie the pension funds and insurance companies that use the change market for their international investments. These financial giants with a sheeplike behaviour are precisely at the origin of the late crises. A tax would incite them to invest with a view to a longer term (in economics, one would say that they lengthen their settlement horizon), which could bring some stability to the market.

*The tax will reduce speculation, but speculation is necessary in a system of floating exchange rates.

Answer: When you know that speculative capitals are 80 times as important as real investments, you realise how unfounded this argument is. Speculative transactions are tremendous. Indeed, financial speculation has developed to such an extent that one calls this evolution the "financialization" of the economy. And when you see the social damage done by speculative attacks, you can't but encourage a decrease in speculation.

*Speculation plays a stabilising part

Answer: The repeated financial crises of the 90s are evidence to the contrary, for it has been demonstrated that they are the direct result of the growth in speculation.

*This won't prevent fluctuations in exchange rates; overestimated currencies will always be attacked.

Answer: We don't claim that a Tobin tax would be enough to get rid of financial speculation, and some complementary measures do exist (see p.27-30).

*You will cut down international liquidities and therefore aggravate the risks of a crisis.

Answer: Facts show that 'massive liquidity' is not a synonym of 'stability'. Over the past years, one could observe simultaneously an increase in the volume of transactions and in the number of crises.

*You will jeopardize the good working of international exchanges.

Answer: In the present circumstances the volume of transactions on the exchange market does not have the slightest relation with what is required to guarantee international exchanges. Indeed, the instability generated by these transactions themselves interferes with international trade (about 5% only of the transactions deal with the international trade, and trade demands monetary stability to secure investments).

*All countries should implement it, which is impossible.

Answer: It would be sufficient for the few countries that make up the exchange market (which is highly centralized, see table p.18) to adopt the tax, and impose a penalty rate on transactions originating from the "non-Tobin" zone; the economist Kenen proposes a penalty rate of 5%, in the case of a normal rate of 0.05%). The euro zone can be a good starting point and the positive results of the tax would induce the other countries to follow the initiative.

*Increasing computerization makes collecting the tax impossible.

Answer: On the contrary. The dealing site is now totally virtual (two operators just have to give a phone call to conclude an operation) but the settlement site is absolutely centralized (by the SWIFT mechanism for the exchange market). Taxing every operation at its settlement would suffice to raise an income for the central banks (see p.14-15 and 24). The allocation of the funds still has to be defined.

*The tax will push capitals to evade to tax havens.

Answer: It is easy to identify operations that originate from a tax haven (as explained on p.24) and to tax them consequently (penalty rate). Anyway, ATTAC demands the total abolition of these tax havens that encourage financial crime (between 500 and 1500 billion dollars a year are recycled).

*The Tobin tax will generate tax evasion.

Answer: This is not an argument. Every tax generates evasion, this does not put its legitimacy into question.

*You will tax honest investors.

Answer: So, only the dishonest ones should pay taxes?

*This is a cannibal tax that will yield nothing since it will reduce the volume of transactions.

Answer: A Tobin tax is so small that it will hardly reduce the volume of transactions. Anyway, if it does so, this must be a source of satisfaction. But according to ATTAC the tax should also raise funds to eliminate poverty.

*Substitutes will be created, for instance through derivatives.

Answer: The answer to this question is so complex that we will dedicate a separate chapter to it.

E - Derivatives and the regulating effect of the Tobin tax

The derivatives' drift

>> 2

Financial engineering made the creation of increasingly complex derivatives possible, and as a consequence these are sometimes used with a purely speculative aim in view. Indeed, while currencies may be bought for a settlement with a productive aim in view (to protect against rate fluctuations, so as to determine the real cost of a long term productive investment), there may also be no such intention. Every bank in the world, every big company's treasury and even governments, do their best to invest the meanest balance in hand : money can't rest, it must yield, and derivatives can be used to achieve this goal. Do I own too many yens? I can take a position on a derivative based upon the yen!

Swaps are particularly frequent in change operations (for their trading is cheaper than that of options).

Exotic or hybrid products are continually invented, which multiplies the positions on the settlement market. These positions can become purely speculative: for instance, two operators will bet on the coherence of the term evolution in the banana and the dollar rates, over a specific period, say one year. If the coherence exceeds a corridor fixed by contract, party A wins. If the coherence stays within the set margins, party B wins. One can easily understand that none of the two parties has the slightest intention to use bananas or dollars productively. They just use them as references on which they can speculate. And the real economy (the banana producer or the investor willing to buy a product with dollars) will helplessly observe while these speculators' activities disturb the rates.

Numbering every existing derivative would be impossible, for there is a great variety of these, and innovations are frequent in this field. These innovations are also a technique to evade the law: Is a new regulation coming up? Let's design a new derivative to evade it!

For instance, in 1981 President Mitterrand decided to regulate terminal deposits made by banks by fixing a dissuasive legal minimum of 6 months and 500,000 FRF to the short term deposits. At once the banks created the short term ‘SICAV’ to evade the new law. Indeed, a Tobin tax may be evaded by another financial innovation if the legislator does not pay enough attention to regulating these innovations at the same time, by modifying the rules of the market. To cope with this problem, it seems necessary to create an international body that would be in charge of determining a posteriori whether a financial innovation can be a threat to the efficiency of a Tobin tax.

The transit market for every international financial operation

In times of speculative attacks against a country or a region, the spot exchange market is the place where every massive capital movement is in transit. For instance, if a pension fund manager owns Japanese shares, private bonds or Treasury bonds in its securities, and if a speculative attack is launched against Japan, the said manager will sell its Japanese stocks versus, say, US stocks (that process is called the "flight to quality"). But, if he sells stocks in yens to buy US stocks in dollars, he will necessarily use the spot exchange market for every operation (to sell his yens vs dollars).

Therefore, the spot exchange market is not the main source of financial instability. It is rather the place where capitals are in transit when fleeing from a financial crisis. The settlement market, however, is far more speculative and destabilizing, by creating differences and reacting to them. Moreover, the international share and bond markets are themselves highly fluctuating and linked to the derivatives.

Let's analyze the itinerary of a speculative attack: when international investors decide that they have made enough profit in the region where they have been speculating, they can prepare an attack. This attack is very often triggered by a stimulus linked to the fundamentals (inflation rate, budget deficit, etc) but first and foremost by an emergency intervention of the IMF that frightens the investors and makes them flee massively. But the origin of the attack is on the derivatives markets.

A few scouts (speculative or hedge funds, mainly) start speculating on the fall of the settlement market. They bet on a fall of the term rates in the region. Then comes the psychological phase when the bulk of the investors follow. The pension funds, mutual funds and insurance companies

have a particularity: they are estimated by comparison to their competitors. A consequence of this is their sheeplike behaviour, ie a mimesis that makes the market suddenly collapse.

When the speculative attack is effectively launched (when the term operations are sold off), the operators sell all their stocks in the region so as to buy some others, somewhere else where the profits are considered less risky (flight to quality again). This is when the assets conversion implies a transit on the exchange market: the currencies of the region are massively sold versus "quality" currencies, and this is how all the currencies of the area collapse at the same time as the stock markets.

Moreover, the term speculation implies that there is no boundary between markets any more. The underlying stock of a derivative can be a share, a currency or a commodity, its nature doesn't matter to the speculator. He just looks for interesting coherences that enable him to make chained speculative operations. By betting on a coherence between, say, a currency and a share, the term speculator creates a link between the stock market and the exchange market.

As a result, a Tobin tax should extend to every kind of financial operations, and not only the exchange operations on the spot. Then the operators would have to get used to this tax, for it applies to every financial transaction, including transactions on the stock market and the derivatives market.

Varieties of this tax do exist, like the idea of a two speed tax proposed by Spahn (when a speculative attack is launched against a country or a region, the local monetary authorities raise the tax rate in order to stop capitals flight). But Spahn refuses to tax the exchanges that do not exceed a given fluctuation (3%), and to tax the "strong" currencies (dollar, euro, yen, sterling). He is not interested in tax income. His proposition can't therefore be used as it is if the aim is, like Attac's, to raise funds for development. However, the idea of a heavier tax in times of speculative attacks can be adopted to complete a Tobin tax.

The international connection between all financial operations

The feasibility of a tax on every transaction is as obvious as that of a tax limited to the currencies. Indeed, if the derivatives connect all markets together, so does market computerization, particularly their automatic clearing systems (the clearing houses). The system of automatic perception to the central banks at the settlement, as described above about the SWIFT for the exchange market, is still valid. A few specialized companies, called clearing houses, guarantee the global connection for the stocks that are negociated worldwide. A Belgian investor who buys an American share or a euro bond gets his order executed by Clearstream (formerly Cedel-Luxembourg) or Euroclear (Brussels).

What happens then, in plain language?

A company buys, say, USD 10,000 worth of a eurobond emitted by the World Bank. It passes an order to its operator, say BBL. This one compares the prices offered on the market and concludes the operation. Let's say that the holder here is Paribas. The two banks will communicate their operation to Clearstream or Euroclear. Let us sya, for the sake of the example, that BBL works with Clearstream and Paribas with Euroclear. This communication will indicate the number of stocks, the rate, the type of the operation (buying, selling, lending), the total amount (running interests included), the name of the other party and the date of the settlement. Clearstream will therefore receive this information from the BBL and Euroclear will receive the same from Paribas. Clearstream and Euroclear will then get in touch (all this process is fully automatic), and if the data provided by the two parties are exactly the same, the operation will be automatically settled on the given date. On this date, the asset account of the BBL at Clearstream will increase by USD 10,000 in value and its liquidity account will diminish by USD 10,000. Simultaneously, at Euroclear, the asset account of Paribas will diminish by USD 10,000 worth in World Bank bonds and its liquidities account will increase by the countervalue. Then, as soon as it receives from Clearstream the confirmation that the operation has been liquidated, the BBL will credit the company's asset account with USD 10,000 worth in World Bank bonds, and will debit its account with the countervalue decided in the order. Obviously, an international investment needs an exchange operation (if a Belgian investor buys an American share, he will have to sell euros vs dollars: as we saw earlier the exchange market is where all international operations are in transit). The international investment will therefore pass through an exchange operation (and consequently through the society that interconnects the exchange markets, ie SWIFT). It is up to the BBL, in the present case, to check that the liquidity account gets the countervalue when needed. So, it's up to the BBL to buy the dollars required, via the SWIFT mechanism, and then to inform its correspondent bank (say, Citicorp) so that it transfers the dollars to Clearstream's correspondent's account, say Chase, so that Clearstream know that the dollars come from the BBL and are dedicated to paying for the USD 10,000 worth of World Bank bonds. This means much administrative seesaw , but this system is very efficient and eliminates the problem of insolvability in one counterpart. A desk or a trader that is not a member of one of these clearing houses will make no operation, for no client would trust him. On the other hand, a member desk will never encounter a problem to make an agreement with a totally unknown institution from the ends of the earth: its membership will guarantee that the execution of the operation (paying and delivery) will adhere to the conventional rules of the market.

In the present situation these bodies (SWIFT, Clearstream, Euroclear et altri) deal with market professionals exclusively: only financial institutions operating on the international stock market can be members. An individual can't: to be able to operate on a market, an operator needs an authorization. To get this, an operator must necessarily be a member of Euroclear or Clearstream, if not, he will have to pass his orders through a intermediary member (which means an extra cost). An operator may be more easily accepted on one market than on another, depending on its global activities. Today, almost all the banks are members of all international bodies, in order to get access to every financial market.

The clearing house must give every operation it handles a unique code (ISIN) and transmit it to all the member operators, so that they can indicate it in their confirmation messages.

To solve the problems of black money, tax evasion, tax havens and encourage the establishment of a tax on every financial transaction, it would be enough to define by convention a unique code, like the ISIN code, to determine whether a transaction must pay a penalty or not. Every operator would automatically be given a unique code that would indicate the identity of the principal and the characteristics of the operation.

From a technical point of view, the elimination of tax havens (or their identification and the establishment of penalties against them) is therefore quite feasible. The only thing that is still wanting is a political decision to set up a tax on every financial transaction.

One could even define whether an operation is purely speculative or not (ie needed for productive investment). One could upon this basis take dissuasive measures against operations that are considered useless and destabilizing. This approach implies, of course, that we know exactly what "speculation" is.

The limits of the Tax

Contracts for differences

Now, on the exchange markets, the banks encourage the establishment of contracts for differences, which means paying only the balance and not the total amount. This technique is getting common, as it allows the parties to move only the balance, and it implies that the amounts circulating on the exchange market are much lower than the amounts negotiated in reality. For instance, if a bank must buy one million dollars for client A and sell 800,000 USD for client B, it will conclude a contract for difference (ie USD 200,000) with its correspondent on the exchange market.

As far as the transactions are concerned, only USD 200,000 will be concerned by the tax. It is clear that such contracts enable the operators to dramatically reduce the transactions value without reducing the effective volume of exchange, ie without reducing speculation. If one decides to tax the gross value, a bank that must buy 100 millions and sell 99.8 millions, which means that the difference is only 200,000, will easily pretend that it must buy only 1 million and sell 800,000, and operate so that the exceeding 99 millions balance without any transaction, ie free from tax.

What economic reason is given for the use of such contracts? The smallest operation deals with hundreds of million dollars nowadays. And as the bulk of these operations is term operations, it turns out to be more interesting to raise at the settlement the clear result of the operation than the totality of it. That is called the "Herstatt" risk, from this German bank that went bankrupt in the mid 70s after respecting its part of a contract on an exchange operation while its counterpart had not (it lost, the operation dealt with hundreds of millions of dollars, which at that stage still represented a considerable amount). With the payment of the balance only, only one part has to pay and the amount has nothing in common with the amounts really involved. In the Herstatt case, this German bank would

>> 2

never have paid these million DEM before receiving their countervalue in USD, it would have waited until it received the difference in USD, and would still be running today.

Undeniably, the existence of such contracts for difference is a problem. But the extension of the tax to every type of transaction should limit its significance. Moreover, this confirms the need for more transparency in financial operations (in order to know who does what and what for).

Towards the abolition of movement

Another problem could arise from a complete reorganisation of dealing processes. The concept of contract for difference is developing to such an extent that today the very notion of "contract" which no longer involves a transaction or a movement, could be a problem by itself. As explained earlier contracts for difference still have as a result a one-way movement of the clear balance. But one can already foresee that this movement be abolished and replaced, for instance, by debits and credits in accounts, elaborate forms of usufruct, or, more prosaically, a new generation of derivatives.

The spectre of a Tobin tax obviously risks to accelerate the creation of these stopgap measures. One can easily understand that a tax that would deal only with the capital movements would lose most of its efficiency. Let's take an example to illustrate this possibility.

This example is real and concerns two pension funds. The first one, the Ontario Teachers' Pension Plan Board, is Canadian, the second, Stichting Pensioenfonds ABP, is Dutch. The first one manages a 55 billion CAD capital, the second 272 billion NLG (which means 39 and 133 billion USD). At first, the funds don't know each other. Both want to vary their investments. The first in Europe and the second in North America. But both are aware that they don't have the necessary skills to invest on their target markets.

The Dutch fund knows the Dutch stocks, and the Canadian the American stocks. Each fund wants to invest on the market known by the other fund. They will benefit from their mutual skills. The Canadian will give the Dutch full power to invest in its name on the Dutch market, and so does the Dutch fund with the Canadian. Both have access to the two markets, but they don't venture into an unknown market without knowing its psychology. They naturally hit upon the idea of "swapping" their skills.

That is, the Canadian fund asked the Dutch fund to buy European stocks (Dutch stocks, mainly) and the Dutch fund asked the Canadian fund to buy American stocks. Then, they swapped their investments, which were equivalent in value, thus eliminating all risk of exchange on these assets. They finally reached an agreement to pay regularly the balance of each investment (dividends and betterments). But once again, the payment concerns only the clear value, so as to reduce the exchange operation (the movement), and therefore the risks and the taxes implied. By swapping the assets, from the point of view of book-keeping, the European stocks are property of the Dutch fund again, and the American stocks are back with the Canadian fund. Only the result is still property of the partner.

The difference with a conventional swap is that, here, the duration does not matter. In a conventional swap, the two parties decide to give back the assets at a predefined date. This variety of swap is dealt over the counter, it is enough that two operators reach an agreement to use this technique.

In our example, the term is not defined. Both parties will close their respective positions simultaneously but they will decide together when they do so. This gives the contract more flexibility. As the result is periodically calculated and paid, the contract's value remains the same from a theoretical, book-keeping point of view. This very clever trick works only with institutions similar in culture and activities. But there is no obstacle to the extension of the system to specialized markets, especially the exchange market, once a tax penalizing the movement of international capitals has been established.

With such a technique, the part played by the exchange market is already reduced to its minimum, and so is the necessity to use it, since the two funds transfer periodically only the clear balance. If the Dutch gets a 10% return and the Canadian 12%, only 2% will be transferred, as the value of the funds' respective positions is identical. The Dutch will have a return of 10% on its position on Dutch assets and will receive 2% more from the Canadian. The Canadian will get a 12% return on its American assets, and give 2% out of it to the Dutch, so as to have a final result of 10%, ie what he actually gained in the Netherlands. But in their books, the Dutch will note down a 12% return on its American position, and the Canadian a 10% return on its Dutch position. As we see, only 2% will have to transit on the exchange market, only 2% are exposed to the exchange risk, and , when it exists, to the inconvenience of a Tobin tax.

One can imagine that another clause will delay the transfer of the balance so that, for instance, only the yearly balance is transferred. One can imagine even longer periods. Everything is possible, provided that the technique raises profits. Of course, all this is just an attempt to anticipate the markets' reaction to the establishment of a Tobin tax. Obviously, it is most unlikely that a small tax should provoke a revolution in the speculative behaviours. However, taking into account every possibility can be useful to be able to react consequently or to avoid any naivety.

These limits must in no case impede the establishment of a Tobin tax. Obviously, a tax applied exclusively to the exchange market would just have a short-term effect, and so we must recommend a taxation of all financial transactions. But we can imagine a step-by-step introduction of the tax, the first step being the establishment of a tax on the change operations, as wished by Tobin.

But, as we saw above, a Tobin tax is not enough to eliminate the excesses of financial speculation. Anyway, regulating is not the first aim of a tax. Consequently, if a tax on transactions could raise an income for development, supplementary measures will be needed to control capitals and then oppose speculation.

F- Beyond a Tobin Tax

Capital flows have to be restrained

A tax is not sufficient to regulate international capital flows. Indeed a tax does not actually regulate anything, it only modifies the way investors behave and generates a fiscal income. On the other hand, several procedures can be applied in order to regulate transactions, including a compulsory temporary deposit.

In this respect, we ought first to define what exactly is referred to as speculation, and next to make sure that all financial operations, however insignificant, are registered, and so ‘traceable’. Once these two conditions are met, a deposit corresponding to the nature of the transaction will be claimed (somewhat in the same way as the deposit implemented in Chile from 1991 to 1997). The amount of the deposit will represent a percentage of the amount involved in the operation based on its notional value and will be frozen with a chosen (preferably international) institution. The deposit will be released as soon as the transaction is over.

To get a concrete picture of how the thing would work, let us look at what happened in Chile: any inflow of international capital had to be covered by a deposit of 30% of the total amount. The 30% deposit was not remunerated; that is, the Central Bank could use it and benefit from its remuneration. After one year, the deposit was returned to the investor who was thus encouraged to invest on the long term. Similarly bonds issued by Chilean companies on international markets had to have a minimum duration of four years and were also accompanied by a compulsory temporary deposit.

Whether investors are involved in speculation or not, the deposit means that they lose money (since the frozen money does not yield any interest), but it does not represent a cost or a liability, since they get their deposit back, while a Tobin tax does represent a cost, and thus a liability.

In turn, the institution that manages these compulsory temporary deposits could "invest" this money in order to collect interests and use them on specified markets, for instance to finance foreign debts. Central banks could be responsible for the actual process, with an international institution merely recording the transactions (comparable to SWIFT). The cost of the debt would thus be reduced since these countries would no longer need to call on private capital, which would make it possible to reduce interest rates. Besides, this process would insure a regular source of income that is not tied in with all sorts of conditions (as in the case with the IMF, for instance). A further advantage of the system is that it can be adapted to various circumstances and also be applied to real-estate speculation.

Such a deposit could also enable a monetary zone to control uncalled-for speculative transactions; the European Union is obviously directly involved in this kind of logic. Once all member states have the same currency, intra-European speculation on currencies will automatically disappear: speculation on German and Italian currencies is no longer possible if the two countries share the same currency. Therefore, the regulation of European money markets will result from a tight control on the inflow and outflow of capitals. A compulsory temporary deposit would prove most efficient to achieve this control.

Economy as a way to cater for the needs of citizens

'Beyond a Tobin Tax' - the phrase can be understood in a limited or in a broader sense. In a limited sense it means: beyond James Tobin's initial proposal. In a broader sense, it might refer to a wider application of the tax, such as: how can we retrieve an economic development in which money is kept where it belongs, in the role of support to the development of people's welfare and stop being an end in itself independently of its initial function as middle term in the exchange of goods and services necessary to meet human needs.

In the limited sense, remember that the aim of the Tobin tax is to restrain short-term (very short-term!) shuttle investments on the currency market so as to reduce its volatility, to ensure a greater financial stability, to account for economic fundamentals and to restore independence and efficiency to the individual governments' economic policies. Tobin's initial proposal did not include in its aims the collect of funds that would help an alternative approach. This was added later on as an essential objective.

This might cover the meaning of the phrase 'beyond a Tobin tax' in a limited sense. In this context, beyond some essential conditions such as its simultaneous implementation in all major strongholds of international finance, we have thought of more compelling means of ensuring that the tax is productive. Bernd Spahn's proposal, among others, directly related to the exchange mechanism in the European Monetary System (EMS) and suggests that, while there should be no tax as long as transactions fluctuate within a defined spectrum on either sides of the currency's average value, aggressive speculation would be subjected to high taxation. In order to collect more funds one might also consider a limited taxation on transactions within the agreed spectrum.

Countries retain part of the resulting income (from 20 to 100 %) to implement more 'human' national policies. The remaining portion would be managed by an international institution and invested in development projects: development of poorer countries (such as debt reduction, health policy, education, and access to drinking water). In one word, the proceeds would be used to fight all forms of insecurity, precariousness and poverty.

In a broader sense, we can think of many possible measures aiming not only at restraining destabilising speculation but also at providing governments and international institutions with additional means to implement policies that would meet people's needs through a fairer distribution of available wealth. National tax systems ought to be adjusted and harmonised on the international level, exchange rates should again be regulated, which involves a limiting the free flow of capitals.

Since earned income is steadily decreasing and property income (both real estate and personal property) simultaneously growing (so much so that the latter is now outstripping the former in the national revenue), taxing income outside earned income has become a necessity for the government to meet its financial commitments. In the situation of financial emergency imposed by the enforcement of convergence criteria, a fairer share of austerity would have been achieved if incomes produced by investments (in bonds, shares or other financial assets) had been more heavily taxed – as seemed only logical. Unfortunately exactly the opposite happened. Earned income is much more heavily taxed (through social contributions as well as direct taxes) than the income of investments, on which deduction is limited to 15% (in case there is a deduction at all). In several European countries, including Belgium, investments in real estate and in shares are not taxed at all and the rents collected by landlords are comparatively lightly taxed. Indirect taxation too is all the more unfair as a result of some recent measures such as the revision of the basis on which the property tax is calculated, taxation rates on property income, and the failure to revise levels of taxation.

Harmonising tax systems among various countries, fighting fiscal evasion (not only moonlighting, rather what is called fiscal crime, those enormous amounts that evade taxation), regulating and controlling banks, first by demanding more transparency in their dealings, doing away with the principle of confidentiality in bank accounts, taxing big money, machinery, sources of pollution and other 'externalities' – there are quite a few possibilities for a more efficient taxation of wealth and for a fairer distribution of resources that would compensate the social imbalance resulting from a conservative taxation system.

Another question that arises is whether capital markets

>> 2

ought to be regulated through a limitation imposed on the free circulation of money. This of course runs against the neo-liberal objectives of the main financial forces in our society – that is, mainly transnational corporations, mutual funds, large banks and insurance companies: absolute liberalisation in all fields, without any other constraint or rule than maximum profits. The main (and only?) argument put forward by the proponents of neo-liberal globalisation is that the easing of restrictions on capital flows is a condition to welfare through growth. However, many governments in the South feel that they did not derive any benefit from former agreements such as the Uruguay Round as part of the GATT and are now facing acute difficulties. They had thought that it would have made it easier for them to be present on markets in the North. It was not the case at all, and they can quote a number of instances where further obstacles are erected as in the textile industry where 95% of export are subjected to quotas imposed by industrialised countries. They point out that the planned trade agreements within the WTO in the area of agriculture (a favourite topic with the USA) would bring 50 to 80 % of those who depend on farming in the countries of the South below survival level: these people would simply lose their only source of income if they were brutally faced with competition from the North.

A Harvard economist vainly tried to trace a connection between the unrestrained flow of capital and the economic achievements of one hundred industrialised and developing countries between 1973 and 1996. 'There is no indication that countries without control on capital have known a higher growth, more investments, or a lower rate of inflation', he concluded [check the original!]. Anyway, it should be remembered that growth as an end in itself is not only unsustainable in the long term, not only an environmental catastrophe, it is ethically wrong: if there is no fair distribution, global growth results in more poverty. Current debates within the World Bank are evidence enough that the issue is ideological (the director of the World Bank's Report on Development resigned because of the pressures he was subjected to after he had demonstrated that growth is not enough!).

Decision-makers can choose among several possible measures in order to restrain capital flows: they can close their borders to foreign capital, which may mean freeze foreign assets in local currency and/or enforce a non remunerated compulsory deposit with the central bank corresponding to 20 or 30% of the money invested in the country; determine a fixed rate of exchange for its currency; create the necessary means to control the issue of money and the level of interest rates, to regulate the banking system and the use of local currency by a strict control on currency leaving the country (possibly through a dual exchange market), which also involves a strict control on buying foreign currencies, etc.

Many economists understandably hesitate to question the free flow of capital. Yet their arguments are not always convincing:

- Some locate responsibility for the Asian crisis (1997-1998) with the local governments (lack of rigour, 'buddy' capitalism, etc.). Yet the Asian crisis, just like other crises in the 1990s, was a financial crisis that directly resulted from a system that had done away with restraint on the flow of capitals and led to unrestrained speculation on the part of capital owners.

- The IMF claims that you only have to implement sound economic policies while reinforcing financial mechanisms and setting up cautionary rules to avoid crises. But we have tried to show that crises such as those that occurred in Asia and in Latin America were 'self-fulfilling' and linked to the unrestrained flow of capital. Financial history shows that financial crises have always occurred when, in relative terms, international financial flows were too high compared to the GNPs.

- Proponents of free trade say that restrictions on capital are a first step towards protectionism. But we know now that quite on the contrary regulating money is necessary to prevent more and more countries from closing in upon themselves for fear of the dramatic consequences of capital volatility.

Whatever the answers, the debate on a new regulation of world finance is launched. The economic and social benefits of the free flow of capitals are sharply questioned. Moreover, recent situations give food for thought to 'specialist', for instance in Malaysia and Chile some financial stability after the crisis in 1997-98 has been retrieved thanks to the implementation of a severe control on the flows of currencies and to a sustained attention to money fundamentals at home.

To conclude, we wish to ask a simple question. Why did it take so long for people to become aware that unrestrained flows of formidable amounts of money in a world where social conditions and tax laws are still very different from country to country could only lead to massive speculative attacks? And why did it take so long to acknowledge that such recurrent crises could only lead to more global poverty?

G- Conclusion

As said in the international platform, the first aim of ATTAC is that citizens of the world should again be responsible for their future. To this end, the association supports the implementation of a tax on money transactions, following an idea put forward by James Tobin, Nobel Prize winner for economics.

We have seen that the primary function of such a tax was not to regulate markets but to change the way operators behave and to generate a fiscal income. Contrary to Tobin's initial proposal, its aim must be to collect funds for development. Indeed, considering the current state of poverty in the world, this is an absolute necessity. What kind of amount can we hope to raise? It is of course impossible to reach an accurate answer, since the result depends on the tax rate and on the amount of taxed transactions. But we can refer to some current figures. Considering that some USD 1,500 billions are exchanged every day on the money market and that it is open 240 days a year, projections could be as follows: a 0.25% tax would yield USD 600 billions a year with the amount of money exchanged falling to $ 1,000 billions a day; 300 billions if it falls to USD 500 billions; 450 billions if the total amount shrinks to half its current volume at USD 750 billions, etc.

But a Tobin tax also corresponds to governments and public institutions retrieving the upper hand on money policies. In the short term it would yield an income that could be used for development and help to citizens. It would also signify a return to international financial co-operation. This is why it has to be implemented.

Besides, and this should not be neglected, it has pedagogical value. Straight from the Robin Hood story its pattern (take from the rich and give to the poor) makes it attractive and lead citizens to develop an interest for problems related to speculation and to financial markets in general.

As has been shown above, international speculation has significantly changed since Tobin formulated his proposal. We have also seen how the operators' modified behaviour could result in ways of escaping the tax, even if it is unlikely that such limited taxation should lead to an in-depth restructuring of markets. This means that for a Tobin tax to have a long-term effect it might have to bear on all international financial transactions, that is on the forward market as on international trade on shares and bonds (operators would then have to get used to it).

The move, as we have shown, has already been anticipated with contracts for difference and sophisticated swaps. Therefore, restraining international speculation calls for complementary measures aiming to re-regulate markets and to restrain capital flows (such the compulsory temporary deposit). This is what Bruno Jetin explains in the collection of essays Attac contre la dictature des marchés (ATTAC against the dictatorship of markets) when, he writes on page p. 58 that the Tobin tax "must be complemented by exceptional and permanent measures to restrain capital flows'.

From Argentina to Russia and from Mexico to East Asia countless citizens of the world have to pay dearly for the social impact of unrestrained financial markets. It is high time we restore the economy where it belongs, mainly as a tool to meet human needs, and so to contribute to some basic respect for human rights everywhere. The aim of the present pages is to help in this arduous endeavour.

■ 2

>> 3

3 > Internet War Economy

Internet War Economy

"Customer is King!". Customers, consumers and subscribers are kings. Far from being an "assisted economy", the "New economy" gives a rather good image of the economic war. If total control over the relationship with the subscriber does constitute one of the core element of the economic mutation that is taking place, we should then examine what this slogan, now at the heart of management and of the globalised economy, implies.

By Marc Laime

Marc@rezo.net

Translation: Veronique Renard, volunteer translator coordi-trad@attac.org

First Published in Newsletter 77

http://attac.org/attacinfoen/attacnews77.pdf

A very intriguing process of imitation leads everyone involved, closely or not, in the "new economy" to toll its death knell, even though it was praised to the skies yesterday. Industrials, financers, analysts, journalists and all kinds of experts are now condemning "an artificial universe maintained by international finance and disconnected from the real economic mechanisms".

The biggest titles in the international press are laughing, and report spitefully the most incredible "experiences" of a four-year-old child who triumphing over an analyst and an astrologer at investing in a competition to predict which stocks would give the best return. Curse the market's "crazy exuberance"! Vade retro sad Nasdaq ! A very strange rhetorical figure indeed. The fact remains that a blazing diatribe can sometimes come close to the outline of a structuralist perspective and we expect our imprecators to highlight its possible relevance.

Mr Thierry Klein, writes in the French daily newspaper on April, 5th: " By boosting the world economy, financers have unwillingly invented the concept of financial neo-Keynesianism. No need to ask the USA to finance big works or create artificial budgetary deficits anymore, with pension funds boosting the economy an our behalf!"

Hence, we can only acknowledge that it is indeed the increasing weight of the financial sphere on the global economy that will have allowed the so-called "New economy" to take off, before seeming to drown. But this is where the analysis fails by default. For what was it in the substance? Nothing apart form a everyday logic of outsourcing the cost of research and development and the beginning of a "consolidation" which sees the "dinosaurs" of the "Old economy" collecting the fruit of the "young shoots" they have scattered. Thus, the "New Economy" neither deserved this excess of prays nor this unworthiness.

At this stage, the glaring absence of a "missing link" hinders any possible understanding and reduces the phenomenon to a shrill "high-tech" repetition of "Bonfire of the vanities". Because, if the above diagnosis is correct, we should look closely at the hypothesis that "pension funds are boosting the economy on our behalf!" Limiting the eagerness of these pension funds to boost the economy is according very little ambition to their archetypical image.

The age of Access

Say that, for example, these "pension funds", "markets", and the highly efficient army of highly qualified professionals who make use of their talents in every sphere of the industry, trade, communication and leasure as well as in postmodern society governance, have indeed planned to lead us into the "Age of Access", foreseen by Jeremy Rifkin.

What would it mean? Would it mean substituting the so common and ancient system of exchanges and acquisitions of goods and services, not yet entirely state regulated, by a "new civilization" in which our time, attention, affects and feelings will become the ultimate exchange value, whose commercialization relies on subscription - which will eventually become quasi-compulsory - to various conglomerates not only able to answer all our expectations but also anticipate them. The role of the state will then be limited to take timid precautions against the deepest inequalities bound to reach dimensions never yet imagined.

"Customer is King!". Customers, consumers and subscribers are kings. Far from being an "assisted economy", the "New economy" gives a rather good image of the economic war. If total control over the relationship with the subscriber does constitute one of the core element of the economic mutation that is taking place, we should then examine what this slogan, now at the heart of management and of the globalised economy, implies.

Who are the economic actors which are holding the most important "customer data bases", which are exploited with all the contemporary marketing resources?

Traditionally, the banking and insurance sectors used to occupy a very strong position in this matter. They have been working at reinforcing it for many years. The perspective of increasing dematerialisation of financial transactions ensures them to remain this unique necessary intermediary between every single acts of our daily life.

In this respect, banks and insurances massively invest, in the entire world, so as to respond to the new trade and on-line transactions challenges. Fusions, acquisitions, shares, competitions.. Nothing new under the sun.

Money war

Except that the sunny perspectives of the e-commerce did not take long before triggering new unparalleled problems of unusual complexity. To acquire or to commercialise on line goods or services necessarily implies that many problems, especially technical and legal ones, quickly find an answer. The dematerialisation of financial exchanges will not happen unless strong security guarantees are offered to the consumers. Furthermore, those dispositions must be international.

It's a whole innovative architecture of exchanges regulation that is progressively seeing the light: electronic signature, transaction certification, along with the load of mistakes and failures that necessarily comes with such a mutation, as well as worrying perspectives, such as seeing the public power authorizing private companies to constitute mercantile monopoles which will certify, instead of the state, an individual identity.

In the mean time, the worldwide explosion of communication gave birth to new conglomerates, already globalised. Telecommunication operators, internet access providers, multimedia groups as well as holders of portfolios of millions of customers, are now just as necessary as services provided by banks and insurances.

We must also add to this list of new "moguls", the figures of aviation companies, of important groups specialized in mail-order selling, and of organisms, created by industrial groups, issuing credit cars by their millions. We can imagine that those actors will carry on practicing their traditional activity even if they must restructure the "heart" of their trade associations, because of vital stakes resulting from their entrance into the "information Society". Indeed, since May 2000, the « Mobey Forum » gathers BNP-Paribas, Barclays, Deutsche Bank, Visa, Nokia, Ericsson, Motorola. Its objective ? To encourage and standardize the use of mobile technologies in the financial and commercial world.

In the context of the MET (Mobile Electronic Transaction) programme, the forum is preparing the publication of specifications concerning two of the main protocols used for mobile transactions : the "Wireless Identification Module" and the "Wireless Transport Layer System". The idea being to reach the point when mobile terminals have become secured and efficient payment and investment platforms, used all over the world.

Smart card and SIM card

It remains that the "french exception" does contribute considerably to the obscuration of the deal. Along with the Concorde and the Minitel, the smart card is one of France "technological glories". We easily forget the french singularity in this field. If payment cards that are micro-chipped, whose paternity is usually said to be that of M. Moreno, are considerably widespread in France, the situation outside our borders is rather different.

Today already, for a few millions of micro-chipped bank cards used in France and a few millions abroad, 700 millions of mobile phones using a SIM card are used each day in the world. Two to three billions are expected in 2003 Thanks to complex software, these "Sim" cards will soon become inescapable ways of payment for any mobile phone owner. The considerable stakes of mastering electronic payment are mobilizing governments, public administrations and industries in the entire world. They are all ready to preserve their prerogatives in order to be free of the monopolistic hold of those who will control the keystone to the future "information Society".

We can also try, at this stage, to decode the jolts of this "New Economy". And ask this elementary question: who will control the key functions of electronic transactions? What strategies are the concerned actors using?

Banks and insurances are already extremely afraid of losing this monopoly. Telecommunication operators, Internet access providers, conglomerates of the industry and the multimedia have decided to control "from top to bottom" the backbone of the "customer" relationship: ways of payment. In Germany, an "alternative" telecommunication operator has just requested a banking licence.

One may guess that in such a context, the temptation to make use of their prerogatives in order to restructure the whole sector to suit their own interest will be high if not irresistible for share holders, banks or institutional investors, who, over the last few years, have granted considerable financing to the Internet and telecommunication actors.

The extreme sophistication of "by-products" employed today in the financial world allows shareholders to "send down" any company quoted on the Stock Market, especially if its valuation is "wild"? They could, for example, speculate on the fact that a company is losing value and buy its shares, infrastructure, technology and clients at a ridiculously low price.

Last November, the star analyst of the Lehman Brothers bank, Mr Ravi Suria was the first to stigmatise the alarming bubble of telecommunication share prices, a phenomenon with no precedents. In a long interview that he gave on the information site "The Street", he admits that he had foreseen the dangers that are threatening the whole sector, and explains how he had advised his clients, some of the most important ones being hedge funds managers, to disengage themselves so as to avoid a disaster. Or how to speculate on the fall of shares while provoking their fall thanks to the media impact of his declaration and, above all, to the direct impact of his investment advice. However, the strike force of the financial institutions in question gives them the right of life or death on the conglomerates known for dominating the world.

De facto, it is the figure of aggressive takeovers through any means, disreputable or less disreputable, which spreads itself over the entire economic and financial

>> 3

<< 3 sphere. If the metaphor of the « quick and the dead » has fallen through, how can we not use the image of the commando to evoke the war-teams, associating commercial bankers, analysts, lawyers, brokers, experts in economic intelligence and lobbyists who, away from the public gaze, dismantle and recreate empires?

Far from wearing the guise of an "assisted economy", disconnected from the real economic mechanisms, the internet, the telecommunication, the "New Economy" give the perfect image of a war economy. Entire chapters of the economy undergone massive restructuring. In a near future, telecommunication operators will be our bankers, insurers, travel agents.

Institutions like France-Telecom or La Poste in France, after their privatisation followed by the inevitable "block selling", will turn into strong poles of conglomerates which will have acquired, from the late public monopoles, their already quasi-subsidiary companies specialized in logistics, network maintenance or access to customers.

Far from marking the end of the "New Economy", the aggressive financial movement that has been affecting Stock Markets for months is the blunt witness of a radical restructuring of the economy of developed countries.

To restrict oneself to demonise a phenomenon which one adulated yesterday does not bode well for a democratic control of a change will which affect us in the most commonplace domains of our daily life tomorrow, beyond what we can even imagine.

■ 3

4 > The Principle of Implicit Demand

There is a notion that has been steadily gaining ground over the past twenty years that the extent of involvement by state and public bodies in the economy is too great, to the point at which "compulsory deductions" have reached an intolerable level. Intolerable for the individuals and businesses that have to pay them. And intolerable for the economy as a whole, considered to be suffering as a result of this "redirecting" towards the public sector, of resources which people could make better use of themselves, if they were able to keep hold of them. These two concerns have been widely disseminated, on the one hand, through the adage derived from economic law, "too much tax, kills tax", a popular - or populist- version of the more learned Laffer Curve, and on the other hand, the effect on private investment of its displacement by public investment.

In this ideological context, the anti-taxation lobby had been anticipating the decision by several European governments to lower taxes: a reduction of 291 billion francs by Germany from 1998 to 2005 and of 200 billion francs by France from 2000 to 2003. The basic justification for this is that state led activity is thought to be wasteful, suboptimal and the cause of economic slump.

The point could be made, in opposing the validity of these decisions, that there is no resulting net deduction since taxes and social security contributions are compensated for by the provision of public services and social welfare. It might also be suggested that there is a modest, yet nonetheless, real element of "redistribution" inherent to these deductions. And finally, it might also be worth indicating that it is impossible to predetermine whether income earners would work more to compensate in the event of an increase in taxes or less in order to reduce the burden. But that's not sufficient. Liberal thinking has to be countered at a theoretical level, via a logical process of reasoning. Only under such a condition, might it be in someway possible to re-establish the legitimacy of public intervention. The following proposal is a step in that direction.

Starting from the Keynesian principle of expectation, it widens the field of application to take in all economic activity. In our economic system, there are two categories of producers; private enterprise and public bodies. As Keynes explained, private enterprises decide to produce when they anticipate a market opportunity for their products which responds to a solvent demand - so called "effective demand" They then proceed to make investments and to put wages into circulation The expectation is validated if the product sells, whilst a slump in sales invalidates it. As for the public bodies, their expectations are based on the existence of collective needs; they make public investments and produce jobs, too. In their case, validation is achieved ex ante by a collective decision and coincides with expectation. In both cases, the injection of money in the form of wages and private and public investment sets the economic machinery in motion and generates the production of private marketable goods and public non-marketable services. In the same way that wages end up being spent on the purchase of manufactured goods, the payment of taxes, once the services are provided, are an assertion by the population of their agreement to the provision of education, social welfare, security and justice. In the case of public services, expectation and the consequent provision of such services by public bodies must logically precede their "payment" by users.

The principle of Implicit Demand

By making the implicit demand for collective services and social welfare explicit, governments make a policy principle of the logic originally set out by Keynes. In order to base a theory on it, you only have to widen the concept of expectation to the decisions relating to public expenditure; those taken in the name of the theory of implicit expected demand.

By Jean Marie Harribey

Professor of Economic and Social Sciences at Bordeaux University. Member of ATTAC France Scientific Council cs@attac.org

Translation: Karen Newby, volunteer translator coordi-trad@attac.org

First Published in Newsletter 74

http://attac.org/attacinfoen/attacnews74.pdf

It might be possible to object that the taxes from year 1 go to pay for the public expenditure of year 2, and so on. But this argument shifts the discussion away from a logical to a historical standpoint and any attempt to identify a chronology lead down a standard chicken and egg style impasse. It is more appropriate then to apply a logical answer to a problem which is of a logical order; since the capitalist economy is a monetary one, should it be possible to make deductions based on a product which doesn't exist yet and, what's more, one which is gleaned from those same deductions? Since it is logically impossible, the converse must be true; it has to be the production of non-marketable services and the monetary revenue derived from it that precede the deductions.

Contrary to prevailing opinion, public services are not paid for by contributions drawn on a pre-existing product. Their monetary value is not withdrawn and then redirected; it is produced. Hence, the suggestion that public investment displaces private investment holds no more water than the suggestion that investment in Renault diverts investment away from Peugeot or Aventis. Let's take it a step further; the suggestion that salaries paid to civil servants are a tap into the revenues of private activity carries no more weight than the claim that private sector wages are paid for by dipping into consumer's pockets. This would be totally overlooking the fact that the capitalist economy is a circuit in which the two founding principles are the independent decision to invest in the production of marketable goods and services, and the public decision to invest in the production of non marketable services.

Put another way, compulsory deductions are compulsory supplements made by social consent and their payment allows them to be renewed year on year. However, continuity in the provision of collective services clashes with a contradiction that can only be overcome through democratic debate; society's demand for collective services is only implicit as there is a hiatus between collective consent to them and individual reluctance to the payment of taxes.

This is contributed to simultaneously by deep seated inequalities in the face of taxation and by the belief, sustained by liberal ideology, that taxation is counter productive and confiscatory. According to liberal ideology, only market production is considered legitimate because it generates value. And more specifically, value containing profit that can be appropriated by individuals or private groups. In opposition, public activity generates neither marketable value nor profit, but it produces user value, or in other words, wealth which is socially useful and beneficial, even to private activity in the form of positive externality, the virtues of which have recently been discovered by the neo-classical economists. But in denying the ancient distinction, established by Aristotle and restored to glory by Smith, Ricardo and Marx, between exchange value and use value, by assimilating the two notions, neo-classical economists let it be believed that satisfaction from use value alone can only be derived from the perpetual extension of exchange value, that is to say from the commercialisation of the world and thus from the decline of public services.

By making the implicit demand for collective services and social welfare explicit, governments make a policy principle of the logic originally set out by Keynes. In order to base a theory on it, you only have to widen the concept of expectation to the decisions relating to public expenditure; those taken in the name of the theory of implicit expected demand.

■ 4

5 > Star Wars Project

The United States is seeking to "control space" and from space "dominate" the Earth below and "control" and "dominate" are words used repeatedly in U.S. military documents. The U.S. military, further, would like to base weapons in space.

The new Bush administration is gung-ho for U.S. projection of space military power. As last month's report of the "Space Commission" chaired by incoming Defense Secretary Donald Rumsfeld puts it: "In the coming period, the U. S. will conduct operations to, from, in and through space in support of its national interests both on the Earth and in space." Star Wars is back.

But there's a difference since Star Wars first emerged under Ronald Reagan in 1983. Then it was purportedly needed to fend off what Reagan called the "evil empire," the Soviet Union.

There is no Soviet Union any longer. And a key rationale for Star Wars now, U.S. military documents acknowledge, is the global economy of which the U.S. is the engine. The U.S. would, from the "ultimate high ground" of space, "dominate" the planet below in part to keep the global economy on track. Says the U.S. Space Command's "Vision for 2020" report , its cover depicting a laser weapon shooting a beam down from space zapping a target below: "The globalization of the world economy will also continue with a widening between 'haves' and 'have-nots.'" From space, the U.S. would keep those "have-nots" in line.

The U.S. Space Command, set up by the Pentagon in 1985, describes itself in "Vision for 2020" this way: "US Space Command dominating the space dimension of military operations to protect US interests and investment. Integrating Space Forces into warfighting capabilities across the full spectrum of conflict."

"Vision for 2020" compares the U.S. effort to "control space" and Earth below to how centuries ago "nations built navies to protect and enhance their commercial interests," referring to the great empires of Europe that ruled the waves and thus the Earth to maintain their imperial economies. Consider the "Long Range Plan" of the U.S. Space Command. "The United States will remain a global power and exert global leadership," it says. "The United States won't always be able to forward base its forces. Widespread communications will highlight disparities in resources and quality of life contributing to unrest in developing countries.The global economy will continue to become more interdependent. Economic alliances, as well as the growth and influence of multi-national corporations, will blur security agreements.The gap between 'have' and 'have-not' nations will widen creating regional unrest.One of the long acknowledged and commonly understood advantages of space-based platforms is no restriction or country clearances to overfly a nation from space."

The U.S. Space Command seeks to become "the enforcement arm for the global economy," as Bill Sulzman, director of Citizens for Peace In Space put it at the international conference last year of the Global Network Against Weapons and Nuclear Power In Space. U.S. citizens are not aware of the broad military plans of the U.S. for space because of the PR spin of the new Star Wars pitch (it's about protecting against a "Space Pearl Harbor," as the

Star Wars Project the « Enforcement Arm for the Global Economy »

What a legacy to be left for our children and their children at the dawn of this new century, this new millennium, if the U.S. succeeds in trashing the Outer Space Treaty and makes space a new place for war. No one will profit but Boeing, Lockheed Martin and Raytheon and TRW, and so on. We have a narrow window to keep space for peace, to strengthen the Outer Space Treaty and ban all weapons in space. We must join with peoples from around the world and stop this move by the United States to turn the heavens into a war zone.

By Karl Grossman

Presentation at Technology and Globalization Teach-In, New York City, February 24, 2001

Professor of journalism at the State University of New York/College at Old Westbury, and convenor of the Global Network Against Weapons and Nuclear Power In Space (352-337-9274 or http://www.space4peace.org or E-mail: globalnet@mindspring.com Its address is PO Box 90083, Gainesville, Florida 32607. Grossman's home address: Box 1680, Sag Harbor, New York 11963. Telephone: 631-725-2858. Fax: 631-725-9338. E-mail: kgrossman@hamptons.com

First Published in Newsletter 71

http://attac.org/attacinfoen/attacnews71.pdf

Rumsfeld Commission puts it, "just" about "missile defense") and due to communications media that are lazy and worse.

But other nations of the world do understand. That's why, at the United Nations last November 20, a resolution was introduced on which 163 nations voted yes for "Prevention of an Arms Race in Outer Space." It reaffirmed the basic international law on space, the Outer Space Treaty of 1967, and specifically its provision that space be set aside for "peaceful purposes." The United States abstained.

A country leading in the international effort to stop the U. S. plans by strengthening the Outer Space Treaty and barring all weapons from space is Canada, no potential rival.

As Marc Vidricaire, representing Canada, said at the UN last year: "It has been suggested that our proposal is not relevant because the assessment on which it rests is either premature or alarmist. In our view, it is neither. One need only look at what is happening right now."

Moreover, stressed the Canadian statement, "There is no question that the technology can be developed to place weapons in outer space. There is also no question that no state can expect to maintain a monopoly on such knowledge -- or such capabilities -- for all time. If one state actively pursues the weaponization of space, we can be sure others will follow."

But the rogue state called the United States is blocking the Canadian initiative. For the U.S. thinks it can be as the motto of the Air Force Space Command terms it"Master of Space." "Master of Space." It appears as a Space Command uniform patch and is in three-foot high letters over the entrance of the Air Force's 50th Space Wing. It pretty well sums up the attitude toward space of the U.S. power structure.

Working closely with the U.S. military in achieving this goal are major aerospace corporations. Indeed, the "Long Range Plan starts out by explaining how it has been U.S. Space Command's "#1 priority.investing nearly 20 man-years to make it a reality" and: "The development and production process, by design, involved hundreds of people including about 75 corporations."

The "Long Range Plan" goes on to list those 75 corporations beginning with Aerojet and going through Boeing, Lockheed Martin, Raytheon and Sparta Corp. to TRW and Vista Technologies.

President Dwight Eisenhower warned in his "farewell address" in 1961 of the influence of a "military-industrial complex." Now, the U.S. military boasts about how giant corporations are helping set U.S. military doctrine. Star Wars, with its powerful backers, never, in fact, went away. Funding at $6 billion-a-year plus monies in the "black" or secret for U.S. space military activities continued through the Clinton administration. Last December, Clinton's Department of Defense cleared the way for development of the "Space Based Laser Readiness Demonstrator"a project of Lockheed Martin, Boeing and TRW with a "lifecycle budget" of $20 to $30 billion. A second space-based laser weapon on which development continued through the Clinton years is the "Alpha High-Energy Laser," now test-fired more than 20 times.

It was Clinton's Assistant Secretary of the U.S. Air Force for Space Keith Hall who said: "With regard to space dominance, we have it, we like it, and we're going to keep it."

And things are far worse now with Bush and Cheney, their administration intimately linked to the aerospace companies Cheney himself a former member of the TRW board, his wife Lynn a member of the Lockheed Martin board and tied to the ultra right-wing "think tanks" that, with the U.S. military, have been promoting Star Wars.

The new administration is pushing hard and fast to make space a new arena of war.

Last month's report by the Rumsfeld "Space Commission" calls for U.S. "power projection in, from and through space." It seeks U.S. "superior space capabilities." It says the U.S. president should "have the option to deploy weapons in space." It emphasizes that it is "possible to project power through and from space in response to events anywhere in the world. Unlike weapons from aircraft, land forces or ships, space missions initiated from earth or space could be carried out with little transit, information or weather delay. Having this capability would give the U.S. a much stronger deterrent and, in a conflict, an extraordinary military advantage." It proposes the U.S. Space Command become the nucleus of a U.S. Space Corps, to be like the Marine Corps and possibly "transition" to a fully separate Space Force or "Space Department" on par with the Army, Navy and Air Force several years hence. As the man whose legislation got the Rumsfeld "Space Commission" established, Senator Bob Smith of New Hampshire, said in an interview just taped with him to be part of my forthcoming "Star Wars Returns" video documentary, involved is the new "manifest destiny" of the U.S. "It is our manifest destiny," said Senator Smith. "You know we went from the East Coast to the West Coast of the United States of America settling the continent and they call that manifest destiny and the next continent if you will, the next frontier, is space and it goes on forever." Now it's U.S. cosmic "manifest destiny."

The book, "The Future of War: Power, Technology and American World Dominance in the 2lst Century," by think-tankers George and Meredith Friedman, concludes: "Just as by the year 1500 it was apparent that the European experience of power would be its domination of the global seas, it does not take much to see that the American experience of power will rest on the domination of space... Just as Europe expanded war and its power to the global oceans, the United States is expanding war and its power into space.Just as Europe shaped the world for half a millennium, so too the United States will shape the world for at least that length of time.For better or worse, America has seized hold of the future of war, and with it for a time the future of humanity."

The rest of the world will not sit back and accept U.S. "world dominance" from space. If the U.S. moves ahead on its program of astro-imperialism, deploys weapons in space, other nations China and Russia right off will meet the U.S. in kind. There will be an arms race and inevitably war in space. As First Secretary of China's UN delegation, Wang Xiaoyu, has declared: "Outer space is the common heritage of human beings. It should be used entirely for peaceful purposes and for the economic, scientific, and cultural development of all countries as well as the well-being of mankind. It must not be weaponized and become another arena of the arms race." "Space domination," he stated, "is a hegemonic concept. Its essence is monopoly of space and denial of others access to it." If the U.S. pushes ahead, "other countries would in response launch their own" space military programs, China vowed. However, China is, for now, holding off and, paralleling Canada's initiative, also seeking an international ban on weapons in space. But the U.S. has rebuffed the Chinese initiative, too. Incidentally, the weapons the U.S. military wants to deploy in space especially lasers will need large amounts of power. And nuclear energy is seen by the U. S. military as the "natural" power source for them. As "New World Vistas: Air And Space Power For The 2lst Century," a U.S. Air Force board report, states: "In the next two decades, new technologies will allow the fielding of space-based weapons of devastating effectiveness to be used to deliver energy and mass as force projection in tactical and strategic conflict.These advances will enable lasers with reasonable mass and cost to effect very many kills." But "power limitations impose restrictions" on such-based weapons systems making them "relatively unfeasible..A natural technology to enable high power," it goes on, "is nuclear power in space."

"Setting the emotional issues of nuclear power aside, this technology offers a viable alternative for large amounts of power in space," asserts "New World Vistas."

The Outer Space Treaty is a visionary document. It is a pact to keep war out of space. The U.S., incidentally, was a leader in getting it enacted. It is now signed now by most nations of the world. Based on the Antarctic Treaty, it calls for the "exploration and use of outer space [to] the benefit and in the interests of all countries" and prohibits the "placement in orbit around the Earth any objects carrying nuclear weapons or any other kinds of weapons of mass destruction." For nearly four decades, it has kept space war-free.

What a legacy to be left for our children and their children at the dawn of this new century, this new millennium, if the U.S. succeeds in trashing the Outer Space Treaty and makes space a new place for war. No one will profit but Boeing, Lockheed Martin and Raytheon and TRW, and so on. We have a narrow window to keep space for peace, to strengthen the Outer Space Treaty and ban all weapons in space. We must join with peoples from around the world and stop this move by the United States to turn the heavens into a war zone.

Getting and spreading the information about what is going on is critical. And then: action, action, action. I urge you to join with the Global Network Against Weapons and Nuclear Power In Space and move against what is happening. We must challenge the anti-environmental, anti-democratic global economy and we must challenge its would-be "enforcement arm"the new U.S. space military establishment.

■ 5