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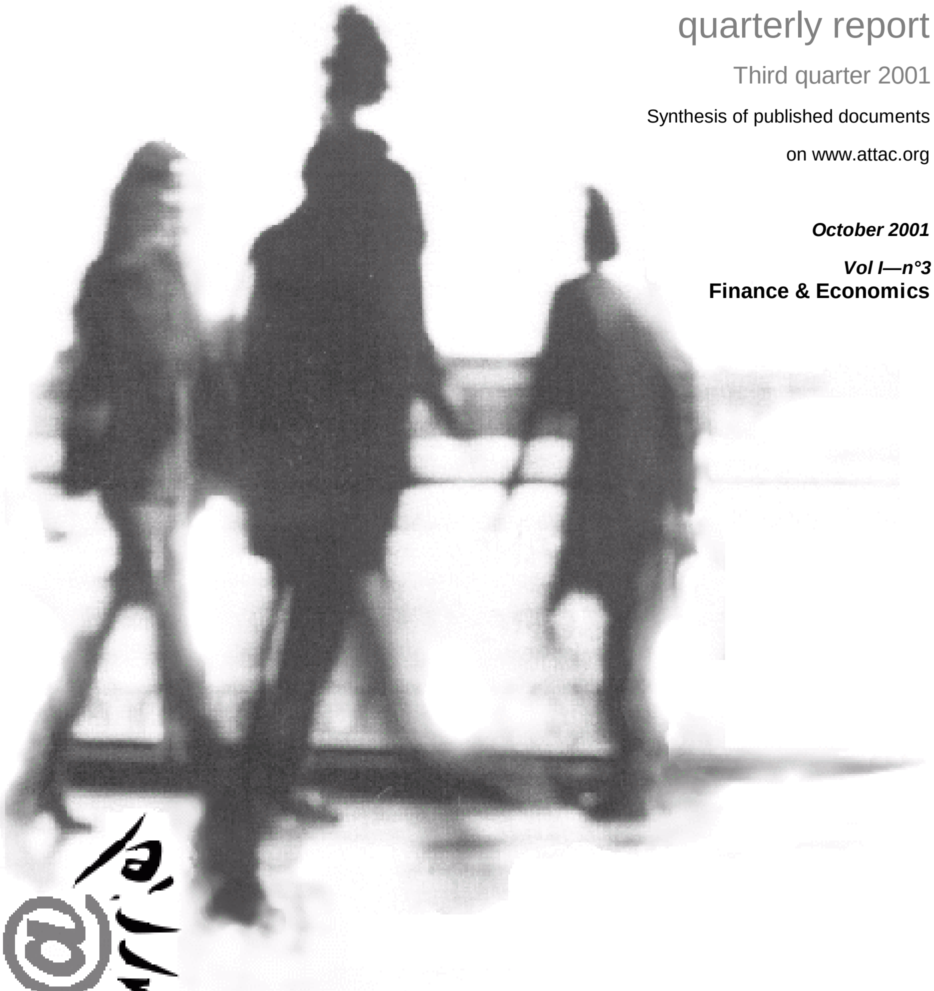

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association for the taxation of financial transactions for the aid of citizens

foreword

> For A Better World.

Any military action that would identify a handful of terrorists with an entire civilian population would only add barbarism to the existing barbarity for the sole profit of the terrorists. The hypocrisy of a bellicose declaration is obvious when we know that Bin Laden militia suspected for the attack and the oppressive Taliban regime has been actively supported by Washington in the past and that the US government refused any action against tax heaven. Yet it is notorious that tax heaven are used by mafias and terrorist organizations to finance their criminal activity. George W. Bush had to finally admit it when he announced that the "war" he intend to enter, will also include a financial side. Other governments such as UK so far refractory to any serious financial control are also following this resolution. The height of the system immorality has been reached, and the proof that money can be made on anything especially death, with the allegation that Bin Laden as an efficient Wall Street trader experienced in obscure speculative operations, would have made an important amount of money by playing with the consequences on the stock exchange of the NY and Washington attacks. With this situation, a proof of the righteousness of its campaigns against lawless finance and for the regulation of money flow, Attac is more than ever determined to follow the core of its action: the fight against the perverse aspect of global capitalism.

> 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 for the Taxation of financial Transactions for the benefit of Citizens.

A citizens' movement linking citizens, associations, trade unions and newspapers founded ATTAC in France on June 3rd, 1998. The idea for this initiative came from an editorial written by Ignacio Ramonet: "Disarm the markets", published in “Le Monde diplomatique” in December 1997:

“The Tobin Tax, named after the American Nobel prize winner for economics who proposed it in 1972, [would allow] for the modest taxation of all transactions on the foreign exchange markets in order to stabilise them, and at the same time, raise funds for the international community.

At a rate of 0.1%, the Tobin Tax would generate an annual sum of about 166 billion dollars, twice the amount needed per year to eradicate extreme poverty between now and the beginning of the century.”

ATTAC's first unique trait is to have from the outset gathered its first four constituent parts from the citizens' movements, organizations of “Popular Education”, unions and from the press. All these constituents gathered around a common objective, to which they could all relate, to re-appropriate “corporatized public space” and give it back to the people.

ATTAC's second unique trait is to have built a structure in France that has both “top-down” leadership at the national level and a militant base that makes ATTAC a genuine citizen's movement with autonomous local groups which can both act locally and feed ideas and initiatives back to the top. Consistency is ensured by a well-defined and democratically determined platform.

It should be remembered that all of this sprang from an initial newspaper editorial. Its author was amazed at the massive volume of readers who responded. 10 months later a first meeting was held in the South of France and today, 2 years later, ATTAC has 25,000 members round the country and 160 local groups carrying out both militant action and educational initiatives to raise public awareness of the issues surrounding globalization.

At a time when economic thought seemed to be reduced to a single “conventional wisdom”, when resistance in terms of trade union influence or alternative economic models seemed to be waning, ATTAC immediately aroused popular enthusiasm by refusing to accept the status quo and the received wisdom from so-called experts, i.e. from an arrogant elite who dominate the debate, ignore democracy and seek to impose financial totalitarianism in the form of economic dictatorship of market forces.

Starting with an initial proposal, the Tobin Tax (Currency Transaction Tax), ATTAC has been carried forward by an enormous wave of support during the last two years from a wide range of public actors and, in particular, citizens who want to better understand, to act, to reverse the predominant economic thinking, and to refuse the dictatorship of the financial markets.

To fight against the domination of the financial markets in a world where everything is progressively becoming “merchandise”, where everything is bought or sold, in reality means refusing the way economic, human, social, and political relations are organized. It means to finally put oneself on an equal political footing with the will to change the world by mobilizing citizens.

As result of ATTAC's development, its increasing significance, increasing memberships and contributions, the association had to become politically active; that is maintain, at different levels, relations with political figures, whether or not they are institutionalized, i.e. official political parties. This situation has raised a number of questions. One is critical: the association's independence and its refusal to be a part of any official political institution.

Today, ATTAC benefits from the broad support of its many members who bring both well-developed and diverse experience, but also many who are new to grassroots movements. This diversity is viewed as a major strength, which brings the association closer to achieving its main objective: regain the space lost by democracy to the benefit of financial markets.

ATTAC's campaign against the dictatorship of the markets requires building a new international financial architecture based on several proposals as foundations of democracy:

1) a global currency transaction tax,

2) the removal of tax havens

3) canceling the debt of developing countries.

This would help citizens to regain space for action and their freedom of choice at the national and international level.

Members of ATTAC include elected officials from various governmental structures, notably the French and European Parliaments as well as local governments. The parliamentarians play a specific role due to their electorate mandates. They are invited to work in specialized networks to develop our proposals and to collaborate with ATTAC headquarters as well as the local chapters in France. At the same time local governments and especially cities have the opportunity to define corporate globalization in relation with human localization and hence play a key role in understanding the processes with regard to the solutions. In this respect the “Morsang Appeal” (text signed by local government officials following out a first seminar held for them in Morsang sur Orge) is an important reference point for activities organized jointly by elected officials and local chapters.

However ATTAC is not a political party nor does it intend to become one, the association presents no candidates for elections, is not bound by electoral goals and its calendar of events and policies are established independently. No member of ATTAC running for election is authorized to represent the association in his or her campaign.

ATTAC's objectives cross paths with many other organizations whether they are NGOs, grassroots movements, unions or political parties. In this respect ATTAC plays a major role as a catalyst for democracy.

ATTAC exists also in 26 other countries, some of them being well developed, others just starting.ATTAC is not a federation. All the ATTACs are independent but agreed on the international platform of the international movement and choose to build an ATTAC around organizations, unions, citizens' movements and citizens themselves. ATTAC functions more like a network.

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1 > The Regulation of the International System

From this point of view, we considered that we were not talking about the International Financial Institutions as such, but about the international system. And that within this international system there are the International Financial Institutions and the dominating powers, but that there is also the citizen movement and its reactions which are changing the system. This method allows for a better understanding of the question of official reclamation of our ideas. Often within the movement, the question of whether or not our ideas have been reclaimed by officials is raised - only the good ideas would be those which would not be reclaimable. In our discussions we tried, instead, to evaluate the validity of a question with regard to its relevance and the goals we have attributed to the movement. In evaluating the danger of, and attempts at, reclamation, the nature of the proposals cannot be separated from an analysis of the situation.

By Gustave Massiah
President of the AITEC

Seminar organized by Aitec, Agir ici et le CRID, with the collaboration of the Gresea, on 22nd-23rd June 2001 – French National Assembly
Published in collaboration with AITEC website http://www.globenet.org/aitec/

Original document:
http://attac.org/fra/list/doc/massiah2en.htm

The objective of the past two days was to tackle the question of regulating the international system starting from criticisms of the International Monetary Fund's role.

In both its preparation and during the course of the two days, the seminar relied on the works of numerous groups active in opposing the world's economic system. We should mention in particular Bretton Woods Project in Great Britain, 50 Years is Enough in the United States, COCAD in Belgium, Focus on the Global South in Asia, Jubilee South in Africa, and the international ATTAC movement. The seminar was part of the campaign for the reform of the International Financial Institutions which, at the initiative of Aitec, Agir ici and CRID, has been pursued in France by various international solidarity associations for several years. It has been received and backed by two Members of Parliament at the National Assembly, Jean Claude Lefort and Yves Tavernier.

Numerous analyses and proposals, which have been examined during the two days work, are currently shared by the different movements in the South and North. This convergence shows the extent of an increasing awareness of the intolerable character of the dominating world economic order. I hope that this seminar will allow us to forge ahead together with the entire world citizen movement which is concerned with international system regulation.

This conclusion, which covers the main lessons we have learnt during the two days of debate, will cover six points. This is one way of regrouping the ideas put forward by different people.

What method should we refer to?

To begin with, we wanted to think for and with the social movement, with the citizen movement concerned by the evolution and nature of globalisation. This is what we tried to do during the seminar, without losing sight of the fact that our sociological composition creates a clear bias, or that we are located in the National Assembly building, which is certainly a prestigious place, but also one which is slightly removed from us.

We continually took the proposals, claims and ways of protest which are emerging from the movement into account. We used the social movement as a tool of analysis, which allowed us to understand the nature of both the institutions and the international system and to explore its dark corners – which affect the social outcasts and pariahs of the system. We also considered that part of the proposals or ideas that we have put forward have been confirmed in regard to the social movement and not only in regard to theory or political debate.

From this point of view, we considered that we were not talking about the International Financial Institutions as such, but about the international system. And that within this international system there are the International Financial Institutions and the dominating powers, but that there is also the citizen movement and its reactions which are changing the system. This method allows for a better understanding of the question of official reclamation of our ideas. Often within the movement, the question of whether or not our ideas have been reclaimed by officials is raised - only the good ideas would be those which would not be reclaimable. In our discussions we tried, instead, to evaluate the validity of a question with regard to its relevance and the goals we have attributed to the movement. In evaluating the danger of, and attempts at, reclamation, the nature of the proposals cannot be separated from an analysis of the situation.

From a method point of view, we put the emphasis on the diagnosis and current state of affairs, from which the goals and orientations were then able to be defined. As Angela Wood (Bretton Woods Project) proposes, it is better to discuss the goals than the techniques. The movement should highlight the goals and orientations and it is on this basis that we can build the mobilisation.

The question of techniques and means is a second problem. This does not mean that it is a secondary problem, but it signifies that we should not make it a priority. Of course, we should take into account the technical dimensions – which is, moreover, one way of responding to objections raised during debates which are aimed at making us seem idealistic and unrealistic. But, above all, it is necessary for demonstration purposes and in order to oppose the legitimacy of the technical word which the International Financial Institutions and the technocrats are trying to monopolise. It is one dimension of the political battle, particularly within international debate and in regard to the media. It is a means and not a goal.

During the discussion, we insisted a great deal on the questions asked at the movement level: the question of the different scales of regulation (local, national, global), the question of choosing between rupture and reform, abolition or radical reform; the question of the ideological battle and the political battle as well as the question of legitimacy and the crisis of legitimacy.

What do we expect from the regulation of the international system?

If we consider the following questions, it is possible to envisage or formulate some proposals. What do we think the International Financial Institutions should be? What do we expect from the regulation of the international system? Taking Pierre Galland's (Forum Nord-Sud, Belgium) remarks, what do we anticipate, what prospective can we put in place and what discourse do we want to hold in today's difficult situation in order to have a better vision and gain freedom?

One orientation is essential: to oppose economic, trade and financial liberalisation with respect for human rights – civil and political as well as economic, social and cultural.

Such anticipation opens up a basic scene for, and line of action and so it allows us to have a real historical perspective. We want to invent and we are inventing a new world in which respect for human rights will dominate. It is in this perspective that we think regulation of the international system is needed.

In this perspective, regulation of the existing world market is far from being the best solution. Therefore, we consider that International Financial Institutions are necessary to act in the long term, but we have no confidence in the orientations of current institutions or the way in which they function.

Very specifically, what we expect of the institutions is monetary system stability, the prevention of financial crises AND a financial system which favours a development which respects human rights and that we call, for the sake of simplicity, sustainable development. In addition, we expect the institutions to function democratically.

These three concrete and digestible goals will be relevant for our movements in the international political debate.

The international system should allow monetary stability and financial crisis prevention to be ensured.

In order that the monetary system is stable and allows financial and monetary crises to be avoided, a certain number of guidelines can be retained:

National sovereignty should be won back in monetary and development matters including fiscal, wage, financial and social policies. Such national sovereignty is a precondition, as underlined by Pierre Salama (GREITD, France), and it should be able to use the international monetary system in order to avoid hyper-inflation increases. However, this does not imply that economic, social and monetary policies are pre-determined by the struggle against all inflation.

Regionalisation can offer interesting prospects in terms of development, economic policies and even monetary affairs as long as it corresponds to a wider political vision which includes the reality of building production sites, regional exchange markets and democratic agreements. And, that for each regionalisation, there are the corresponding political negotiations in which social movements play their role. The three regionalisations brought up during our work – the Latino-American regionalisation clarified by Alberto Acosta (Foro Ecuador Alternativo, Ecuador) and Ceci Juera Vieira (PACS, Brazil), the Asian regionalisation for which the basis of a possible political negotiation was explained to us by Chan Keun Lee (University of Inchon, Korea), and the European regionalisation analysed by Suzanne de Brunhoff (ATTAC, France) – shows that regionalisation is not an end in itself, but can be one of the scenes for political debate and for debating proposals.

Ghazi Hidouci (AITEC, France) insisted that, if it is to be credible, the exchange rate system must be founded on commercial exchanges and not determined by capital flows.

The control of capital flows is imperative as much on an international level as on a national level. The Chilean, Malaysian and Chinese experiences, amongst others, have shown the necessity and the possibility for such control.

This control is structured around the necessity to fight against fiscal paradises, financial laundering and crime, as explained by Dominique Plihon (ATTAC, France).

Taxes, like the Tobin Tax or other taxes, can help in monetary system regulation.

The proposal of a universal currency, defended by Keynes during the first Bretton Woods negotiations remains, despite its utopian character, a perspective to explore.

These are the proposals which prefigure the international monetary system architecture and the institutions which would have the responsibility of ensuring the stability of the monetary system.

The international system should favour a sustainable development which respects human rights.

It should be recognised that every population has the right to define its own development model, as emphasised by René de Schutter (GRESEA, Belgium). This does not mean that there is no internal responsibility for regimes and nation states. On the contrary, we consider that their responsibility is bound, in relation to their people, on the choice of models and development tendencies, especially concerning the respect for human rights.

In regard to development and its financing, several points deserve to be brought to the forefront.

Debt cancellation remains the priority, as Eric Toussaint (COCAD, Belgium) emphasised.

Internal evolutions of the institutions, power games and contradictions should not be neglected, especially, as Christian Chavagneux (Alternatives Economiques, France) remarks, since conditionalities are all becoming structural ones and, therefore, make the content of interventions more political.

Financing development implies access to improved credits and specific credits with no other condition but the possibility of reimbursement.

In the long term, a judicial system of economic, social and cultural rights should be established at both a national and international level and appeal mechanisms should be put in place. In particular, this implies the recognition of creditors' and debtors' co-responsibility for debt creation and decisions.

Discussion should be open on the necessity and the means of making exchange terms more balanced, especially concerning raw material prices and commercial exchanges.

Priority should be given to building domestic markets as well as to ensuring equal access to basic services. It is equal access to basic services which allows respect for human rights to be guaranteed. It allows the fight against poverty to be founded on the refusal of increasing inequalities and discriminations.

The principle of world redistribution is inescapable if we want to ensure all countries with access to financing for development. Several modalities are conceivable in terms of redistribution, like using a tax system, or the making exchange terms more balanced.

What could the function of the institutions who have to put international regulation in place be?

In the immediate future, we must insist that democracy and transparency are a necessary basis for the operation of all the international institutions.

The institutions' sphere of competency should also be limited to their mission and they should be refused the role of poor countries' tutor which has been attributed to them by rich countries and by the group of world economy shareholders who currently run the institutions.

These institutions, as pointed out by Njoki Njoroge Njehu (50 Years is Enough, United States), should be integrated in the United Nations system which has the double advantage, in terms of principles, to not be based on a voting system of one dollar, one vote, but of one country, one vote and to have as its founder chart the Universal Declaration of Human Rights.

Finally, evaluation and appeal units should be created, as previously mentioned, and the evaluation of the institutions and their policies should be entrusted to one of the United Nations' agencies.

How should the resistance and proposals be formulated?

What are the movement's current prospects? How should opposition and proposals, which could be taken on board by a citizen movement concerned by the nature and evolution of globalisation, be formulated?

In the first place, it is necessary to affirm the goals of a citizen movement which focuses on the international system in today's times. This will then allow us to define the elements of the movement.

The movement's two goals are:

- the transformation of the balance of powers between capital and work,
- the transformation of the balance of powers between the North and the South.

Anyone who considers that there is currently a worrying situation, in terms of jobs, poverty and income distribution between capital and labour, as well as a dramatic imbalance between North/South relations including on military questions and conflicts, should be called upon to take part in this movement.

These two elements determine the quality of the international order: in order for it to be less unjust, the balance between capital and labour and between North and South must also be less unjust. There are clearly other questions on an international level, but it is these two which should be brought to the forefront.

Chan Keun Lee insisted on the problem of the ideological battle against liberal facts. As for Pierre Salama, he reaffirmed the necessity to struggle against the liberal idea which maintains that all states are inevitably corrupt, bureaucratic and ineffective. This makes the struggle that we have to lead against bureaucratic, technocratic and authoritarian deviance all the more urgent.

The IMF, like the World Bank, are organising their legitimisation as Elsa Assidon (Paris University IX, France) has analysed. The proposed consensus is to link trade and financial liberalisation. We are in a period of ideological and institutional hardening. Faced with such logic, we should advance the power of employees in relation to shareholders, democracy within businesses and the boycott of banks which use casino economy practices.

As for the question of slogans, there is currently a discussion between those who consider that we are in a period in which we should ask for the abolition - a temporary shutdown in order to create new institutions - and those who think that the current crisis offers an opportunity to obtain evolution by imposing structural reform. It is not a dogmatic or theological question, but consists of an analysis of the situation and its current political opportunities. The debate is open and each movement should appreciate how progression is to be made in regard to the common goals.

There are currently four active campaigns launched on an international level, but which all rely on national mobilisation and citizen commitment without which they would have no sense:
- Campaign against the World Trade Organisation (WTO),
- Campaign against financial speculation and for the Tobin Tax,
- Campaign for debt cancellation,
- Campaign for the reform of the International Financial Institutions.

Two other campaigns should be strengthened or launched:
- Campaign on transnational companies as stressed by Ghazi Hidouci.
- Peace Campaign, as noted by Pierre Galland.

These six campaigns represent, for the moment, what we should develop in the South and the North, in each of our countries and on an international level.

2 > Stabilizing Exchange Rates

People tend to think in shortcuts. Useful as these are, they can also be misleading. The classical shortcut linked to the Tobin tax is: “It won’t work!” Some scholars would even know how to add one or two arguments, and carry on with their usual business. This standard reflex is all too effortless, and—incidentally—fallacious.

When, following the crisis of the Mexican peso in the mid-nineties, I was asked by the Fiscal Affairs Department of the International Monetary Fund to study the expediency of a tax on international financial transactions, the so-called Tobin tax, my first reaction was the standard shortcut. But since it was an exciting research proposal, requiring review of an extensive literature and empirical evidence on taxing financial transactions (such as on stock markets, foreign exchange deposits, and the like), I was ushered to ponder a bit beyond the orthodox paradigm.

Yes, I found a number of arguments that disqualified Tobin’s scheme. I still believe that the tax, as proposed originally, risks impairing financial operations and creating international liquidity problems. Moreover it would not deter speculation.[1] However I was sympathetic of Tobin’s concern about unfettered foreign exchange markets. And I ventured that taxation could eventually become a healthier device to stabilizing exchange rates relative to the conventional instruments of monetary policy.

First of all, taxation conforms to the market; extemporized monetary policy does not.

Second, taxation has to be set up in advance and is therefore predictable; monetary policy may be unpredictable and/or reactive. Worse: predictable monetary policy could even encourage speculation (for instance if agents can expect a bail-out).

Third, (hyper-) active monetary policy must eventually signal distress to the market in times of exchange-rate turbulence, which attracts and reinforces speculation. Taxation, as a customary device, is basically neutral while its built-in stabilizers are at work.

Fourth, taxation could raise substantial revenue in periods of exchange-rate volatility; monetary policy would either surrender valuable foreign-exchange reserves, or shell out interest payments well above long-term equilibrium rates. Where a beleaguered country could benefit from taxing speculative transactions, the conventional wisdom expects it to sacrifice valuable national resources.

And fourth, taxation could render monetary policy more independent from the vagaries of foreign exchange markets. In contrast a central bank, in troubled waters, could eventually face an asset constraint and require outside support from lenders such as the International Monetary Fund. This would increase its foreign debt and the interest burden of the country under assault, which renders its currency even more vulnerable to speculation. Moreover the foreign debt in local money would further increase if monetary policy were unsuccessful in stabilizing the exchange rate, which is—alas—often the case.

Given these considerations it is hard to understand why taxation of foreign exchange transactions has found so little interest among policy makers during the last decade, which was characterized by severe currency crises in different parts of the world (the EMS devaluations in the early 90s, Mexico, the CFA-zone, South-East Asia, Brazil, not

The contradictions of the Tobin tax can be overcome by a two-tier tax arrangement. The first tier would raise revenue at a moderate scale without necessarily distorting financial operations or encourage tax avoidance. The second tier would care about exchange rate stabilization. Moreover, complicated as the scheme may appear, it is easy to implement unilaterally. Its relevance is therefore limited to developing and emerging economies that aim at pegging their exchange rates to a vehicle currency. It is questionable whether the scheme would be needed for the larger segments of world foreign exchange markets such as dollar-euro-yen exchanges. These markets could eventually be managed through closer cooperation among central banks.

By Paul Bernd Spahn

Original document:
http://attac.org/cec/doc/tt06.htm

to speak of the formerly communist countries including Russia.)

Fortunately, the usual prejudgments against the Tobin tax are unwarranted. A slightly different institutional setup of the Tobin tax would be sufficient to render it viable, both as an anti-speculation device and a revenue producer.

The Tobin tax in the light of new developments

Tobin proposed a tax on international financial transactions in the early 1970s. The objective of the tax was to reduce speculation and render exchange rates more stable. Tax revenue was then expected to be low and played only an auxiliary role in his proposal.

Tobin's scheme mirrored the experience of a fixed-exchange-rate regime (Bretton-Woods) and speculation against its anchor currency, the US dollar. At the time the dollar was the vehicle currency for international transactions and there were just three motives to move out of the dollar into national currencies and vice versa, two of them 'honorable' (the sale or purchase of dollars for exports and imports; and for transactions relating to foreign investments), and one 'less honorable' (the sale or purchase of dollars in a speculative bet). A tax on foreign exchange dealings would penalize all transactions, but speculative round-trips would be hit more severely than transactions based on longer-term business relationships. One could therefore reasonably expect the tax to contain speculation and hence reduce exchange rate volatility.

In the early 1970s, the volume of foreign exchange transactions was roughly in line with the monetary equivalent of the underlying real transactions: imports and exports, and foreign direct investments. Pure financial transactions (such as liquidity trading in foreign exchange among banks) were hardly developed and, where they occurred, mainly effected in US dollars. However thirty years later, financial markets have dramatically changed. Telecommunication networks and computing permit the almost costless transfer of funds among financial agents, from anywhere at any time. Moreover foreign-exchange markets have substantially diversified—with the euro and the yen starting to rival the US dollar. Other important currencies remain pound sterling and the Swiss franc.

Worldwide foreign-exchange transactions have now reached a volume of roughly 1.5 billion US dollars per business day, the overwhelming part being taken by trading among banks. Such dealings are basically detached from the real economy. They serve to transfer liquidity from one financial center to the other, often at extremely short notice, and to hedge against exchange rate risks. They allow exploiting minute discrepancies between interest rates through arbitrage at a global scale. These transactions are in essence stabilizing. However in periods of turmoil, the sheer volume of liquidity in international financial markets may also represent a considerable potential for destabilizing speculation.

What do we understand by 'speculation'? With fixed exchange rates (or administered prices) speculation is easy to characterize: It will occur whenever the official price of an asset deviates significantly from its intrinsic value as perceived by market participants. Some agents would then 'speculate' on a downward revision of the price and sell a supposedly overpriced asset as long as the official price still holds. Vice versa they purchase low-priced asset if the administered price is expected to increase. The larger the number of speculator and the volume of sales/ purchases becomes, the more will authorities be under pressure to revise the official price, which fulfills the expectation of speculators at the end of the day. This is exactly what happened to the US dollar in the early 1970s when the Bretton-Woods System went in its final phase.

Under a flexible exchange-rate system, speculation is more difficult to define. If prices would continuously reflect economic fundamentals and establish an equilibrium between supply and demand, a bet on the devaluation or revaluation of a currency would be costly for speculators. Theoretically, speculators would lose money and speculation would not occur in this instance. However this has to be qualified mainly for two reasons:

Exchange rates may deviate from equilibrium due to policy intervention. For instance monetary policy may be geared towards stabilizing domestic prices (or pegging the exchange rate) through high interest rates (e.g., Latin American countries during the 1990s).

The price as perceived by markets may substantially deviate from its intrinsic value based on fundamentals (e.g., the currencies of some South-East-Asian countries).

While the first point is typically uncontroversial among economists, the second point is more difficult to rationalize. Why would the market fail to recognize the intrinsic value of a currency? One explanation could be that information is not fully exploited. Yet advocates of rational behavior in financial markets will reject this view. Another explanation is more delicate: the market price may deviate from equilibrium because speculators bet on policy interventions in the form of a rescue operation. For instance, they invest into a currency regardless of its price hoping to be able to liquidate the asset at short notice without a significant exchange rate risk. This is true whenever markets can reasonably expect authorities to react under siege by surrendering the country's hard currency reserves, or by making use of international borrowing. In this sense, conventional prescriptions for stabilizing exchange rates through monetary policy would tempt speculators and encourage moral hazard. More importantly: the International Monetary Fund is part of the problem whenever markets can reasonably expect the Fund do be committed to a bail-out operation. Such policy dilemmas may have played a role in the wake of the South-East-Asian currency crises of the late 1990.

Thus speculation under fixed exchange rates is fundamentally different from speculation under flexible exchange rates where speculators typically carry a risk. Whether this risk is eliminated (or at least tapered) depends on the convenience of organized rescue operations (monetary policy interventions and/or international bail outs).

The new circumstances in international financial markets have not only changed the setting of monetary policy, they should also have a bearing on the Tobin tax as originally proposed. The question is whether the Tobin tax is still an effective mean to stabilize exchange rates in this new financial environment. The answer is yes, and no.

Yes, because it could definitely release domestic monetary policy from intervening in foreign exchange markets, and it could render an economy less dependent of international rescue operations.

No, because it could eventually smash up a sophisticated global network of financial transactions with its ability to stabilize expectations and to hedge against risk through market operations.

In order to resolve this basic dilemma a number of questions have to be answered, which I shall explore further below.

The Tobin tax and revenue considerations

The Tobin tax was initially designed to be a multilateral and comprehensive scheme covering all major financial centers of the world. The tax rate proposed was comparably high: one percent on each leg of the transaction. However, given the relative size of foreign exchange transactions in the early 1970s, revenue was expected to be low. Tobin would assign the tax yield to a multilateral international organization such as the Worldbank or the International Monetary Fund. Theoretically this is a sound solution as these institutions bear indeed responsibilities at a global scale. Whether it is feasible politically or practically is yet another question.

Today revenue aspects of the Tobin tax have often moved to the forefront of the debate. Some proponents of the tax are even prepared to betray Tobin's original objective: exchange rate stabilization. The reason for this is conspicuous. A multiplication of the daily volume of foreign exchange transactions with even a minute tax rate of, say, one basis point makes a figure of more than 30 billion US dollars yearly. Applying the tax rate proposed by Tobin originally would even multiply this figure by one hundred. Think of what could be done with this money at a global scale: combat of poverty and deprivation; resolution of environmental and medical hazards; basic research to the benefit of all; etc.!

Alas! Such calculations are nothing but calculations. A tax on financial transactions is likely to provoke reactions by economic agents that would ruin the number game. For illustration: even a rate of one basis point represents a significant burden for agents whose margin of operation may be as low as 3 – 4 basis points. Higher tax rates risk to wreck such markets altogether. The tax would incite avoidance schemes through non- or low tax substitutes of liquidity. Or operations would be carried out in tax-free havens. Eventually markets could avoid foreign exchange operations altogether by retracting into a major vehicle currency for their liquidity operations: the US dollar or, eventually later, the euro. This is why the tax appears to require international cooperation if revenue aspects play the dominant part.

Furthermore it is dubious whether the largest market of all, dollar-euro exchanges, would need a tax to stabilize the exchange rate. In the end the money supply of both realms is controlled by two super central banks that represent a world duopoly. In the longer run they can be expected to cooperate in fending off speculation against either currency. Add the political objections of a United States Congress hostile to the ideas of American citizens becoming subject to international taxation, and the obvious inability of European governments to coordinate their tax policies, and the fate of the Tobin tax as an instrument for stabilizing the dollar-euro rate appears to be sealed. If this largest foreign exchange market is realistically excluded from the Tobin tax, its revenue potential is severely curtailed and bleak.

However revenue considerations may still play an important role if the Tobin tax is introduced unilaterally by one country that aims at pegging its currency to a major currency zone. For countries such as Argentina and Brazil, the yield of the tax could represent a substantial part of their budgets, especially in periods of speculation. Moreover tax assignment—an extremely intricate problem at the global scale—would be implicitly given: the respective country would of course, retain the revenue and decide on its use alone. This may not please the advocates of the tax who strive for ambitious projects at a global scale. It would still attend those countries and their citizens, typically of developing and emerging economies, which would represent a major step forward in combating poverty and deprivation in this world.

But the question is: Can a Tobin tax be used unilaterally without harming the respective country? Would international transactions continue to plug into the capital market of that country? Skepticism is warranted here, but the answer is positive to these questions. All depends on the design of the scheme, which I shall present later on.

Operational issues

I must be short on operational issues, but of course the skeptics also advance a large number of arguments why the Tobin tax could not work. They enumerate

Legislative aspects (Who would legislate the tax and how?)

Problems of tax assignment (Who should get the proceeds from the tax? Which are the criteria for distribution?)

Aspects of tax administration (Who collects the tax? Who administers and monitors it? Which judiciary would be responsible in the case of litigation?)

Structural aspects of financial markets and options of tax avoidance (How to treat special agents such as central banks, governments, international organizations, financial institutions, and market makers? How to handle financial innovations, in particular outright forward and futures transactions, swaps, and options? What about liquidity surrogates (such as gold)? What about tax havens?)

Much of this concern relates to Tobin's original proposal and is indeed warranted. But legislation, tax assignment and administration would pose no problems where the tax is levied on a unilateral basis by some countries. Moreover, what I had suspected in my earlier study and what Rodney Schmidt[2] has confirmed convincingly in more detail, administrative issues are relatively easy to handle in a world where foreign exchange transactions are basically effected through large electronic wholesale markets. All that is necessary are minor alterations of software packages in order to assess and collect the tax. Finally, since all transactions affecting exchange rates are typically settled at central bank accounts, levying the tax at the stage of settlement is technically feasible and easy. This may not cover all transactions, for instance OTC operations, but these are carried out at an investor's own risk and would not affect the exchange rate directly. They are of no concern for those interested in exchange rate stabilization; and the revenue loss is minor for those concerned with revenue aspects.

As I am mainly anxious to stabilize exchange rates, I am less nervous about tax avoidance schemes as long as they do not affect the price of a currency. Why should companies and banks not effect the netting of their foreign exchange assets and liabilities in order to avoid the tax? This does in no way affect the exchange rate. If there are forward transactions, these may affect the price in future markets. But authorities should mainly worry about the current exchange rate, which is established in the spot market. So all depends on the objectives and the institutional setting of a tax on international financial transactions. And I think that the two opposing objectives cannot only be reconciled; the scheme could also be easily put in place and work.

The Tobin-cum-circuit-breaker tax

The basic concept of my own proposal was instigated by an observation of Tornell.[3] He argues that an optimal Tobin tax would have to operate with a zero tax rate (or, equivalently, a zero base) when the exchange rate is in equilibrium, and it would increase in accordance with the degradation of equilibrium. The Tornell variant of the tax has either a fluctuating tax base, or variable rates. This is in sharp contrast to Tobin's original proposal of a uniform tax rate on international transactions. The dilemma of a fixed rate Tobin tax is that a low level of, say, 1 percent on a round-trip transactions is unlikely to deter investors who will expect a short-term devaluation of, say, 5 percent during periods of speculation. While the Tobin tax may raise revenue with a low rate, it cannot fulfill its chief objective, exchange rate stabilization. And a high rate would, of course, become a serious impediment to efficient financial intermediation.

Revenue raising and exchange rate stabilization are therefore irreconcilable objectives. The solution is a two-tiers tax where the first tier, with a low rate, serves to achieve the revenue objective, while the second would be an anti-speculation device. Fortunately, as Tornell has observed, the second tier does not have to operate all the time. It should only be triggered in times of exchange rate volatility. This means it would not affect exchanges in normal times at all. And to the extent that it fends off financial investors who fear the eventuality of it being triggered, this may even be beneficial to a country. Such investors are likely to be interested in short-term commitments only, and as we have seen more recently, short-term capital inflows are often a cause of concern because their potential exit carries a severe exchange rate risk.

How should the two tiers of the Tobin tax be designed in order to meet their respective objectives?

The underlying transaction tax

A small nominal charge[4] on foreign exchange transactions could serve as a revenue instrument. It should raise the cost of capital insignificantly in order to be neutral on the volume of currencies transacted. The tax should focus on spot transactions, but could also be employed on derivative trades, at a standard lower rate of, say, half the standard rate. This would allow derivatives markets to function at low costs, yet prevent the emergence of derivatives as a tax avoidance device. The tax would function on a recurrent basis and raise stable revenue without necessarily impairing the normal liquidity function of world financial markets.

The circuit-breaker tax

The circuit-breaker tax combines two conventional elements:

An exchange-rate normalization duty (ERND), which is essentially a Pigou tax on an externality. Taxing externalities is by no means innovative. It is typically used in environmental taxation where the aim is to internalize the social costs of pollution into market prices. Thus the tax base has to be defined as to represent the social costs of speculation. Since these vary over time—they are high in periods of speculation and zero under normal circumstances—the tax base should reflect these particular conditions.

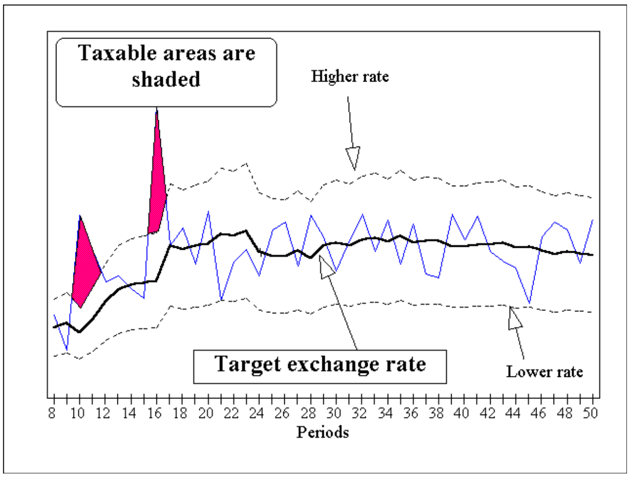
An institutional stabilization framework that defines the workings of the charge. The mechanism should be transparent and stable, and work on the basis of well-established quantitative criteria. The framework of the charge is inspired by the arrangements of the European Monetary System (EMS I), which also needed a standard institutional setting for monetary policy operations. A similar scheme should be adopted for the second tier of the Tobin tax.

The two taxes would be fully integrated, the former tax constituting the operational and computational vehicle for the latter.

Ideally the ERND taxes the 'negative externalities' associated with excessive volatility. For normal operations, the tax would be dormant and raise no revenue at all as no such externalities exist. This secures efficient trading in financial markets. The ERND would, however, function as an automatic circuit breaker whenever speculative attacks against currencies occur (if they materialize at all under this scheme). It should be confined to spot transactions only. However revenue from the exchange surcharge would be zero if it were to achieve its objective.

The institutional framework defines the externality and establishes the exact tax base. The ideas borrowed from the EMS are a reference point—the equivalent of the daily ECU rate—and a 'target zone'—a predetermined band wherein the exchange rate can move freely without policy intervention[5]. For the ERND the reference rate could, for instance, be a moving average over the last 20 business days for a unilateral peg. The interval should be sufficiently short to avoid 'leaning against the wind' and allow markets to adjust to changes in economic fundamentals. However, a well-defined band around this target rate would serve as an institutional barrier against excessive short-run fluctuations of the exchange rate, because trading outside the band would be penalized.

The workings of the ERND is illustrated in the following graph:



The scheme combines various elements for stabilizing exchange rates (apart from the objective to raise some revenue). It contains a framework for managed floating with a clearly defined target zone. A crawling peg plus a safety margin in percent determine the target zone[6]. The rules are well-defined and can be counted on by market participants in advance. This should stabilize expectations. Policy intervention is automatic and spontaneous. This avoids the problem of 'negative signaling' and policy distress. Moreover, the scheme is based on a fiscal instrument, which relieves monetary policy from the burden of short-term policy interventions in response to the vagaries of daily exchange rates, and it raises money in contrast to the losses incurred in the case of monetary policies.

Of course, the scheme is unable (like any other short-run stabilizing monetary policy measure) to compensate for structural problems of the currency. Redressing an ailing economy is not the purpose of the exchange-rate normalization duty. On the contrary, the scheme allows the continuous and smooth adjustment to 'fundamentals' by avoiding a 'leaning against the wind'. Desirable corrections of the exchange rate are possible as the target rate, the moving-average, is allowed to converge to its equilibrium pace. Only erratic short-term volatility induced by speculation would be reduced through the scheme.

Conclusions

The main conclusion is that the contradictions of the Tobin tax can be overcome by a two-tier tax arrangement. The first tier would raise revenue at a moderate scale without necessarily distorting financial operations or encourage tax avoidance. The second tier would care about exchange rate stabilization. Moreover, complicated as the scheme may appear, it is easy to implement unilaterally. Its relevance is therefore limited to developing and emerging economies that aim at pegging their exchange rates to a vehicle currency. It is questionable whether the scheme would be needed for the larger segments of world foreign exchange markets such as dollar-euro-yen exchanges. These markets could eventually be managed through closer cooperation among central banks. However these markets could certainly carry a low-rate Tobin tax of, say, one basis point as well. It is difficult to see why a trifling transaction tax should be so detrimental to a market that has benefited from a dramatic fall in transactions costs over a quarter of a century. However the main obstacles are political relating to a lack of policy coordination, dilemmas of tax assignment, and ultimately power.

[1] For more details see Paul Bernd Spahn, Internatio-nal Financial Flows and Transaction Taxes: Sur-vey and Options, Working Paper Series No. WP/95/60, International Monetary Fund, Washington D.C., (June 1995). See in particular Chapter V: Issues of Tax Design: The Four Dilemmas of the Tobin Tax

[2] Schmidt, Rodney, A Feasible Foreign Exchange Transactions Tax, Working Paper, VEEM - North-South Institute - Vietnam Economic and Environment Management, March 1999, available for instance at http://attac.org/fra/toil/doc/veem.htm .

[3] Tornell, Aaron, “Real vs. Financial Investment: Can Tobin Taxes Eliminate the Irreversibility Distortion?,” Journal of Development Economics (Amsterdam), 1990, Vol. 32, pp. 419-44.

[4] I am deliberately unspecific as to the level of the first-tier-tax rate. I ought to vary by currency. It must be higher if agents operate with margins as large as 10 percent and more, which I have experienced in some countries, than if their margin has to be reckoned in basis points.

[5] I should mention in passing that the EMS was misconceived in that fundamentals may deviate from the equilibrium real rate of exchange over the longer run. This would necessitate continuous exchange-rate adjustments, which required occasional corrections of the scheme.

[6] The margins may differ for different currencies, but the same rules would apply to all markets and to all institutions operating in the market.

3 > The Tobin Tax Affair in France

While visiting Athens, the Prime Minister said he thought he could detect a "new element" in James Tobin's declarations. At best, this proves that he is not properly informed by his advisors. However, he inspires a rather different analysis when he goes on to say "The fact that the tax's originator remains faithful to it but has his own opinion on those who nurture and defend it religiously is still an element for intellectual discussion. You know, I do not like magical thinking that much, so I would like a number of instruments and ideas to be looked into in depth". In reality Lionel Jospin, currently in total agreement with Laurent Fabius, instead of defending Tobin-tax implementation in Europe, intends to rid himself of it by passing it on to the IMF or OECD where it will be promptly buried. It would be more honest for Jospin to state his intentions openly rather than, in a burst of false naivety, seeking comments from the Nobel Laureate to justify his own elusiveness.

By ATTAC France
Press Releases

Original documents:
http://attac.org/fra/asso/doc/doc67en.htm
http://attac.org/fra/asso/doc/doc65en.htm

1- Rectifying a Media Manipulation. James Tobin, the Tobin Tax and Attac

The publication of James Tobin's Der Spiegel interview in the United States and in several European magazines offers a prime example of how information can be manipulated for political ends.

1.- Does James Tobin support the Tax that bears his name?

The interview confirms that the answer is "yes". The Nobel prize winning economist continues to support the proposal. Literally: James Tobin stated its merits in a long interview published in the Spring 1999 edition of Politique internationale (no. 83). And in May, 2000 he reaffirmed his position by joining hundreds of the world's economists in signing the World Economists' Call launched by the Washington-based Center for Economic and Policy Research (CEPR).

What does the Call say? "Taxes on speculative financial activity, such as the so-called "Tobin tax" on currency transactions, make speculation more expensive and therefore reduce the volume of speculation. This can contribute to stabilizing financial markets. The record of financial transaction taxes in the past and long-standing evidence of the success of other forms of financial regulation demonstrate that taxes on financial speculation can be implemented successfully."

2.- With his tax, James Tobin seeks to help to stabilize the international financial system. Is he also interested in the proposal's redistribution aspects?

His answer to this question is not as categorical as has been reported. On one hand, in the September 11th issue of Le Monde, he states "the fiscal revenue is only a secondary consideration for me", but adds "I would be pleased if these funds reached the planet's poor". The Washington Call which he co-signed states explicitly "in addition, this type of tax provides an opportunity to raise significant levels of revenue which can be used to meet important social needs".

3.- Has Attac ever misrepresented James Tobin's position?

Never. In all their articles, books and speeches, Attac's leaders have always been extremely careful to distinguish the Nobel Laureate's goal, which our organization shares (we know that financial crises strike the poor the hardest), from our two other goals. These are:

- to make funds available for development needs in the South, such as providing access to drinking water for the billions of people who lack it, the fight against AIDS and malaria, etc.;

- to allow governments, and therefore citizens, to reclaim part of the democratic space given over to the financial markets. We believe that this is the main reason for opposition to the Tobin tax from financial circles and their political spokespersons. With good reason, they see it as a precedent that Attac and other citizen movements would use to demand even more economy and capital-flow controls.

4.- Does one of the Ts in Attac stand for Tobin?

No. Attac stands for "Association for the Taxation of Financial Transactions for the Aid of Citizens". When, in his Le Monde diplomatique article of December 1997, Ignacio Ramonet, its director, launched the idea of Attac, he included "Tobin tax" in the association's name. However, he invented the acronym before defining its full name. He certainly had in mind articles on the Tobin tax that Le Monde diplomatique had published during previous years.

However, when the association was created in June 1998 and its articles registered, "Tobin tax" did not appear in its full name. The two Ts referred to Taxation of (financial) Transactions. This was done for two reasons: so as not to implicate Tobin, even indirectly, and more so to avoid limiting Attac's field of action to the tax. As Attac's constituent platform makes quite clear, taxing financial transactions is only one way of fighting neo-liberal globalisation. We are equally involved in fighting the WTO, debt, tax havens, multinationals and so on. Limiting Attac's actions to the Tobin tax shows total ignorance of the association.

5.- Has Attac misused Tobin’s name?

Attac has never identified Tobin among its supporters. Indeed, in his speeches on this topic, Bernard Cassen, Attac's President, regularly refers to Tobin's comments during a telephone conversation they had in the Winter of 1998. Cassen had invited the economist to a conference on the Tobin tax, which took place in Paris on January 25th, 1999.

The conversation was quite cordial. James Tobin said that he was delighted to learn that Attac's membership (just over 5,000 at the time) already exceeded the number of North Americans who knew his name! He made it clear that he was not a "revolutionary" - no secret to Cassen - and said that he would not be able to attend the conference, both due to his wife's state of health and so as not to be linked personally to an association whose goals he did not share. He recalled that, for him, the Tax's appeal was limited to its role in reducing exchange-market instability. Cassen assured him that he understood and respected the economist's position perfectly.

However, Tobin's name is one thing, and that of the Tax another. Indeed, generations of economists - not Attac - named the proposal for taxing speculative financial activity. The Tobin tax has become a concept in the public field. Like the Gauss curve or Pythagoras theory, its existence is independent of its creator. Like many other organisations, Attac promotes and has broadened it - a fact that we assume fully - to cover issues that were not in Tobin's original aim.

6.- James Tobin does not believe that his Tax will ever be implemented

"Unfortunately, it won't be", he says. "International decision-makers are opposed to it." Attac's very fight is to make these decision-makers, in France and Europe initially, change their minds. To twist Tobin's words so that they support a result that he would be the first to deplore is intellectually very dishonest.

7.- Does the fact that Tobin has distanced himself from the movement against neo-liberal globalisation pose a problem?

Not at all. We were aware of his position and have communicated it from the outset. However, we would point out that in the May 1999 Appeal that he signed, Tobin stated "for these reasons, we support the development of the international movement that seeks to implement legislation to impose appropriate taxes on financial speculation".

8.- James Tobin does not seem very familiar with Attac, especially as regards its position on violence during demonstrations

That is correct, as he has said himself: "I am not really familiar with the details of their proposals. The demonstrations you refer to have been somewhat inconsistent. However, I do not know whether they reflect Attac's stand."

The fact that James Tobin associates Attac with violent groups can only be the result of current disinformation in the U.S. press, particularly the Wall Street Journal. Our writings and activities refute these unfounded charges. However, we do not blame Tobin for believing what he reads in his country's newspapers.

Following his telephone conversation with Bernard Cassen, it was clear to us that James Tobin did not wish to be associated with Attac. We chose not to bombard him with regular press releases or our weekly English-language email newsletter. This was a mistake that we will remedy so that the Nobel Laureate, whom we regard most highly, can learn about our positions and activities directly.

9.- What about the uproar that publication of Tobin's interview provoked?

Given the extent of the movement in support of the Tobin tax in France, Germany and other European countries, it was obvious that the press would want to know the Nobel Laureate's position. We are delighted about this, and even more so that Tobin confirmed his desire to see the Tax implemented, even if he does not believe it will happen, given government hostility.

The problem is therefore not the text's publication, but its manipulation. Tobin is quoted here and there as being "against" his own tax (e.g. Libération of 9th September, 2001 and other self-interested columnists' comments). Through disinformation, they are seeking to undermine the position of Tobin-tax supporters on the very eve of the meeting between Attac and Laurent Fabius and above all of the 22nd-23rd September meeting in Liège of the EU finance ministers (Ecofin) that has the proposal on its agenda.

10.- What about Lionel Jospin’s comments on the subject?

While visiting Athens, the Prime Minister said he thought he could detect a "new element" in James Tobin's declarations. At best, this proves that he is not properly informed by his advisors. However, he inspires a rather different analysis when he goes on to say "The fact that the tax's originator remains faithful to it but has his own opinion on those who nurture and defend it religiously is still an element for intellectual discussion. You know, I do not like magical thinking that much, so I would like a number of instruments and ideas to be looked into in depth".

Since Lionel Jospin takes an “intellectual” tone, Attac would like to point out to him that:

- we do not see how Tobin's assessment of Attac, acknowledged by himself as being approximate, could in any way affect the Tobin tax's legitimacy;

- Attac does not either worship the Tobin tax or invest it with magical properties. Firstly, our extensive texts prove that we do not consider it a cure-all, and we have many proposals for regulating capital flow. Furthermore, the Tobin tax is only one of Attac's demands. The Prime Minister is well aware of this, as his government has shown at Parliament that it is hostile to several other of the association's proposals, on a self-financed retirement system and profit-driven job cuts.

In reality Lionel Jospin, currently in total agreement with Laurent Fabius, instead of defending Tobin-tax implementation in Europe, intends to rid himself of it by passing it on to the IMF or OECD where it will be promptly buried. It would be more honest for Jospin to state his intentions openly rather than, in a burst of false naivety, seeking comments from the Nobel Laureate to justify his own elusiveness.

Paris, 12th September, 2001.

2- Following Lionel Jospin's Declarations. Sidestepping, ambiguity and resounding silences…

Not only do Lionel Jospin's declarations concerning ATTAC's fields of intervention provide no answer to any of the questions expressed by the organization, they are also a (would-be subtle) attempt to pretend to reply. However, this kind of subterfuge will not convince public opinion of his sincerity or of the "sympathetic awareness of the concerns" of opposants to liberal globalization he claimed to share during his television interview.

1.- Tobin Tax : sidestepping

Whilst endeavouring to convey the impression that he is in favor of the Tobin tax, Lionel Jospin signs his political death warrant. He ignores the question to be addressed by the Belgian presidence of the EU, during the Ecofin Counsel meeting to take place in Liege on September 22 and 23, concerning the implementation of the tax in Europe. Instead he suggests that the EU submit the question to "international representation", ie. the IMF.

This position hardly comes as a surprise, having already been suggested by Laurent Fabius during his discussions with ATTAC in July 2000. But neither the minister of Finance nor the head of government ignore that the United States, radically opposed to the tax, are in a position to reject any proposal made within this institution.

ATTAC would like to recall the fact that the EU weighs just as heavily in the balance as the United States, and does have the means to implement a Tobin zone in Europe, at least to start with. We thus renew our demands for a firm stand in this direction to be taken by the French government in Liege.

2.- GMO: ambiguity

Lionel Jospin has condemned the direct action -actively supported by ATTAC- undertaken by the Confédération paysanne against GMO experimentation in open fields. Although he declared himself favorable to debate on this issue, he has confirmed his support of this type of experimentation in spite of the potential dangers.

ATTAC restates its demand for a moratorium on open field experiments until such a time as serious public debate may have brought to light all the potentially related risks.

It is the government's strictest duty to apply the principle of precaution and refuse the ultimatums of multinationals to whom such issues as public health and environmental conservation are of but secondary importance.

3.- International regulation: resounding silences

Although Lionel Jospin declares that he is in favor of "international regulation", he is silent concerning one major upcoming date on this agenda: the WTO interministerial conference scheduled in November in Qatar. It would have been interesting to hear the government's position on the mandate bestowed upon the European commissioner, Pascal Lamy, who will be negotiating on behalf of the EU.

During the Qatar talks, the Commission intends to speed up liberalization of international trade and step up the cycle of negotiations which backfired in Seattle. Before any new initiatives be taken, ATTAC reiterates its demand for a public and contradictory inquiry into the six years of liberalization of commercial exchanges since the WTO came into being. It is significant to note that such an inquiry has hitherto been stubbornly refused.

When all is said and done, the Prime minister remains silent concerning the content of the "international regulation" he affects to have "battled for" within the international institutions. It would be interesting to have some knowledge of the times, the places and the themes he "battled" on.

As for ATTAC, our aim is to fight against the all-powerful financial markets, to limit rights in the domain of capital ownership and, to use the title of our recent Summer University: "against the empire of finance, for the promotion of an economic system that keeps human needs in mind".

Paris, August 29th 2001

■ 3

Democratising Globalisation.

In the 1970s,Tobin proposed a small tax on currency transactions. By making many such transactions unprofitable, the financial system would become less unstable and volatile. States would have space for more autonomous economic policies.

This book makes a new case for the Tobin tax and related measures. Beginning by developing a model of the causes of financial instability, Patomäki procedes to analyse global financial market's role in a world-wide nexus of domination. The powers of the global financial markets to undermine economic policies, production and employment have grown rapidly. This increased power of finance is also anti-democratic; transferring accountability away from parliaments whilst reinforcing neoliberalism. Furthermore, it contributes to a process of increasingly inequitable wealth distribution and helps facilitate transnational crime. It has also helped the US to reinforce its hegemonic position in international relations.

The Tobin tax, however, has emancipatory potential by making the structure of global finance vulnerable to 'collective conflict' and deliberate revision. The Tobin tax is also highly innovative in simultaneously defending state autonomy whilst suggesting path-breaking approaches to global governance. By this route, the author argues that the 'politics of globalisation' becomes also about questions of authority, democracy, social responsibility and justice.

The problem of the Tobin tax has always seemed to be a lack of realistic political possibilities. Tobin and his followers have assumed that 'universal' consent would have to precede workability. This book argues to the contrary, suggesting a 2-phase approach. Phase one involves a group of countries initiating the system. Such a group could procede quickly, building pressures for those outside to join.

The book concludes with suggestions for a Tobin Tax Organisation empowered to implement, supervise and enforce. Potentially vast revenues in a second, inclusive, phase could be used for globally determined economic and social purposes. Proposals are thus developed for an efficient, just and democratic organisation with significant emancipatory potential.

Introduction

This book project began after the Asian and Russian crises, in early October 1998. In the numerous discussions on what to do about the financial crises, the Tobin tax clearly emerged as the prime reform proposal. James Tobin first made the suggestion for a low rate tax on financial transactions of currencies in 1972. A quarter of a century later, the proposal started to seem well worth serious attention.

Soon I realised that the Tobin tax is more complex and deep an idea than I had originally thought. And the more I have studied it in 1999 and 2000, the more it has brought previously hidden aspects and layers of global realities to the fore. Many economic activities and political aspirations have been subordinated to the power of the increasingly global financial markets. The Tobin tax provides emancipatory potential that goes far beyond simply stabilising the foreign exchange markets or, for that matter, taxing trans-

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By Heiki Patomaki

Original document:
Newsletter 94 http://attac.org/listen.htm

national hot money.

The first chapter analyses the problem of financial instability, in particular focussing on the foreign exchange markets. These markets are characterised by daily and weekly volatility, steep longer-term fluctuations and sudden full-fledged crises. Since the collapse of the Bretton Woods system, volatility and fluctuations have increased manifold. It also seems that out of the almost eighty currency crises which have taken place since the late 1970s, the most far-reaching ones have occurred since 1990. Particularly, the Asian crisis - which spread to Russia and Brazil - alarmed the world. Many of these crises have been connected to developments in bonds, equities and loans markets, themselves crisis-ridden.

Chapter 1 argues that at the heart of the problem lies the growing power of market movements, stemming from the process of financial multiplication. This process is the collective consequence of leverage building, mutual indebtment and rising prices. The socio-economic consequences of crises are upsetting. A crisis is produced in the secondary markets, where foreign exchange contracts, stocks and bonds are being exchanged. Yet, the unexpected implosion of the values of assets, and/or the flight of funds also has an effect on the primary markets of savings, loans and currencies. The primary markets, in turn, co-determine the conditions for many other economic activities. The total cumulative loss of output for a combined banking and currency crisis has been, on average, some 15 per cent. The effects on the weakest sectors of the population include unemployment, marginalisation, poverty and illnesses. Given the current global financial system and the principles of governing it, those who suffer the most have typically had the least to do with producing the crisis.

Chapters 2 and 3 attempt to uncover less visible aspects and effects of the global financial markets. Chapter two provides a power analysis that focuses on private financial actors and their resources. Financial actors have direct transformative capacity both individually and collectively. The financial markets tend to allocate capital collectively on the basis of shared neoliberal frameworks of analysis of financial prospects. The heavy-weights and markets leaders can manipulate markets for their own benefit, even orchestrate attacks against the currencies of major states. Moreover, the individual and collective financial actors are not just market players; they have also created collective associations to pursue issues of common concern and interest. These associations claim to have a privileged access to governments all over the world.

Despite the importance of these features, perhaps the most far-reaching conclusion of chapter two is that when we look at wider developments more closely, there seem to be, in fact, a number of on-going processes of drawing resources from the non-financial sphere to the financial markets. Financial multiplication would be rather impotent without the continuous movement of further resources into the system.

Chapter 3 looks at the global power relations from a different angle. The re-emergent global financial markets have played a pivotal role in the relations between territorially organised states. Since the 1960s, the Eurodollar markets in London were the response of the British governments to its declining position and economic difficulties. The establishment of the Eurodollar markets was also an attempt to reinstitute the City of London as the world's financial centre. With the support of the US, it turned out a success. At the turn of the 1970s, the US decided to create itself more freedom of action by renouncing the Bretton Woods system. In the 1980s, the US learnt to use the financial markets more systematically to reinforce its hegemony. Furthermore the rise of the offshore facilities was, mostly, initiated or encouraged by the UK and the US. Once established, the global financial markets tend to undermine the basis of democracy and the welfare-states. They underpin the hegemony of neoliberal ideology, and stimulate a partial return to the nineteenth century style laissez-faire governance and, simultaneously, rapidly increasing transnational criminal activities and networks. They also contribute to growing global disparities.

Arguably, the power of financial markets distorts investments, subordinates firms to financial interests and draws increasingly more resources from consumption, investments, and public spending to mere hedging and speculative searches for financial gains. The winners at this casino, in turn, get excessive rewards, amounting to hundreds of billions of dollars, or more. These practices also tend to raise the real interest rates and force states to follow deflationary policies. Collectively, this seems to mean inefficiency and declining global demand - and may help to explain the gradually deepening stagnation of the world economy.

According to IMF's World Economic Outlook October 1999, in the 1980s "advanced economies" grew at the annual rate of 3.1%, which was much less than in the previous decade. In the 1990s the growth rate has been only 2.4%. Outside the OECD area, economic growth has occurred mainly in Asia, in particular in China and the Asian tigers. After the Asian crises, the previous growth rates of the Asian tigers haven't yet recovered, and cumulative output loss has been considerable. In the late 1990s, more than 80 countries have lower per capita incomes than a decade or more ago, and at least 55 countries have consistently declining per capita incomes. The power of global finance seems to have contributed to these developments.

Chapter 4 makes a normative case for a low rate tax on financial transactions of currencies. The Tobin tax addresses the power of speculative financial markets and their socio-economic consequences. James Tobin's original case was based on the ideals of autonomy of states and economic stability. Although his general case is more valid today than ever, it fails to address wider issues of economic efficiency, justice, democracy and human emancipation. In a nutshell, instead of letting globalisation take us back to the nineteenth century principles of economic governance, we should democratise globalisation and enable the setting up of more efficient and just practices.

Justice as fairness would dictate, at its bare minimum, that if someone accepts the benefits of a practice, they should not refuse to do their part in maintaining it. The current system of "individual profits, socialised risks" fails to meet even this minimalist criterion of justice. The Tobin tax is a possible way to make the participants pay their fair share in maintaining the global financial system. Further, justice as fairness would seem to imply some compensation for past, present and future injustices for those inflicted by the financial crises. The Tobin tax can be seen as a practical way of collecting resources for this compensation.

Moreover, a generalised commitment to enacting principles of justice in a world of disparate agents, many of them vulnerable to others' powers, must also be a commitment to transform characters and powers of agents and the structure of institutions, so as to reduce powerlessness and vulnerability. Similarly, going beyond Tobin's argument for a somewhat increased autonomy for states in their economic policy, the generalised ideal of democracy seems to point towards enlargement of the real possibilities for self-determination. Like the argument for human emancipation, the comprehensive argument for democracy also suggests a more democratic system of global governance than the present one.

Chapter 5 discusses the technical and economic problems of realising the Tobin tax. These include the problems of tax evasion and the effectiveness of the tax in alleviating economic instability. Tax evasion is potentially a serious problem, and a wide variety of currency substitutes have to be covered. What is more, a systematic policy to deal with offshore tax havens has to be agreed upon, a policy that should be part of any project to tackle the problems created by global financial markets.

Yet the fear of the technical failure of the Tobin tax seems to be greatly exaggerated. When the installation of the tax is seen in processual terms, and the idea of the tax is slightly modified, not all major financial centres have to be within the taxation system from the outset to make it practicable. Chapter 5 therefore goes on to suggest that the Tobin tax could be realised in two phases. In its first phase, the system would consist of a grouping of interested countries, preferably including the EMU countries. This grouping could establish an open agreement - any state can join at any time - and a supranational body orchestrating the tax and collecting the revenues. It should also take measures to prevent actors from relocating their financial activities, such as a high tax on lending to outside actors. In the second phase, which should be carried out either when all major financial centres and most other countries have joined the first phase system, a universal and uniform Tobin tax at a higher rate would be applied, with an increased surcharge triggered by exceptional fluctuations. This arrangement would solve the tax evasion problem. Following the amendments of Spahn (two-tier system) and Woodward (global fund to support currencies), it should also be more sound, efficient and just than Tobin's original proposal.

The problem of the Tobin tax has always seemed to be the lack of realistic political possibilities. Tobin and his followers have assumed that 'universal' consent would have to precede workability. Since major states and powerful organisations are opposing the idea, this appears unrealistic. It is possible that a Big Crash will come and change the global political landscape, but the political consequences of that would be unpredictable, possibly dangerous. Democratising Globalisation makes an argument for building a better system before (in the absence of) a major global crisis.

Instead of speculating on universal consent, Democratising Globalisation builds - more realistically - on the possibilities opened up by the two-phase approach. Any significant grouping of countries can proceed quickly, despite the resistance of some of the major centres. Since this model empowers actors to work for the tax even without the support of the US, the UK, the International Monetary Fund (IMF) or any given actor deciding to oppose the idea, it is emancipatory in its implications.

Thus far, only Canada has been actively promoting the Tobin tax. This indicates that even outside the heartland of the global financial system, it is likely to take intense political struggles and the input of a wide global social movement before countries will start joining the regime. But a world-wide campaign for the Tobin tax has already emerged, and things can change. The anti-landmines coalition offers an example of how momentum can build without getting everyone on board from the beginning. Indeed, it is very important to underline that the two-phase model does not compromise the aim of a universal system of taxation: it is devised in such a manner that it would build up pressure for the outsiders to join.

Another ethico-political problematic concerns the outcome of the process of establishing the tax regime. Very few have given any serious consideration to this matter. A global tax regime with sanctions and surveillance systems and potential for huge revenues raises the whole problematic of political theory in the global context: what are the principles of legitimation of collective organisations? Following the normative argument for the Tobin tax, it is argued that we should democratise global governance and enable the setting up of more efficient and just practices.

Tobin and many of his followers have assumed that the tasks of orchestrating the tax should be given to the IMF. For Tobin, in the 1970s, there were tactical reasons for this assumption; he thought that a universal tax could be imposed via the IMF. For the representatives of the Washington consensus - should they come to consider the implementation of the proposal seriously - this is likely to be the preferred solution both for ideological and power-political reasons. However, I make an argument for not giving the IMF this role, and for not subordinating the proposed Tobin Tax Organisation to the Bretton Woods institutions.

Instead I suggest that, in the first phase of establishing the Tobin tax regime, a new supranational body orchestrating the tax must be founded. Let us call it the Tobin Tax Organisation, TTO. It is the two-phase model that enables the interested states to take the initiative in devising the TTO without the consent of all economic "great powers". The TTO should also be independent from any existing organisational structure. Given that it will also have a role in collecting and allocating the revenues, the question is: how can we guarantee a fair democratic representation in its agenda-setting and decision-making and establish the possibility of accountable, transparent and just outcomes of its proceedings?

The TTO should follow democratic principles more thoroughly than any of the existing international or regional organisations. It is possible to combine state-representation with parliamentary and civil society representation. The Council of Ministers should follow qualified majority decision-making with secret ballots, and by empowering the representative and participatory pillar of the system with real powers such as motions, veto-rights, budgetary rights, etc. This system does not exclude non-democratic states from the organisation and its Council of Ministers, but retains the right of parliamentary representation to democratic parliaments, and verifies the spontaneity of the civil society actors by a combination of a screening process and lottery. In other words, this model also follows some ancient Greek procedures, putting them to work in a new context.

When the time for the transition to the second phase approaches, the fate of the TTO has to be decided. Should it remain independent or rather merged with more general systems of governance? I argue that the United Nations has a lot of potential in taking over the TTO. However, it is also possible that the UN will turn out to be unreformable, or even that the TTO itself might become a pivotal nodal point in the global system of governance.

The argument of this book is that the best way for most

<< 4 states to gain some real autonomy is to collaborate and create new collective forms of organisation. The beauty of the Tobin tax lays in its potential to give rise to new political constellations. It means both the autonomy of states and new global institutional arrangements aiming at, and leading to, democratising globalisation. In the irreversible historical processes of structuration, this new phase of globalisation would lead to new kinds of political sagas, too. The Tobin tax organisation has the potential to play a crucial role in some of these episodes - at least in the beginning. Indeed, the time is ripe for an open-ended, contingent world political history to begin.

Heikki Patomäki Excerpt from "Democratising Globalization" Available from August 2001 - 272pp Hb 1 85649 870 0 £45.00 $65.00 Pb 1 85649 871 9 £15.95 $25.00 SPECIAL OFFER £14.00 + Free Post & Packing Send orders to: Sales, Zed Books, 7 Cynthia Street, London N1 9JF Tel 020 7837 4014 Fax 020 7833 3960 Email: sales@zedbooks.demon.co.uk

■ 4

5 > Argentina: A Financial Disaster

The Argentine Crisis
by Julio C Gambina
Newsletter 95

Argentina has had more than three years of recession and all the international economy analysts have the crisis under review. What's more, some people are asking themselves when "cessation of payment" will be declared, on a public debt climbing to 147,000 million dollars by the end of the year 2000 and taking up 22% of public expenditure in interest (11,000 million dollars). The amount of the debt exceeds 50% of gross domestic product (GDP) when the valuation is at the rate of one peso to one dollar; in these circumstances devaluation would raise the present percentage and exacerbate both the external problems and their impact within the country. The re is in fact a massive contrast; since rather more than 31% are unemployed , with even more on short time and 14% of the population below the poverty line, while big business shows higher earnings than in previous financial years. This is the case with Repsol-YPF, with the undertakings running privatised public services, the giant commercial centres and the great transnational banks which own the Management Company for Retirement and Pension Funds (AFJP) which together constitute the dominant sector of the economy and are accumulating great profits, wealth and power.

The country has become extremely dependent on the inflow of international capital since the Convertability Law came into force (April 1991) making one peso equal to one dollar. Under this regime the government no longer has the power to issue currency ; and therefore to finance its needs it has had recourse to increasing its indebtedness and to allowing investment capital into the country, irrespective of its purpose Privatising public undertakings and purchasing local businesses proved to be the purpose of much of the capital that flowed in , principally from Europe and the US, though also from Latin America, especially Chile. The Argentine government favoured this procedure and the external debt did in fact fund the private commercial deficit, with regard to both goods and services, and counterbalanced the outward flow of capital. According to official calculations there are about 100,000 million pesos outside the country belonging to Argentinians. In this way, the decade of the nineties saw a large movement of capital, both inflows and outflows and carefully financed by the government and charged to the account of the National Budget ,subject topaying regressive taxes since the principal tax is VAT which primarily affects fixed income sectors. Under the regime privatising state retirement pensions, the government hands over between 4,500 and 7,000 million annually to the AFJP (Pension Fund), being together with the interest on the debt the two principal causes of the fiscal deficit. Without either one of these two items the public accounts would be in surplus.

To restore its capacity to attract capital from abroad, the government agreed last December to so-called " financial armour plating", an arrangement for loans amounting to 39,000 million dollars for 2001 and 2002, granted by the International Financial Organisations, private banks and the governments of some developed capitalist countries. Next was a "mega- exchange" of debt amounting to almost 30,000 million dollars at very high rates (between 12% and 14%), renegotiating medium (2008) and long

Argentina has been implementing procedures for the regressive restructuring of domestic capitalism since the times of the military dictatorship in 1976, procedures which were speeded up after 1991. The policy is still in force today , demanding a still greater reduction in the quality of life experienced by the majority of the population, completing the privatisations of the bank, and the public authorities covering health, social security and education. Making this possible involves "naturalising" the adjustment process and this relies on an executive power which up to now has kept the other powers, the parliamentary and the judicial, in check. In this endeavour it is no longer able to achieve the subordination of society as a whole since nowadays days this is developing intense resistance. The destiny of the Argentine is at stake there.

Three articles

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(2031) term maturity dates. Currently there are negotiations going on inside the IMF for extended credit of between 6,000 and 9,000 million. The principal barrier to "aid" is building up inside the North American administration which in the wake of the Mexican crisis following on the Asian, Russian and Brazilian, between 1994 and 2000, has not been in agreement with the policies pursued by the IMF. The position has been made clear by the well advertised, early resignation of Stanley Fisher, vice-president of the IMF and US government representative on that lending organisation.

The question at issue is the possible ring fencing of North American contributors' funds to make good the "absence of capitalism" in countries like Argentina. The phrase comes from an article published by the 'Heritage Foundation' in April last (Ana Eiras,, and Brett D. Schaefer), which suggests giving financial aid in exchange for boosting economic deregulation measures ; those particularly emphasised being;- dollarisation; reduction of public expenditure; leaving Mercosur , promoting free trade (American Free Trade Area) and the reform of Justice, all this to favour the legal security of the right of property and international investors. At the same time it was suggested that the Bush administration "should help Argentina to adopt the necessary reforms", in conjunction with specialists "from the FBI and the US Department of Justice".

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Lessons from the Argentine crisis
By Michel Husson
Newsletter 97

(I am grateful to Claudio Katzand Eduardo Lucita for the information they sent me).

Default, the word is about to become part of Argentine daily vocabulary: it means "default in payment". Such is indeed the sword of Damocles threatening the Argentine economy today. Capital is fleeing the country, reserves are melting and the risk of bankruptcy is seen to be coming daily nearer. Argentina is daily living financial globalisation. Its fate is, as it were, pegged to the very high "risk country" indices attributed to the country by the mark-up agencies ,which deter investors. The inevitable end to this demented logic, where debts are incurred in order to pay interest, can only be cessation of payment and an extensive financial crisis inevitably accompanied by savage devaluation of the peso.

Always Debt

Everything starts with debt. It is not in the least irrelevant to recall the role of Videla's military dictatorship when the debt took off. At the time of the military coup d'etat in 1976 (1) debt was virtually non-existent (8 billion dollars). Seven years later it stands at 44 billion dollars. This forward leap is, as in Mexico, the result of three factors; uncontrolled recourse to running up debt, corruption and the savage and unilateral increase of interest rates, effected by the United States at the beginning of the eighties. After the fall of the dictatorship, it is the radical Alfonsin who takes over the presidency and decides to close the episode .Significantly his political choice is to blot out the dictatorship's crimes and pay the debt without discussion. It is clear that the opposits (cancelling the debt and exacting payment for crime) was what was necessary. However , the debt is confirmed and continues to swell regularly. The economic stagnation, general in Latin America ,where the eighties are referred to as' the lost decade', takes the form in several countries of monstrous hyper-inflation. In Argentina the annual increase in consumer prices reaches a record rate of 490% in 1989 ! So that year prices rose 1.1% per day, or 38% per month. At the end of a year at this rhythm, they are multiplied fifty-fold. The currency is more than devalued and Alfonsin with it, so he has to give place to Menem.

This popularist is going to carry out a policy not devoid of success in the short term ,but catastrophic in the long term. The problem of inflation weighs heavily on the everyday life of the Argentineans, without mentioning business life. Menem's great idea for getting out of this spin is to anchor the peso resolutely to the dollar and this was done from 1991. "One for one" is the same motto as in the German unification and in both instances it is a case of affirming the preeminence of a political principle over the realities of the economy. This is the king pin built into a line of thought also to be found in Brazil and Mexico.

In its early structural adjustment plans the IMF used to recommend for preference "competitive devaluation" intended to stimulate exports to encourage the return of the foreign currency essential for paying interest on the debt. Faced with the ravages of inflation IMF philosophy was readjusted and the big Latin American countries transferred to a strong exchange policy, pegging their currency to the dollar. The benefit of such a policy is twofold; it reins in imported inflation and lightens the actual weight of debt which is of course stated in dollars. But the advantages are accompanied by a serious drawback, which is the loss of export competivity. This pattern exacerbates the lines of dependence of a country like Argentina and leads to a great expansion of the commercial deficit as soon as economic growth resumes.

How then to make ends meet as regards the balance of payments ? For covering the commercial deficit and the service on the debt there are only two options, either draw on reserves or attract capital. The first solution being available for only a limited time and inconsistent with the choice of a strong currency, there remains the call to foreign capital. This is the option that is to be chosen ; over the two years, 1992 and 1993 , 21 billion dollars will flow in, whereas only 9 came in during the course of the six preceding years.

What is the source of this renewed "enticement" ? It is very simple; Menem's policy consists in privatising everything or rather in liquidating everything. For it is a genuine clearance sale that is being held. The Argentine is without doubt the country in the world which has privatised the most. France Telecom and the Spanish company Telefonica have shared out the telephone. Vivendi distributes water and occupies prestigious headquarters in Buenos Aires. A veritable frenzy of privatisation can be said to have occurred and every bus line in the capital has become a small enterprise almost completely deregulated. Fares have risen by between 40% to 100%. The recent misadventures of Aerolineas Argentinas are quite astonishing; this company was privatised and then bought out by the Spanish state through SEPI (Spanish Association of Industrial Shareholdings). It is currently in liquidation and threatened with closure. Such a performance has robbed the case for privatisation of any semblance of legitimacy and gives cause for reflection.

The arguments employed in Argentina in favour of privatisation are however the same as those employed everywhere else -: greater efficiency, better adaptation to new technologies, lightening of the public sector load, etc. In reality it is an ill conceived policy that consists in "selling the silver" and results in exacerbating social inequalities and wrecking the public services. But to effect such operations the Argentine is surpassing the limits of what might be called coercion . The same can be said of the pension reform which is arranging a transfer, optional in theory, from a mutual-based system to a capital-based system managed by the AFJP network (Retirement and Pension Funds Associations) this provides even more scope for financial engineering and causes the costs of the transition between the two systems to weigh heavily on the State budget.

So debt has grown from 8 billion dollars in 1975 to 145 billion in 2000. It has also become an industry in itself. So the 10 principal banks (eight of which are foreign) devote 46% of their investments to financial intervention and purchasing titles to the public debt that were issued, in the final analysis, to pay the external debt. These deposits are particularly attractive since the interest on them is tax exempt (2). Nowadays debt servicing represents close to 15 billion dollars or half of exports and nearly a quarter of fiscal receipts. To offset this situation, there have been three years of recession and social regression in particular; 37% in poverty, 30% unemployed, half the workforce with annual earnings less than 500 dollars, the virtual bankruptcy of the Social Security, etc..

The dogma of parity with the dollar

Ten years later, the trap of pegging the Argentine peso to the dollar is about to close inexorably. Of course, this policy has made it possible to reduce inflation and for quite a time this was Menem's decisive argument. The dogma of convertibility was difficult to call in question and the term 'devaluation' had been banished from the political vocabulary. But this economic clean up was at enormous cost because of the budgetary cuts and the wage freeze on which in the final analysis it rested. The worsening of living conditions, the rise in unemployment and misery associated with generalised corruption and the increase in inequalities led to the electoral defeat of Menem in December 1999.However, the hopes placed in "the Alliance", the coalition led by the new president, De La Rua, have been disappointed. In the great social-democratic tradition, the new government has in fact formally adopted Menem's liberal orientation and this oppressive heritage is resulting today in a catastrophic situation.

In the absence of a radical reorientation of economic policies the present government finds itself harshly faced with the impasse offered by neoliberalism. Since the onward flight into privatisation has run out of steam (for lack of resources) and flows of capital are drying up, it is apparent that , all considered, external debt (deuda externa) is eternal debt (deuda eterna).The crisis therefore becomes a fiscal crisis. So debt servicing is again to be found as an item of the State budget and by way of adjoining columns the external deficit changes into into a public deficit. As a last resort the State pays the debt but , in the absence of sufficient fiscal resources, it has to contract debts in order to pay the interest and this "snowball" effect quickly gets out of control and intensifies all the other devices.

Faced with this situation, the De La Rua government simply returned to the same neoliberally inspired policies; still more flexibility, called "reform"of the labour market, an increase in taxes to be paid by the middle classes and not the profiteers, a wage freeze. This policy named " zero deficit " has one clear objective; to free the means for paying the debt by reducing other budgetary items and thus to reassure international investors. It is a policy of unparalleled brutality ; increase in VAT, 13% cut in civil service salaries, 30% reduction in the administrations' budgets.

Externally, the government put in place a dubious "financial buffer", intended to provide a war chest sufficient to confront payment dates and so reassure international investors. But what was bound to happen has happened, that is to say the 40 billion dollars collected with the help of the IMF will only enable a few months respite to be gained. At the end of May, that is five months after the "buffer", a plan was launched for repackaging the debt (megacanje) This consists in exchanging debt titles that fall due within the next five years, for new titles, which is in reality a royal gift for the international or Argentinean creditors, since the interest rate attached to the new titles will be on average 15% as against approximately 9%in order to take account of the notorious "risk countries". It is also of course storing up terrible trouble for the future, delaying the payment dates, at the cost of making the debts heavier.

These successive tinkering lead to an concealed government crisis. In less than two years a third Minister of Finance was already in office. Nothing is to be expected from Domingo Cavallo, former governor of the Central Bank under the dictatorship and Menem's former Minister of the Economy except subservience to international finance rules of play even at the risk of opting for adjustment "violence" to adopt the term from the demonstrators of 7 August last. The employers' Financial daily, Ambito, went so far as to explain in its 16 July edition that such a harsh adjustment plan could not be implemented except in a state of siege. This is after a thoroughly good synthesis of an explosive situation which reveals a very profound social crisis. Even the governing classes are rived with contrary arguments and there exists a measure of agreement between investors and speculators for securing the capital sums illegally to such a point that a portion of the employers support the idea of devaluation though its disadvantages are worse than the disciplinary virtues. Furthermore, alignment with the dollar causes the Argentine to be out of step with the more empirical policy pursued in Brazil and destabilises its economy as regards its principal partner inside Mercosur. Mercosur and the continent

The Argentine for several years has been involved in the Mercosur project whose hard core is constituted by the couple it forms with Brazil. This commercial zone has led to the progressive integration of the region's economies. Paradoxically, and differently from Mexico, Mercosur does not entertain particularly close commercial links with the United States.At the start of 1999, the proportion of exports to the United States stands at 8% for primary products, 10% for semi-manufactured goods, and 15% for industrial goods. The proportion for Mercosur is respectively of 23%,14% and 52% and for the European Union 36%,28% and 10%.A privileged link with the dollar cannot logically to be inferred from this situation and all in all it would be better to peg the peso to the euro, an idea which has been suggested earlier. But a stabilisation complex for would come about with establishment of a coherent monetary system at Mercosur level or if monetary policies were at least coordinated. The absence of any such arrangement introduces a large element of instability which has been especially apparent since the devaluation of the Brazilian real at the beginning of 1999.

It is the peso/real rate of exchange which matters in commercial affairs inside Mercosur.

Indexation to an ever stronger dollar has worn away the competivity of the Argentine, especially in the motor industry and is tending to cause a return to specialisation in primary products. This rivalry "could well have harmful effects destabising the couple that power Mercosur integration" (3). Tensions regarding exchange also find expression in the flight of capital and show up the absurdity of monetarist dogma. Whereas parity with the dollar is sought principally because of the need to attract capital, its effect is the reverse and makes it flow out. Investors do their sums and leave the Argentine for Brazil; a year ago,' Business Week '(4) was able draw up an impressive list of groups which were decentralising, such as Delphi, Unilever, Goodyear, General Motors and Tupperware.

This situation is all the more worrying because the countries of Mercosur are incapable of adopting a common position with regard to the United States offensive in favour of a Free Exchange Zone for the Americas. Here there are two questions that must be distinguished, dollarisation and economic integration. The United States has not adopted any position of principle in favour of dollarisation The United States are happy for their currency to be established as a reference point, but on condition that they do not incur too heavy responsibilities. Panama and Equator have made the dollar their currency, that is fine, but it must not be held to imply any responsibility attaching to the Federal Reserve as "lender of last resort". The Meltzer report (5)on the reform of the IMF, for its part, leaves open the choice between fixed or fluctuating rates of exchange (currency board, dollarisation). According to the report, experience shows that it is mixed systems, pegged or open to revision, that must be avoided because "they increase the risk of crises and the gravity of them ".

The social question

But that is not the essential point: the depth of the crisis is to be measured primarily by a strong upsurge in the class struggle. It is the emergence of " Argentina of the pickets" (Argentina piquetera). In fifteen months there have been four general strikes which have enabled the organised unemployed and the workers to show their power employing new forms of resistance, by means of transport obstruction, particularly effective given the geography of the country. (6)

This upsurge in social unrest makes it fully comprehensible that there is no technical solution to solve the questions confronting a dependent country like Argentina. This never ending dependence, both economic and political, is evidenced by the inherited debt and by the country's inability to lift itself up to the degree of hyper-competivity set as the norm by capitalist globalisation. That this problem concentrates around the exchange rate results from the fact that in such a situation there is no optimum exchange rate. To put it briefly, it needs to be low in order to be "competitive", and to be high so as to be "attractive". Everything that might enable this double constraint to be relaxed then comes up against the extraordinary rigidity of the social scheme imposed, as must never be forgotten, by one of the most cruellest dictatorships this continent has ever known. It takes a huge nerve to demand, as the ultra-liberal dogmatists do, even more flexibility from the labour market (where 15% is the official unemployment rate) and still more privatisation in the fields of health and education. In fact the scheme for property ownership and industrial reduction ,begun by the dictatorship and so completely in keeping with neoliberal requirements, rests on a foundation whose nature is more social than financial. Financial balance has not been achieved through the efforts of "productive" capitalists but by means of a quite extraordinary reduction in workers' living conditions. As Claudio Katz writes, "the victims of the scheme, these are the wage earners whose pay has gone down 0.5% for every growth point and certainly not the capitalists who have benefited from the impermanent nature of labour contracts all through the nineties".(7)

To this reduction in the wages field have been added the effects of a radical fiscal counter-reform which brought about an enormous concentration of wealth. Four years ago an IMF delegation came to the Argentine headed by Vito Tanzi, director of the Fund's department of fiscal affairs. This is what he said at Clarins on 11 August 1997:"the current fiscal structure has enabled many people to become rich owing to the fact that they have paid no taxes, especially those who have gained a great deal from capital profits, interest and dividends. It is important to correct this situation. It is essential from the point of view of equity." To the journalist who raised the well known argument about the flight of capital, Tanzi replied that the negative effect of taxes on financial revenues is exaggerated and cited the example of Chile where profits are taxed far more than in Argentina. There should be no illusion about the equity in question here: Tanzi already had in mind the idea that without fiscal receipts the Argentine state would be in no position to honour its obligations.

The central role accorded nowadays to taxation as an adjustable variant shows that it is always the same social categories that are going to be called upon to pay. Behind the supposed imperatives of globalisation is to be found the class war. Faced with a crisis of such magnitude there can basically be only two alternatives. Either - the burden is once again imposed on the Argentine people, by force if necessary. Or,- the country engages in a double rupture process; a break with international finance, by refusing to pay the debt and a break with the privileged inside the country, by restoring the value of wages and social budgets, by holding an enquiry into the privatisation sell off and by fiscal reform that ensures the necessary transfer of wealth from the owners of capital to those who produce the wealth in question. This is the lesson that is offered us by Argentina, the IMF's model pupil, the champion of privatisation and strong currency; - the dogmatic logic of globalised capitalism leads inexorably to social disaster.

Michel Husson Translation : Prudence Dwyer, volunteer translator coorditrad@attac.org

1) Eric Toussaint, La Bourse ou la vie (Your money or your life), CADTM-Syllepse, 1998. 2) Attac-Argentina, El ABC de Attac,2000 (The ABC of Attac) 3) Frederic Dorothe and Alexis Saludjian, Le couple moteur Argentine/Bresil; cle du developpement pour le Mercosur? (Argentina/Brazil the power engine couple; key to deve-

lopment for Mercosur ?) working document 2001. 4) Ian Katz, "Adios Argentina", Business Week, 17 January 2000. 5) www.house.gov/jec/imf/meltzer.pdf 6) See Eduardo Lucita "Anciennes et nouvelles formes de luttes" Ancient and modern forms of struggle) Inprecor, March 2001. 7) Claudio Katz "Crisis economica: interpretaciones y propuestas", (Economic crisis. interpretations and proposals) page 12, 6 July 2001. Article repeated by La Insignia, excellent e-review www.lainsignia.org/2001/julio/econ

Who shot Argentina? The finger prints on the smoking gun read 'IMF'
By Greg Palast Guardian (London) August 11, 2001
Newsletter 91

And news this week in South America is that Argentina died, or at least its economy. One in six workers were unemployed even before the beginning of this grim austral winter. Millions more have lost work as industrial production, already down 25% for the year, fell into a coma induced by interest rates which, by one measure, have jumped to over 90% on dollar-denominated borrowings.

This is an easy case to crack. Next to the still warm corpse of Argentina's economy, the killer had left a smoking gun with his fingerprints all over it.

The murder weapon is called, "Technical Memorandum of Understanding," dated September 5, 2000. It signed by Pedro Pou, President of the Central Bank of Argentina for transmission to Horst Kohler, Managing Director of the International Monetary Fund.

'Inside Corporate America' received a complete copy of the 'Understanding' along with attachments and a companion letter from the Argentine Economics Ministry to the IMF from ... well, let's just say the envelope had no return address.

Close inspection leaves no doubt that this 'Understanding' fired fatal bullets into Argentina's defenseless body.

To begin with, the Understanding requires Argentina cut the government budget deficit from US$5.3 billion in 2000 to $4.1 billion in 2001. Think about that. Last September, Argentina was already on the cliff-edge of a deep recession. Even the half-baked economists at the IMF should know that holding back government spending in a contracting economy is like turning off the engines on an airplane in stall. Cut the deficit? As my 4-year old daughter would say, "That's stooopid."

The IMF is never wrong without being cruel as well. And so we read, under the boldface heading, "improving the conditions of the poor," agreement to drop salaries under the government's emergency employment program by 20%, from $200 a month to $160.

But you can't save much by taking $40 a month from the poor. For further savings, the Understanding also promised, "a 12-15 percent cut in salaries" of civil servants and "rationalization of certain privileged pension benefits."

In case you haven't a clue what the IMF means by "rationalization" - it means cutting payments to the aged by 13% under both public and private plans. Cut, cut, cut in the midst of a recession. Stooopid.

Salted in with the IMF's bone head recommendations and mean-spirited plans for pensioners and the poor are economic forecasts which border on the delusional. In the Understanding, the globalization geniuses project that, if Argentina carries out their plans to snuff consumer spending power, somehow the nation's economic production will leap by 3.7% and unemployment decline. In fact, by the end of March, the nation's GDP had already dropped 2.1% below the year earlier mark, and nosedived since.

What on Earth would induce Argentina to embrace the IMF's goofy program? The payoff, if Argentina does as it's told, is that this week the IMF lend $1.2 billion in aid. This is part of an emergency loan package of $26 billion for 2001 put together by the IMF, World Bank and private lenders announced at the end of last year.

But there is less to this generosity than meets the eye. The Understanding also assumes Argentina will "peg" its currency, the peso, to the dollar at an exchange rate of one to one. The currency peg doesn't come cheap. American banks and speculators are charging a whopping 16% risk premium above normal in return for the dollars needed to back this currency scheme.

Now do the arithmetic. On Argentina's $128 billion in debt, normal interest plus the 16% surcharge by lenders comes to about $27 billion a year. In other words, Argentina's people don't net one penny from the $26 million loan package. Little of the bail-out money escapes New York where it lingers to pay interest to US creditors holding the debt, big fish like Citibank and little biters like Steve Hanke.

Hanke is President of Toronto Trust Argentina, an 'emerging market fund' which loaded up 100% on Argentine bonds during the last currency panic, in 1995. Cry not for Steve, Argentina. His annual return that year of 79.25% put the speculator's trust at the top of the speculation league table. This year he'll do it again.

Hanke profits by betting on the failure of the IMF's policies. But 'vulture' investing is merely Hanke's avocation. In his day job as professor of economics at Johns Hopkins University, Maryland, he freely offers straightforward advice to end Argentina's woe, advice which would put him out of the speculation game: "Abolish the IMF."

To begin with, Hanke would do away with the 'peg' - that one-peso-for-one-dollar exchange rate - which has proven a meat-hook on which the IMF hangs the Argentina's finances.

It's not the peg itself that skewers Argentina - but the peg combined with the Four Horsemen of IMF neoliberal policy: liberalized financial markets, free trade, mass privatization, and government surpluses.

'Liberalizing' financial markets means allowing capital to flow freely across a nation's borders. Indeed, after liberalization five years ago, the capital has flowed freely, with a vengeance. Argentina's panicked rich have dumped their pesos for dollars and sent the hard loot to investment havens abroad. Last month alone, Argentine's withdrew 6% of all bank deposits.

Once upon a time, government-owned national and provincial banks supported the nation's debts. But in the mid 1990s, the government of Carlos Menem sold these off to Citibank of New York, Fleet Bank of Boston and other foreign operators.

Charles Calomiris, a former World Bank advisor, describes these bank privatizations as a "really wonderful story." Wonderful for whom? Argentina has bled out as much as three-quarters of a billion dollars a day in hard currency holdings.

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There's more cheer for creditors in the Understanding, including 'reform of the revenue sharing system.' This is the kinder, gentler way of stating that the US banks will be paid by siphoning off tax receipts earmarked for education and other provincial services. The Understanding also finds cash in "reforming" the nation's health insurance system (cut cut cut).

But when cut cut cut isn't enough to pay the debt holders, one can always sell 'la joyas de me abuela,' grandma's jewels, as journalist Mario del Carvil describes his nation's privatization scheme. The French picked up a big hunk of the water system and promptly raised charges in some provinces by 400%.

The Understanding's final bullet is imposition of "an open trade policy." This requires Argentina's exporters, with their products priced via the 'peg' in US dollars, into a pathetic, losing competion against Brazilian goods priced in a devaluing currency. Stooopid.

Still, the IMF's scheme could work. All, that is required is 'flexible' workforce, willing to bend to lower pensions, lower wages or no wages at all. But, to the dismay of Argentina's elite, the worker bees are proving inflexibly obstinate in agreeing to their own impoverishment. One inflexible worker, Anibal Verón, a 37-year-old father of five, lost his job as a bus driver; his company owes him 9 months pay.

Verón joined the 'piqueros,' the angry unemployed who blockade roads (39 blockades began just this week). In clearing a blockade in November, the military police allegedly killed him with a bullet to the head.

The death in Genoa of anti-globalization protestor Carlo Guiliani was Page One news in the US and Europe. Verón's death was page zero. Nor did you read about Carlos Santillán, 27 nor Oscar Barrios, 17, gunned down in a church courtyard in Salta Province when the police fired on a protest against the IMF austerity plan.

Globalization boosters like Tony Blair prefer to portray resistence as a lark of pampered Western youth curing their ennui by "indulging in protest, misguided" by naive notions. The media plays to this theme, focussing on the few thousand marching in Genoa, but not the 80,000 in the streets of Buenos Aires last May, nor the general strike honored by 7 million Argentine workers last June.

In Argentina, President Fernando de la Rua blames violence on the protesters. But the Peace and Justice Service (SERPAJ) charges de la Rua's government with using hunger and terror to impose the IMF plans. SERPAJ leader Adolfo Pérez Esquivel told me he is documenting cases of torture of protesters by police in the town where Santillán and Barrios died. To Pérez Esquivel who won the Nobel Peace Prize in 1980 repression and liberalization are handmaidens. He told the Observer he has just filed a complaint charging police with recruiting children as young as 5 years old into paramilitary squads, an operation he compares to the Hitler Youth.

But Pérez Esquivel, who led protests against the Free Trade Agreement of the Americas, doesn't agree with my verdict against the IMF in Argentina's death. He notes that the economically fatal 'reforms' are embraced with enthusiasm by the nation's finance minister, Domingo Cavallo, best remembered as the head of the central bank during the military dictatorship. For the aging pacifist, that suggests that the untimely demise of the nation's economy wasn't murder, but suicide.

Award-winning investigative reporter Greg Palast writes, Inside Corporate America, fortnightly in the Observer (London), Sunday paper of Britain's Guardian. At http://www.GregPalast.com you can read and subscribe to Greg Palast's columns.

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> Argentina

Bank Secrecy Gives Terror Safe Haven

Terrorist networks all over the world depend on the international bank and corporate secrecy system to hide and move their money. This structure is allowed to exist by agreement of the world's banks and financial powers. A lot of people make money from it, including the owners and managers of banks that hide customers' deposits from tax authorities. But an unintended consequence is that it aids and abets worldwide networks of terrorists.

If the United States wants to stop the money flow that supports terrorism, it needs to cut the pipeline. The administration should rethink its hostility to international efforts to pierce the bank secrecy essential to terrorists' money laundering.

TERRORISTS NEED a way to finance operations in dozens of countries around the globe, to pay for houses, salaries, transport, weapons and explosives. They need to move millions quickly and without detection. They can't carry the cash in suitcases. But transferring millions of dollars using secret bank accounts and shell companies is easy.

HOW THE PIPELINE WORKS

In about 60 countries around the world, known as "offshore" or "tax haven" countries, people can set up companies and open accounts without real names or identification. Phony banks - which are really just letter-drops - funnel money to real banks. Real banks in the U. S. routinely ask no questions when the phony banks open "correspondent accounts" to move money here for their customers.

Right now, there's nothing in U.S. law to stop the Al-Shamal Islamic Bank in Khartoum, Sudan, from opening an account in a U.S. bank to wire money to use here or in another country. That bank was set up by Osama bin Laden. If there's a stop put on that bank, it can easy go through a third party in Nauru or Liechtenstein or some other offshore haven. Because U.S. banks are not required to ask about the owners of the money, foreign banks bundle cash from numerous customers and send the lump sum to their correspondent accounts in the U.S. Then they move the money wherever their clients order.

The Sunday Times of London reports that a suspected bin Laden lieutenant, Saudi dissident Khalid al-Fawwaz, used an account at a branch of Barclays Bank in London to finance circulation of bin Laden' s edicts and contacts with other parts of the organization's global network. Khalid al-Fawwaz is being held awaiting extradition proceedings to the United States for participation in the conspiracy to murder Americans.

WORKING THE LEVERS

Swiss federal prosecutors are investigating whether any money linked to the terrorists flowed through its banks. According to the "Blick" newspaper, Al Taqwa Management Organization AG, a financial services company based in Lugano, in the southern part of the country, had links with Osama bin Laden. Lugano is notorious as a home for "financial services companies," whose function is to discreetly move money, as well as for shell companies and secret bank accounts.

The system is no surprise to the U.S. government, because America and its allies have used it, too. BCCI, the Bank of Credit and Commerce International, was a British-

Argentina has been implementing procedures for the regressive restructuring of domestic capitalism since the times of the military dictatorship in 1976, procedures which were speeded up after 1991. The policy is still in force today , demanding a still greater reduction in the quality of life experienced by the majority of the population, completing the privatisations of the bank, and the public authorities covering health, social security and education. Making this possible involves "naturalising" the adjustment process and this relies on an executive power which up to now has kept the other powers, the parliamentary and the judicial, in check. In this endeavour it is no longer able to achieve the subordination of society as a whole since nowadays days this is developing intense resistance. The destiny of the Argentine is at stake there.

Three articles

Original documents:
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Pakistani bank that used secret offshore accounts to effect a global money-laundering fraud that cost victims $8 billion. Before it was shut down in 1991, it was used to fund the Mujahedin, then fighting the Soviet-supported government of Afghanistan. The money came from U.S. and Saudi intelligence.

Now many of the Mujahedin are members of bin Laden's network. They know all about how to launder money through the international bank secrecy system.

CUTTING OFF THE MONEY

If the U.S. wants to stop the money flow that supports terrorism, it needs to cut that pipeline. The administration should rethink its hostility to international efforts to pierce the bank secrecy essential to terrorists' money laundering.

The first step should be immediate passage of legislation sponsored by Michigan Sen. Carl Levin (and opposed by Republican leaders last year). Levin is pressing to make his bill part of the anti-terrorism package that will be considered by Congress. The measure has two key elements:

It would bar U.S. banks from providing banking services to foreign shell banks with no physical presence in any country.

It would also require U.S. banks to conduct in depth investigations when opening accounts for $1 million or more for foreigners or correspondent accounts for offshore banks or banks in countries with high money-laundering risks.

A GLOBAL RESPONSIBILITY

Other countries also need to change their practices. In London, a favorite center for Middle East money, banks connected to the Saudi royal family enjoy "sovereign immunity," which England grants to monarchies. They are exempt from the scrutiny of the Financial Service Authority, which supervises banks and tries to head off money laundering.

Now, British Chancellor of the Exchequer Gordon Brown has called for global action to counter terrorist money laundering. He would give security services access to secret banking systems in countries such as Switzerland and require reporting to international institutions of "suspicious transactions involving what may be terrorist activities" so that there is "no hiding place for terrorist money. " European Union governments are meeting to adopt a common position on the issue this weekend.

The Bush Administration needs to change its policy that has been hostile toward challenging bank secrecy. It needs to get behind and strengthen existing efforts by the OECD and the G-7 to crack down on this perfidious system. We must realize that globalized terrorism is financed by globalized money.

Lucy Komisar is a New York journalist who writes on foreign affairs and in recent years has focused on the offshore bank and corporate secrecy system.

October 6: European action against tax havens. For more information: http://attac.org/luxembourg grandelessive@attac.org

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