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LET'S TALK ABOUT...
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Tobin Tax

It is a pretty topical subject in Europe. It was initially proposed in 1972 by Professor James Tobin of Yale University, who was to be awarded a Nobel Prize some years later. It considers applying a per cent tax on financial transactions. Indeed the original field of application was just currency trading. Its aims are contrasting market "speculation", smoothing volatility and raising funds in favour of states which are in poor financial conditions, also as a result of "speculative" attacks. Such funds should be primarily devoted to social purposes.

The idea was never actually implemented, except for very short periods in highly distressed situations, as the one suffered by Brazil. Undoubtedly it has always been politically labelled, not just because it counts on supporters such as Mr Lula of Brazil or Mr Chavez of Venezuela, as well as the past British Prime Minister Gordon Brown, but mainly because it soon became a strong issue of radical anti-globalization, anti-capitalistic and anti-financial movements and organizations.

Now it is being revived by some European politicians with different ideological stances but its feasibility questions remain, both at theoretical and technical levels. Apart from the sense of "speculation" itself, which may be not viewed as the source of problems, but just as their operational interpretation and exploitation by market actors, the monetary troubles are more likely the result of trade unbalances among the different world areas and lavish government expenses. Financial transactions, and currency trading in particular, are mostly carried on intraday and the balances of their volumes are settled by other parties. So, which amounts should be charged: the amounts of transactions themselves or settled ones? In the country of the operator, the place of execution or the one of clearing ? Many transactions have a commercial or hedging nature, so aimed at protecting positions against volatility. Moreover, the capital is a most mobile item today: were the Tobin Tax to be unilaterally applied by some financial centers, obviously transactions – and later financial operators themselves – would move to the tax-free jurisdictions. To have it applied universally is a mere utopia. Moreover it would increase transactions costs and negatively impact the real economy, consumers and savers; markets would be less liquid at a moment when many financial instruments are still "problematic", to say the least. The lack of consensus and the technical difficulties make the Tobin Tax a good demagogic arguments with a poor level of practical feasibility. *- GLT*