Global Tax Initiatives

The Movement for the Currency Transaction Tax

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Acronyms

ATTAC	Association pour la Taxation des Transactions pour l'Aide aux Citoyens
CEO	chief executive officer
CIVES	Associação Brasileira de Empresários pela Cidadania (*Brazilian Association of Entrepreneurs for Citizenship*)
CTT	currency transaction tax
CTTO	currency transaction tax organization
ECB	European Central Bank
EMU	European Monetary Union
EU	European Union
Forex	foreign exchange
G7	Group of Seven
GATS	General Agreement on Trade in Services
GDP	gross domestic product
IMF	International Monetary Fund
LTCM	Long-Term Capital Management
MDG	Millennium Development Goal
NGO	non-governmental organization
NIFA	New International Financial Architecture
NIGD	Network Institute for Global Democratization
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
UN	United Nations
UNDP	United Nations Development Programme
UK	United Kingdom
UNU	United Nations University
US	United States
VAT	value added tax
WEF	World Economic Forum
WIDER	World Institute for Development Economics Research
WSF	World Social Forum
WTO	World Trade Organization

Summary/Résumé/Resumen

Summary

The currency transaction tax (CTT), first proposed in 1972, is a simple idea: a tax levied on every currency exchange, set at a level low enough not to hinder transactions needed to finance trade in goods and services, or long-term investments. The establishment of the CTT, or a new organization to govern the CTT, would potentially constitute a far-reaching global regulatory change. This paper asks two sets of questions. First, what have been, and are, the causes of the emergence, rise and development of both the transnational campaign for the CTT and the related worldwide movements and networks? Second, what are the conditions of success of different strategies for global regulatory change, in this case the CTT? And consequently, what models for the CTT, and strategies to realize them, are feasible, and what effects would they have?

To analyse the first question, the author draws on the Braithwaite and Drahos scheme, according to which there are recurrent proactive and reactive sequences of strategic action to secure global regulatory change, such as the establishment of the CTT. A proactive sequence starts with the creation of new ideas and "enrolment of organizational power" through various mechanisms and transnational networks. A reactive sequence starts with a disaster, followed by media hype and then public demand to innovate new regulations. Subsequently, individual actors may revive regulatory innovation, which may, through a complicated process and in a potentially diluted version, become a global standard, which will eventually placate the public.

By the mid-1990s, the CTT started to be discussed in the context of trying to find alternative sources of funding for the United Nations system, and, more generally, for global efforts to reduce absolute poverty. However, until the Asian crisis of 1997–1998, interest in the CTT was usually triggered by major financial crises, and then died out when the crisis passed from the headlines. Of the almost 200 major financial crises (which involved more than 80 currency crises) which have taken place since the late 1970s, the farthest-reaching ones have occurred since 1990. The Mexican crisis (1994–1995) and its repercussions, and the Asian crisis (1997)—which spread to Russia and Brazil (1998)—alarmed the world. In part as a reaction to this situation, a more systematic and organized global campaign for the CTT finally emerged. This reactive scheme has been reinforced by general frustration with the mainstream Western politics of neoliberal globalization, and it contributed decisively to the establishment of the World Social Forum (WSF) in 2000–2001.

By 2004, the momentum generated by the Asian crisis was mostly over. Although many non-governmental organizations (NGOs) celebrated the Belgian CTT law of 1 July 2004 as a major breakthrough, no CTT in the sense of the original proposal is in sight. What remains on the agenda of global politics is a neoliberal version of the tax that aims at finding alternative sources of funding for development. There are also major obstacles in realizing that vision. Moreover, the CTT campaign is now divided between those who would like to see a minimalist CTT implemented unilaterally by individual countries or the European Union, and those who are struggling for global regulatory changes.

The second part of the paper analyses and assesses the two different visions of the CTT. War on Want—an international development NGO based in London—has been advocating a minimalist version of the CTT as a means to "raise 20 billion dollars each year to help fund the Millennium Development Goals". The Draft Treaty on Global CTT outlines an alternative model more in line with the aspirations of ATTAC and other organizations and movements participating in the WSF process. In the latter model, the tax is set at a sufficiently high level to curb the power of transnational financial flows. The Draft Treaty on Global CTT also has the potential to act as an "icebreaker" in international law, by setting an example of post-sovereign global regulation and taxation that can be applied in other fields as well.

The paper concludes by discussing possible futures in terms of the conditions for success of different visions and strategies of realizing the CTT. Although new crises may appear crucial to the creation of further momentum for the global CTT, it does not seem wise to rest one's hopes on the possibility of a new disaster. The global dialectic of control may also take on different forms from that wished by the reformists.

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Résumé

La taxe sur les mouvements de capitaux, proposée pour la première fois en 1972, est une idée simple: une taxe prélevée sur toutes les opérations de change, fixée à un niveau assez bas pour n'entraver ni les transactions nécessaires au financement du commerce des biens et des services, ni les investissements à long terme. L'institution de cette taxe ou d'une nouvelle organisation chargée de la régir, pourrait introduire un changement profond dans la réglementation mondiale. Ce document pose deux séries de questions. Premièrement, quelles ont été et sont encore les causes de l'émergence, l'essor et le développement de la campagne transnationale en faveur de la taxe ainsi que des mouvements et réseaux qui se sont créés dans le monde dans son sillage? Deuxièmement, quelles sont les conditions du succès des diverses stratégies en faveur d'un changement de réglementation mondiale, en l'occurrence de la taxe sur les mouvements de capitaux? Et, par voie de conséquence, quels modèles sont envisageables pour cette taxe, quelles stratégies pourrait-on appliquer pour les mettre en pratique, et quels effets auraient-ils?

Pour analyser la première question, l'auteur s'inspire de la conception de Braithwaite et Drahos, selon laquelle toute action stratégique tendant à changer la réglementation au niveau mondial, telle que l'instauration de la taxe sur les mouvements de capitaux, se compose d'épisodes récurrents, tantôt anticipateurs tantôt réactifs. L'épisode anticipateur commence par le lancement d'idées nouvelles et la "mobilisation de la force organisationnelle" par divers mécanismes et réseaux transnationaux. L'épisode réactif commence par une catastrophe, suivie d'un battage médiatique et d'un mouvement du public exigeant une réglementation novatrice. Des acteurs individuels peuvent alors relancer une mesure innovante qui, après un processus compliqué, sera appliquée au niveau mondial sous une forme peut-être atténuée et apaisera le public.

On a commencé à discuter de la taxe sur les mouvements de capitaux vers 1995, au moment où l'on cherchait d'autres sources de financement pour le système des Nations Unies et, de manière plus générale, pour la lutte contre la misère dans le monde. Cependant, jusqu'à la crise asiatique de 1997–1998, il fallait d'ordinaire des crises financières majeures pour que la taxe éveille l'intérêt, et celui-ci retombait dès que la crise ne faisait plus la une des journaux. Près de 200 crises financières majeures se sont produites depuis la fin des années 70 (et ont entraîné plus de 80 crises monétaires), mais les plus graves ont eu lieu depuis 1990. La crise mexicaine (1994–1995) et ses retombées, et la crise asiatique (1997), qui s'est étendue jusqu'en Russie et au Brésil (1998), ont alarmé le monde. En partie en réaction à cette situation, une campagne mondiale pour la taxe sur les mouvements de capitaux s'est finalement organisée et a pris un tour plus systématique. Le ressentiment général causé par la politique occidentale de mondialisation néolibérale a accentué cette réaction, qui a été un élément décisif dans la création du Forum social mondial en 2000–2001.

En 2004, l'impulsion donnée par la crise asiatique était largement retombée. De nombreuses organisations non gouvernementales (ONG) ont accueilli la loi belge du 1er juillet 2004 instaurant la taxe sur les transactions financières comme une percée majeure, mais la taxe sur les mouvements de capitaux telle que l'entendait la proposition originale n'est pas encore en vue. Ce qui reste à l'ordre du jour mondial, c'est une version néolibérale de la taxe, dont l'objet est de trouver d'autres sources de financement pour le développement. Des obstacles de taille s'opposent à la réalisation de cette vision. De plus, ceux qui font campagne pour la taxe sont maintenant divisés en deux camps: ceux qui voudraient voir certains pays ou l'Union européenne appliquer unilatéralement une taxe minimaliste et ceux qui se battent pour obtenir un changement de la réglementation mondiale.

La seconde partie du document analyse et évalue les deux conceptions de la taxe sur les mouvements de capitaux. War on Want—ONG internationale de développement établie à Londres—défend une version minimaliste de la taxe comme moyen de "lever chaque année 20 milliards de dollars pour contribuer à financer les Objectifs du Millénaire pour le développement". Le projet de traité relatif à l'instauration mondiale d'une taxe sur les mouvements de capitaux présente un autre modèle, plus conforme aux inspirations d'ATTAC et d'autres organisations et mouvements participant au Forum social mondial. Dans ce modèle, la taxe est fixée à un niveau assez élevé pour modérer le pouvoir des flux financiers transnationaux. Le projet de traité évoqué plus haut peut aussi agir à la manière d'un "brise-glace" dans le droit international, en donnant un exemple de réglementation et de taxation mondiales qui dépasse la souveraineté des Etats et qui pourrait être suivi dans d'autres domaines.

L'auteur conclut en évoquant divers avenirs possibles en fonction des conditions de succès des différentes visions et stratégies d'instauration de la taxe. Bien que de nouvelles crises puissent jouer un rôle crucial en donnant l'impulsion nécessaire à l'instauration d'une taxe mondiale, il ne semble guère judicieux de fonder son espoir sur l'éventualité d'une nouvelle catastrophe. La dialectique mondiale du contrôle peut aussi prendre des formes différentes de celles que souhaitent les réformistes.

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Resumen

El impuesto sobre las transacciones monetarias (CTT por sus siglas en inglés) propuesto por primera vez en 1972, se fundamenta en una idea simple: un impuesto aplicado a todo cambio de divisas, a una tasa suficientemente baja para no entorpecer las transacciones que se requieren para financiar el comercio de bienes y servicios o las inversiones a largo plazo. El establecimiento del CTT, o de una nueva organización que lo administre, podría constituir un cambio normativo mundial de gran alcance. El presente documento se propone responder a dos preguntas. En primer lugar, ¿cuáles han sido, y son, las causas del surgimiento, el auge y el desarrollo de la campaña internacional en favor del CTT y los movimientos y redes mundiales conexos? En segundo lugar, ¿qué condiciones deben cumplirse para tener éxito con la aplicación de las diferentes estrategias para el cambio normativo mundial, en este caso el CTT? Y en consecuencia, ¿cuáles son los modelos y las estrategias viables para la aplicación del CTT y qué efectos podrían tener?

Para analizar la primera pregunta, el autor recurre al esquema de Braithwaite y Drahos, de acuerdo con el cual existen secuencias proactivas y reactivas recurrentes de acción estratégica para garantizar un cambio normativo mundial, como sería el caso del establecimiento del CTT. Una secuencia proactiva comienza con la creación de nuevas ideas y la "incorporación del poder institucional" por medio de diversos mecanismos y redes transnacionales. Una secuencia reactiva comienza con un desastre, seguido de una histeria mediática y, luego, las demandas del público en favor de la aplicación de nuevas regulaciones. En consecuencia, determinados actores pueden revivir una innovación normativa que podría, por medio de un complicado proceso y en una versión potencialmente diluida, convertirse en una norma mundial que a la postre aplacaría los ánimos del público.

A mediados de los años 90 comenzó a debatirse el tema del CTT en el contexto de la definición de fuentes alternativas de financiamiento para el sistema de Naciones Unidas y, en términos más generales, como parte de las iniciativas mundiales para reducir la pobreza absoluta. Sin embargo, hasta la crisis asiática de 1997–1998, el interés por el CTT generalmente se reanimaba a raíz de importantes crisis financieras, para luego desvanecerse a medida que las crisis desaparecían de los titulares de prensa. De las casi 200 crisis financieras importantes (que implicaron más de 80 crisis monetarias) que se han dado desde finales de los años 70, las de mayores consecuencias se han registrado desde 1990. La crisis mexicana (1994–1995) y sus repercusiones, y la crisis asiática (1997)—que se propagó hacia Rusia y Brasil (1998)—alarmaron a todo el mundo. En una reacción debida en parte a esta situación, surgió finalmente una campaña mundial más sistemática y organizada a favor del CTT. Este esquema reactivo se vio reforzado por la frustración general ante la política occidental de mundialización neoliberal y contribuyó de forma decisiva al establecimiento del Foro Social Mundial (FSM) en 2000–2001.

Para 2004, el movimiento que había generado la crisis asiática ya casi se había extinguido. Aunque muchas organizaciones no gubernamentales (ONG) celebraron la ley belga sobre el CTT el 1 de julio de 2004 como un acontecimiento de gran significación, no se vislumbra ningún CTT en el sentido de la propuesta original. Lo que permanece en la agenda de la política mundial es una versión neoliberal del impuesto que busca definir fuentes alternativas de financiamiento para el desarrollo. También existen importantes obstáculos para la cristalización de esta visión. Más aún, la campaña por el CTT se divide ahora entre quienes abogan por la implantación de un CTT minimalista implementado por cada país o la Unión Europea; y quienes luchan por la introducción de cambios normativos a nivel mundial.

En la segunda parte de este documento se analizan y evalúan las dos visiones que existen sobre el CTT. War on Want—una ONG de desarrollo internacional con sede en Londres—ha venido abogando por una versión minimalista del CTT como medio para "recaudar 20 mil millones de dólares anuales para ayudar a financiar los Objetivos de Desarrollo del Milenio". El Proyecto de Tratado para un Impuesto sobre las transacciones monetarias mundial esboza un modelo alternativo más congruente con las aspiraciones de ATTAC y otras organizaciones y movimientos que participan en el proceso del FSM. En este ultimo modelo, el impuesto se fija en una tasa suficientemente alta para contrarrestar el poder de los flujos financieros transnacionales. El Proyecto de Tratado para un Impuesto sobre las transacciones monetarias mundial tiene el potencial para actuar como catalizador en el derecho internacional, al fungir de ejemplo de una regulación y tributación mundiales post-soberanas que pueden aplicarse igualmente en otros campos.

El documento concluye con un análisis de los posibles futuros sobre las condiciones que asegurarían el éxito de diferentes visiones y estrategias para poner en práctica el CTT. Si bien parecería un requisito la aparición de otras crisis para que se cree un nuevo contexto en favor del CTT mundial, no parece prudente cifrar las esperanzas en la posibilidad de un nuevo desastre. La dialéctica mundial de control también parece adoptar formas diferentes de las que desean los reformistas.

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Introduction

The currency transaction tax (CTT) is a simple idea, a tax levied on every currency exchange, set at a level low enough not to hinder any transactions needed to finance trade in goods and services or long-term capital investments. James Tobin first proposed this tax in 1972, in the wake of the demise of the Bretton Woods system of fixed exchange rates.[1] Tobin argued for a reform of monetary markets, as "throwing sand in the wheels of global finance" by raising transaction costs of foreign exchange would make the volatile financial markets more stable and increase the autonomy of states, particularly the autonomy of their monetary policy. In effect, Tobin's point was to defend the possibility of Keynesian economic policies within states. Later, it was realized that the CTT could also create funds for good global purposes. The CTT can even be perceived as a mere fundraiser for development and other purposes.

In this paper, I am asking two sets of questions. First, I am interested in the geo-historical determination of the emergence, rise and development of both the transnational campaign for the CTT and the related worldwide movements and networks. The establishment of the CTT and/or a new organization to govern the CTT could constitute an important regulatory change. John Braithwaite and Peter Drahos—two widely acclaimed Australian scholars working across sociology, criminology, law and philosophy—have developed a model according to which there are recurrent proactive and reactive sequences of "glocal"[2] strategic action to secure global regulatory change (the term "reactive" is used here in the neutral sense of a reaction to something).[3] According to Braithwaite and Drahos (2000), an ideal-typical reactive sequence starts with a disaster, followed by media hype and a demand by the mass public to innovate new regulations. Subsequently, developers of new ideas "pull regulatory innovation from [the] desk" (Braithwaite and Drahos 2000:33), which may eventually, possibly in a diluted version, become a global standard; this will placate the public. The reactive scheme seems to fit the pattern of the late 1990s global campaign for the CTT, although only up to a point.

However, there is also the possibility of a proactive sequence. Instead of a disaster and the consequent media hype, the sequence starts with a person or group willing and able to convert a new idea into a successful regulatory innovation through the "enrolment of organizational power" and various mechanisms and transnational networks. These two schemes can be taken mostly as descriptive and analytical models, but they also have a normative aspect since Braithwaite and Drahos (2000:xx) argue that "weak actors" can make a difference through webs of influence, cross-national alliances and by commanding the imagination of mass publics in dominant states. The point of their analysis is also the empowerment of the so-called weak actors such as non-governmental organizations (NGOs) or states that are commonly ranked as secondary, for example, in the global media and in diplomatic practices.

Second, I am interested in assessing the conditions of success for different strategies of global regulatory change, such as the CTT. What kinds of strategies are feasible, and what effects would they have? This paper is, in part, an analysis based on participatory observation. I have been involved in the global CTT campaign since its inception in 1998; I have taken part in developing and advocating a particular model of making the CTT real. Different strands of the CTT campaign base their preferred models and strategies on dissimilar understandings of the political and institutional possibilities. Different models also imply different understandings of

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[1] Originally, Tobin made his proposal at a lecture in 1972 (the Eliot Janeway lectures were published in Tobin 1974, see pp. 88–92); however, the argument was re-made more thoroughly in his 1978 work. In 1981, Tobin was awarded the Nobel Prize for reasons not related to this proposal, but for "his most outstanding and significant research contribution…to the theory of financial markets and their relation to consumption and investment decisions, production, employment and prices" (press release, Nobel Foundation, 13 October 1981). In the late 1990s, Tobin continued to advocate the CTT (see Eichengreen et al. 1995; Tobin 1996).

[2] "Glocal" comes from combining global and local. It refers finding a balance between the local and the global: for example, how local identities act in global frameworks, and the ways that global frameworks reflect and shape local identities.

[3] The couple of "action" and "reaction" came into contemporary existence as a result of Newton's third law of motion: "to every Action there is always opposed an equal Reaction". This idea became prevalent in eighteenth century political discourses. It was only after the French Revolution that the term "reactionary" started to implicate a conservative attempt "to turn the clock back" (as measured in terms of the Enlightenment idea of progress) (see Hirschman 1991:8–10). It is, thus, worth stressing that no derogatory or negative meaning is attached to the term "reactive" in Braithwaite's and Drahos' model, or in this paper.

who the "we" are and what is "our" place in the world. Various reactive and proactive actions aimed at a global regulatory transformation may bring about very different outcomes in terms of global regulatory rules and principles. Hence, I have not only complemented social scientific analysis with personal observations, I have also concluded this paper with a specific argument for global regulatory change.

The Emergence of the Global CTT Campaign

The CTT is a simple and potentially attractive idea, a low-level tax levied on every currency exchange, most of which take place between a few large banks and other financial institutions. However, until the 1990s, no proactive persons or groups emerged that were willing and able to convert this idea into a successful regulatory innovation. Until the Asian crisis, interest in the CTT was usually triggered by major financial crises, and then died out when the crises passed from the headlines. It was a regulatory innovation "pulled from the desk", often by journalists, particularly after financial crises that not only hit a marginal country somewhere, but also threatened the interests of major economic centres and powers. The sequence of events was reactive, but did not lead to any regulatory change; it was not even seriously considered by those in a position to make such decisions. In other words, Tobin's proposal was ignored during the 1970s, but came up occasionally in the media in the 1980s, particularly in the context of various financial crises such as the October 1987 crash. However, of the almost 200 financial crises—covering more than 80 currency crises—that have taken place since the late 1970s, the farthest-reaching ones have occurred since 1990. After the Mexican crisis (1994–1995) and its repercussions and the Asian crisis (1997), which spread to Brazil and the Russian Federation (1998), the world was alarmed. In reaction to this disquieting situation, a more systematic and organized global campaign for the CTT finally emerged.

On the other hand, since the early 1990s, the Tobin tax has also been discussed within the context of trying to find alternative sources of funding for the United Nations (UN) system and, more generally, for the global efforts to reduce absolute poverty. Indeed, with the exponential growth of foreign exchange markets (the daily foreign exchange, or forex, volume is now more than 100 times that of the early to mid-1970s), the CTT suddenly appears to be a very significant potential source of revenue for various global purposes. Even a small slice of a trillion US dollars or more a day could, it was argued by many, make a huge difference in funding UN activities and other global common goods. The CTT was discussed in this light, for instance, at the World Summit for Social Development held in Copenhagen in 1995. Many NGOs and politicians began to advocate the CTT, mainly, or even because of, its revenue potential. Both the reactions to financial crises and the proactive need for global funds pushed the Tobin tax to become a key point in the struggle over globalization.

The Emergence of ATTAC and the World Social Forum

The Asian crisis was more severe than any other financial crisis since the Great Depression of the 1930s. By 2000, the 1997–1998 crisis caused had a short-term loss of 10–20 per cent of gross domestic product (GDP) for Indonesia, Malaysia, the Republic of Korea and Thailand, assuming that the growth in 1996–1997 would have continued otherwise. The long-term cumulative loss is much larger. In the various financial crises since the late 1970s, the total cumulative loss for a combined banking and currency crisis has been, on average, 14.4 per cent for the countries concerned (IMF 1998:79). It has been estimated that the Asian crisis and its global repercussions cut global output by $2 trillion in 1998–2000 (UNDP 1999:2). This is approximately 6 per cent of global GDP, by far the worst crisis thus far.

It has also been estimated that the Asian crisis left 10 million people officially unemployed; many others either became underemployed or lost their jobs without leaving a mark on the official statistics; in addition to ubiquitous attempts to colour statistics, immigrant workers—many of them illegal—fall into this category. Moreover, some 50 million people in Asia alone fell below the poverty line, and the emergence of malnutrition and hunger has been reported. The crisis spread elsewhere: Brazil, the Russian Federation and South Africa. In the Russian Federation, most salaries rapidly fell below the absolute minimum cost of living after the 40 per cent–50 per cent drop in real income due to the crisis of August 1998 and thereafter. In other words, tens of millions of Russians suffered acutely from the collapse of the economy, which was reinforced by the financial crisis. Many more people in Asia, Brazil, the Russian Federation and South Africa have been facing the long-term effects of declining, or simply disappearing, public health care, education, pensions and social benefits.[4] Given the current global financial system and the principles governing it, those who suffer the most typically have the least to do with producing the crisis. However, the Asian crisis also made the major financial centres as vulnerable as indicated by the Long-Term Capital Management (LTCM) debacle; [5] because it involved a lot of drama and manifold tragedies, the Asian crisis remained in the headlines all over the world for an exceptionally long period of time.

ATTAC (Association pour la Taxation des Transactions pour l'Aide aux Citoyens), founded in Paris, is perhaps the most important building block of the movement that emerged after the crisis of 1997–1998. ATTAC also has roots in other glocal developments, for example, in the 1995 month-long general strike by French civil servants to defend the pension reform, which was presented by the French government as a necessity due to globalization. In the context of widespread disillusionment among the supporters of traditional Leftist parties in France, the Asian crisis triggered a strong reaction. Ignacio Ramonet, editor of the *Le Monde Diplomatique*, published an article in December 1997 entitled "Disarm the markets", in which he says that there are two closely related problems: the volatility and magnitude of global financial markets that "is causing universal insecurity"; and the threat to democracy posed by global finance. According to Ramonet, "Hundreds of billions of dollars are stashed away out of reach of the tax authorities for the benefit of powerful individuals and financial institutions." Since "[t]he power to levy taxes on unearned income is a sine qua non of democracy", he suggests using the Tobin Tax as a mechanism to counter these problems. "Absolute freedom of movement of capital undermines democracy and we need to introduce machinery to counter its effects" (Ramonet 1997:1).

Consequently, Ramonet proposed three measures: (i) closing down tax havens; (ii) increasing taxes on unearned income; and (iii) levying a tax on currency transactions. He also suggested the establishment of a new organization advocating the Tobin tax; however, the acronym ATTAC was conceived before deciding what it would stand for—the idea being it was time for more proactive politics after years of reactive opposition to neoliberalism. Bernard Cassen, director of *Le Monde Diplomatique,* became the chair of ATTAC France. Cassen describes the initial reaction to Ramonet's article vividly:

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[4] These figures are based on the United Nations Development Programme (UNDP), United Nations and Social Commission for Asia and the Pacific, World Bank, International Monetary Fund (IMF), Asian Development Bank and Russian State Statistics sources put together and summarized by Hayward (2000).

[5] LTCM was an investment partnership, started in 1994. At first, it was very successful, with annual returns in excess of 40 per cent in 1995 and 1996, although somewhat less in 1997. Aided by the reputations of well-known economists—including two Nobel Prize winners—and traders, it was able to raise its leverage up to 40 times its original funds, or more. Relying on insights generated by sophisticated mathematical models, and by building complex investment strategies, LTCM made bets on the changes in the relative prices of bonds in the United States and abroad due to changes in the risk premiums (see Edwards 1999). The announcement of a devaluation and debt moratorium by the Russian government on 17 August 1998 triggered a massive flight to safer assets. Top economists and sophisticated models notwithstanding, this took LTCM by surprise. Very high leverage and large open positions of $200 billion produced losses that the fund could not sustain. LTCM lost its original funds and emerged suddenly as a systematic risk to a number of financial actors (Edwards 1999). The Federal Reserve Bank of New York orchestrated a private rescue operation of 14 banks and other financial firms. LTCM was re-capitalized by a total amount of $3.5 billion. Soon this led to accusations of "crony capitalism". The World Bank's chief economist, Joseph Stiglitz, stated that "while South Korea, Thailand and Indonesia were heavily criticized for acquiring mountains of debt, the magnitude of debt at LTCM was unbelievable" (AFP News 1998). Martin Khor (1998) went even further stating that "this episode brings to light Western banks' reckless lending practices and the substantial use of leverage by these funds giving them considerable power to move financial markets. The bailout of LTCM has, in turn, left US financial authorities open to accusations of practising the very 'crony capitalism' they have often attributed to the afflicted Asian countries in crisis".

> The appeal was launched like a bottle into the sea, without any idea of what the reaction might be. But no sooner had the article appeared than we were deluged with phone calls and letters. I have never seen any article produce such a response. Normally, a piece in the paper will generate half a dozen letters, and in rare cases—when the subject is particularly sensitive, often to do with languages—a maximum of say forty. This time we were filling boxes with them, day after day. We were at a loss to know what to do. We had thrown out an idea, but it never occurred to us that it would be ourselves who would create ATTAC. In the following issues we kept our readers informed and said we were making contacts, partly to gain time. But by March 1998 the pressure from them was so great we realized there was nothing to be done: we would have to take responsibility for setting up the association, since there was such wide demand. As I had some organizational experience behind me, I was assigned the job of taking this in hand (2003:41–42).

As a result, ATTAC was founded on 3 June 1998. The first French national meeting was held in October 1998, and International ATTAC was founded two months later. By 2000, the organizations had 180 local working committees, 24,000 individuals and 1,000 organizations as members in France alone. ATTAC France also quickly became the centre of a transnational network—by summer 2000, a large number of associations were formed in Europe (Austria, Belgium, Germany, Ireland, Luxembourg, Netherlands, Portugal, Spain and Switzerland), Latin America (Argentina, Brazil, Chile, Paraguay and Uruguay), North America (Canada), North Africa (Morocco and Tunisia), and sub-Saharan Africa (Burkina Faso, Cameroon, Côte d'Ivoire, Mali and Senegal). In all of these countries, specific glocal histories and circumstances have shaped the formation and purpose of national ATTACs. There are a number of other organizations closely affiliated with ATTAC, particularly in Asia and Europe.[6]

Quite independently from the establishment of ATTAC, a number of developmental and/or cosmopolitical NGOs either took the Tobin tax as a key campaigning tool and a priority in the mid-1990s, or have done so in the wake of the Asian crisis. Committed civil society organizations advocating the Tobin tax include:

- 11.11.11., the Flemish Coalition of the North-South Movement based in Belgium, which has been able to mobilize tens of thousands of volunteers every year;[7]
- International Cooperation for Development and Solidarity, an alliance of 15 Catholic development organizations from Europe and North America;[8]
- Halifax Initiative, a coalition of environment, development, social justice and faith groups in Canada;[9]
- Network Institute for Global Democratization (NIGD), a small but global network of intellectuals founded in Finland;[10]
- Tobin Tax Initiative USA, a project of the Center for Environmental Economic Development in the United States;[11]
- War on Want, a campaign against the causes of poverty, in the United Kingdom (UK), and the UK Tobin Tax Network that War on Want helped to establish in 2002.[12]

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6 This list is based on an information sheet sent by Christophe Ventura from International ATTAC on 19 July 2000. Since then, ATTACs have been established in Denmark, Finland, Norway, Sweden, the United Kingdom and various Eastern European countries such as Poland and Romania, and Japan.

7 See www.11.be.

8 See www.cidse.org.

9 See www.web.net/~halifax/index.htm.

10 See www.nigd.org.

11 See www.ceedweb.org/iirp.

12 See www.waronwant.org.

These are transnationally networked European or North American coalitions, or campaigns for global development, socioeconomic justice or global democracy. Dozens of other national and transnational organizations have included the Tobin tax in their platforms, including the Parliamentarians for Global Action and the Commission on Global Governance. Some have raised this to the top of their agendas at one point or another.

Moreover, there have also been civic actors in Asia struggling for the Tobin tax, in particular the Third World Network based in Malaysia, and Focus on the Global South based in Thailand (working also in the Philippines and the Republic of Korea); for instance, in early 1999, Martin Khor from the Third World Network circulated a call for action with Andrea Durbin from the Friends of the Earth–US and John Cavanagh from the International Forum on Globalization/Institute for Policy Studies. This call for action included a demand that "the governments of the world's major currencies should levy a tax on certain international transactions to discourage speculative and herd behaviour in international capital flows".[13] A number of Southern governments have also shown interest in the CTT. In the early 2000s, the governments of Brazil, India and South Africa seemed to be in favour of the tax. In Brazil's case, it has led to a concrete initiative as well, the so-called Lula-Chirac Initiative by the presidents of Brazil and France, joined by the presidents of Chile and Spain and the UN Secretary-General; it includes the CTT as a key measure in the fight against poverty. The report produced by the Technical Group on Innovative Financing Mechanisms entitled *Action against Hunger and Poverty* (Technical Group 2004), and the related summit in New York at the end of September 2004 (at the time of the General Assembly meeting) appear to many to be the biggest steps, thus far, toward the adoption of the CTT.

However, the campaign for the CTT is also closely associated with the development of a general global civil society. In January 1999, various organizations started preparing a counter-event to the World Economic Forum (WEF) under the banners of "another Davos" and "anti-Davos". These included both *Le Monde Diplomatique* and ATTAC, the key actors in the campaign for the CTT. At the first anti-Davos event, occurring simultaneously with the WEF 2000, various groups, ranging from the World Women's March to the Brazilian Landless Workers' Movement, held a seminar in Zurich and then marched to Davos. The difficult geographical conditions and heavy police presence convinced some of the key organizers that it would be difficult to take this route in subsequent years. In Brazil, a concrete initiative for a worldwide forum emerged in early 2000; the first formulation of the idea are generally attributed to Oded Grajew, coordinator of CIVES (Associação Brasileira de Empresários pela Cidadania).

In February 2000, Cassen met with Grajew and Francisco Whitaker in Paris to discuss the possibility of organizing such a forum. Their discussion produced three central ideas. First, it should be held in the South, and more concretely in the Brazilian city of Porto Alegre where Cassen had contacts resulting from his July 1998 visit, when he was preparing an article on the participatory budget practices of Porto Alegre. Second, the name should be World Social Forum (WSF), changing only one key word from its adversary's name. Third, it should be organized for the same dates as the WEF, partially because this symbolism would be attractive to the media.

It quickly became clear that ATTAC, *Le Monde Diplomatique* and other influential organizations within the transnational activist networks would support the initiative; eight Brazilian civil society organizations decided to form the Organizing Committee of the forum. In March 2000, they formally secured support from the municipal government of Porto Alegre and the state government of Rio Grande do Sul, both controlled by the Workers' Party (Partido dos Trabalhadores). The first WSF was held in Porto Alegre in January 2001 and attracted about 5,000 participants from 117 countries and thousands of Brazilian activists. The figures from the second forum show momentous growth, rising to over 12,000 official delegates from 123 countries and tens of thousands of participants, mostly from Brazil. The third forum in January

[13] This call for action is available at www.twnside.org.sg./title/ifgcall-cn.htm, accessed in October 2006.

2003 attracted over 20,000 official delegates and approximately 100,000 participants in total. The global media impact of the second and third forums was significantly stronger than the first year. The WSF 2004 in Mumbai, India, made the social forum a worldwide process, and was the biggest forum in terms of numbers. In 2005, the WSF returned, successfully, to Porto Alegre; and in 2006, the WSF was organized simultaneously in Bamako, Caracas, and Karachi. Ever since the first WSF in 2001, there has been a debate whether the WSF should remain an open space or become a movement of movements. Thus far, it has remained an open space and it has not adopted any campaigns in its own name, although it has precipitated campaigning on various financial issues, including the CTT.[14]

Meanwhile, the transnational campaign for the CTT succeeded in raising the issue on the agenda of many national parliaments, the European Parliament and a number of international organizations, including the United Nations. The parliaments of both Canada (1999) and France (2001) have adopted motions supportive to the implementation of the tax, and in July 2004 a law was passed in the Belgian parliament. In summer 2004, War on Want wrote in its *Tobin Tax Update*:[15]

> After an epic legislative journey the Tobin Tax finally succeeded in becoming law on 1st July 2004. Belgian MPs voted 67 for the legislation, 42 against, with 19 abstentions. This represents a landmark victory for the campaign and a significant step towards winning the argument for its implementation across Europe. The Belgian legislation provides a blueprint of how a currency taxation system can work, showing the proposal is now entirely feasible. This great achievement led directly to us being asked to write an article for the *Guardian* explaining to their readers why this progress is so important.

This enthusiasm notwithstanding, the CTT is still far from being realized. In many countries, the CTT no longer attracts media attention the same way it did in 1998–2001 in the aftermath of the Asian crisis. In many countries, the ATTAC movement has been losing members and supporters, in part because of decreasing media attention—the fact that there have been no acute crises since the financial collapse of Argentina in 2001–2002 meant no commercially, or journalistically, interesting drama in global finance—and because of lack of tangible achievements. Internal quarrels have also played a role in different settings.[16] Moreover, the attempt to turn the European Monetary Union (EMU) into a CTT zone is besieged with practical and political difficulties. The European Commission and the European Central Bank (ECB) are likely to continue their resistance against the CTT. The Council of Ministers may discuss European-wide taxes only on a consensual basis, which makes it very difficult to achieve any progress regarding the CTT. As explained in more detail in the final sections of this paper, the CTT campaign is also divided between those who would like to see a minimalist CTT implemented unilaterally by individual countries or the European Union (EU), and those who are struggling for more far-reaching global regulatory changes.

Europe and the Global CTT Campaign

Whether proactive or reactive, global political action always takes place within a specific spatial setting. This is true even when the relevant networks of communication are instant and cross-cut many "glocalities" (globally connected localities). For instance, International ATTAC was

[14] For further details, see Patomäki and Teivainen (2004a).

[15] Posted, among other places, on the Tobin-Europe email list at tobin-europe@lists.attac.be.

[16] In 2002, Cassen proposed national statutes for ATTAC France according to which there are 30 members of the national executive, of whom 18 are elected by the 70 founders of ATTAC and 12 by the membership at large. These statutes were accepted, yet many considered them undemocratic. Although Cassen argued that this is the best way to preserve unity in diversity, his leadership became controversial (for this as well as for other reasons). In 2006, the board of ATTAC France had to be re-elected, after a fraud during the first election. Moreover, in many ATTACs, at least in Europe, there has been ideological strife between social democrats and more radical socialists or, in some cases, anarchists. Simultaneously, concerns of maximal democracy within organizations (sometimes without clear definition of what that would mean in practice), and a tendency toward long ideological debates have paralysed a number of national and local ATTACs.

founded in a theatre in a lesser-known part of Paris in December 1998 on the initiative of the French activists who had established ATTAC France only a few months earlier. News about this meeting spread via the Internet through various networks. Most of the people and organizations involved were already, by that time, connected to ATTAC through various channels of communication.

Personally, I found out about ATTAC more or less by coincidence. Katarina Sehm-Patomäki, my wife and the executive secretary of the NIGD, bought an issue of *Le Monde* at a railway station in Nottingham, United Kingdom, in June 1998—there are not many places where you can buy a French newspaper in a typical British city. She saw a relatively small article about the establishment of ATTAC in Paris on 3 June. Since a few weeks earlier, at the Group of Seven (G7) counter-summit in Birmingham in May 1998, the NIGD had decided to focus on the Tobin tax,[17] we contacted the organizers of ATTAC immediately. They invited us to the founding meeting of International ATTAC. To our surprise, many of the individuals and organizations taking part in that meeting focused more on "anti-Davos" than the CTT. Soon, however, ATTAC France organized, and also funded, an important meeting of international Tobin tax experts at a central location in Paris at the end of January 1999.[18]

The global CTT campaign emerged from the West, mostly Western Europe, but also Canada. This is in line with what we know about global civil society more generally. Global civil society actors, and cosmopolitical networks, are to a large extent, based in Western Europe. One indicator is that 60 per cent of the secretariats of international NGOs are based in the EU, and one-third of their membership is in Western Europe. Another indicator is that over half of all parallel, alternative summits have taken place in Europe (see Anheir et al. 2001:7). One possible theoretical explanation is that many European actors are questioning, in terms of long-term historical learning from the catastrophes and risks caused by the first modernization, the meaning and value of modernization. This ongoing social (meta)process, also seen as a result of a number of unintended consequences of the first modernization, is contributing, among other things, to the democratic cosmopolitization of European citizenry. This is the core idea of Ulrich Beck's theory of reflexive second modernization (see Beck et al. 2003). A number of sociologists are now discussing this theory intensively (Latour 2003; Lash 2003).

Europe is also the site where democratic welfare states were once developed, and perhaps further than anywhere else. Even after numerous neoliberal reforms since the early 1980s, European income distribution is still relatively egalitarian,[19] the media remains, at least partly, under public or independent control in most countries, states tend to fund various civil society organizations and trade unions are stronger and better organized than in most other parts of the world. Also, public sector employees tend to resist neoliberal reforms. "If you can reduce their numbers, you weaken the possibility of any resistance to the neoliberal order" (Cassen 2003:54). Assuming that people experience and interpret global processes through what they hear and see in the media and public spaces more generally, the fact that European media and public spaces remain fairly open and pluralistic—as compared to most other countries—may also explain the strong critical reactions to various issues and episodes of globalization in Europe.[20]

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[17] I first encountered Tobin's proposal in the course of a 1996–1997 research project on the politics of the EMU, which I led as a senior researcher at the Finnish Institute of International Affairs. The proposal was discussed by Stephen Gill (1997b) in a book that I co-edited, and I also included it in final discussions of a related monograph in Finnish entitled *Politics of Unification: Finland and EMU in the Global Political Economy* (Minkkinen and Patomäki 1997:146–147). Obviously, the Asian crisis made the CTT appear ever more important. Once settled at Nottingham Trent University, which also started to support the NIGD financially in 1998, and free from the Eurocentrism of the Finnish Institute, the Tobin tax, conceived in global terms, was an obvious choice of focus both in terms of research and political activities.

[18] Apart from Bernard Cassen, members of the Scientific Committee of ATTAC France such as Bruno Jetin, Katarina and myself, participants included David Felix, Susan George, John Grahl and Alex Michalos. This meeting established contact and provided information that turned out to be essential in the process of completing the report, *The Tobin Tax: How to Make It Real* (Patomäki et al. 1999) and, in particular, writing the book *Democratising Globalisation: The Leverage of the Tobin Tax* (Patomäki 2001a).

[19] The incomes of the United State's top decile were 17 times larger than those of the country's bottom decile. In the Eurozone, in the 1990s, the same ratio was only 7.5 (and in Japan 4.5). One of the consequences of this is that the Europeans do not need to invest as much money—and time—in security of life and property (Boltho 2003:11–12).

[20] Media is also being commercialized in most parts of Europe and in some countries, such as Italy, independent or democratically controlled media is almost lost. Moreover, transnational (Anglo-American) media corporations increasingly dominate the scene, for

The role of *Le Monde Diplomatique* in the establishment of ATTAC is a case in point. The theory of reflexive modernization should perhaps be seen as complementing this analysis of the European political situation. Political action may sometimes be based on a defensive reaction, but a proactive and reconstructive orientation toward postnational democratic politics has emerged. The theory of reflexive modernization may explain, at least in part, the development of this general disposition toward spontaneous action motivated by cosmopolitical concerns.

Proactive and reactive sequences of global strategic action

As mentioned in the introduction, Braithwaite and Drahos (2000) have developed a model concerning two basic sequences of strategic political actions leading, possibly, to a global regulatory change. Their starting point is the globalization of regulation that has been occurring for a long time. Ancient empires globalized certain forms of regulation; in particular, many of the Roman legal concepts and principles are still part of the heritage of contemporary globalization. Private property and contracts were regulated in a fairly unified way throughout Europe in the Middle Ages, and these regulations formed the basis of the Lockean principles of international law that were later developed to provide the basis for transcontinental globalization of the capitalist world economy and European empires. Nonetheless, in quantitative terms, the most significant globalization of rules and principles occurred in the twentieth century, particularly since 1970. Most states have thereby become rule takers rather than rule makers. Regulations—that may also regulate regulation—are now being created and agreed within complex webs of transnational networks. In these networks, some individual and collective actors are often much more influential and powerful than others, yet power relations are always mutual. As a political process, globalization should be understood as contestation over rules and principles.

The proactive sequence of regulatory change (see figure 1) begins with an actor—possibly an individual or a group of individuals, often working in and/or representing a corporation, independent media, NGO, part of bureaucracy of a state or an international organization—who develops a case and idea for new regulation. A typical next step is the enrolment of organizational power:

> Individual legal entrepreneurs sometimes exert enormous power by selling a regulatory idea to the CEO [chief executive officer] of a large company, and persuading the CEO to enrol the power of a pivotal state actor, such as the US President (Braithwaite and Drahos 2000:28).

However, the systematic modelling of the new innovation usually involves cooperation by a number of actors. It is also necessary to get the support of a number of other actors, particularly states, given that only states can make treaties and laws for the time being, if the innovation is to succeed. Basically there are two routes; one can work through transnational epistemic communities or, alternatively, one can implement the innovation alone and then lobby for others to follow. However,

> to enrol the support of strategic actors for regulatory change, it is usually necessary to work epistemic communities. The OECD [Organisation for Economic Co-operation and Development] is the single most important builder of business regulatory epistemic communities. Epistemic communities are more than transgovernmental elite networks. They include technically competent regulatory experts from science, professions, business and NGOs (Braithwaite and Drahos 2000:29).

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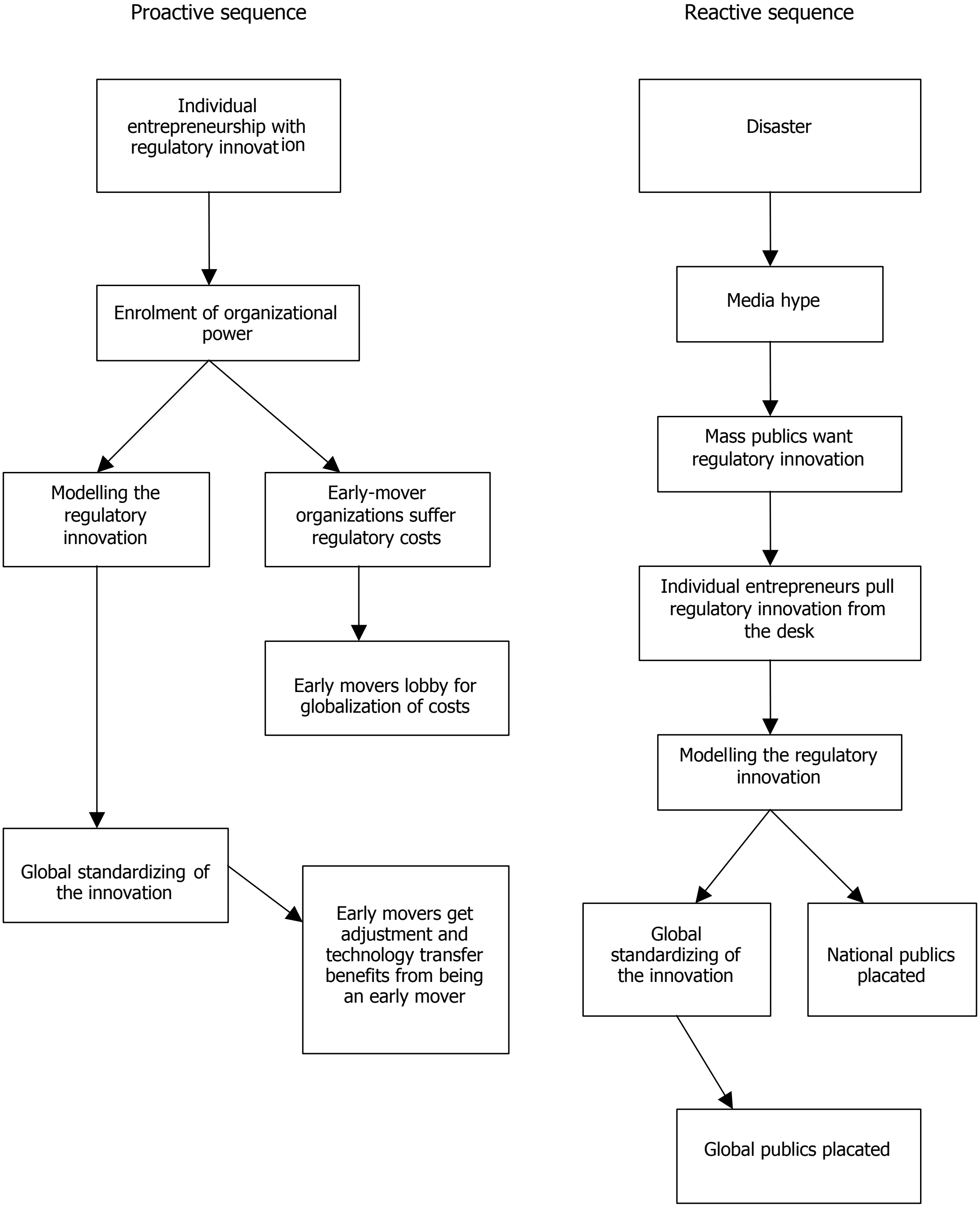
example, in France, Germany and the Nordic countries. The logic of commercial media is fairly simple: sex and violence (including death/war) invokes, by far, the most intensive coverage. The rules behind the selection of topics come down to maximizing dramatic sensation and selecting the relevant people in terms of their geo-ethical location and wealth. Sensationalism matters: even poor and less valuable people can be covered if they suffer or die in large numbers in one spot at one time. (See Patomäki 2002:section 3 for further details on the operating principles of commercial media, and endnotes 32–47 for sources.)

Figure 1: Proactive and reactive sequences of global political action



Source: Braithwaite and Drahos 2000.

Tobin's original 1970s proposal for a CTT was probably meant to follow something similar to the logic of the proactive scheme, although Tobin did not assume that role himself. In practice, however, the CTT has in fact followed the second scheme more but, thus far, has not reached the end of the ideal-typical sequence of events leading eventually toward a global regulatory change. After every financial disaster, particularly if it has threatened the interests of major financial capitals and/or caused a media hype in key Western countries, the CTT has been proposed as a potential solution to the problems of global finance. In Braithwaite and Drahos'

(2000:33) reactive sequence, after a media hype and a general feeling that the mass public wants a regulatory change, individual entrepreneurs[21] will "pull regulatory innovation from [the] desk". Tobin himself was never particularly active in advocating his idea—he was neither an entrepreneur nor an organic intellectual—but various journalists, some politicians, NGO professionals and, from 1998 onwards, members of the ATTAC movement have taken on the idea, usually in reaction to new crises. Thereby, Tobin himself was often asked to reiterate (or reassess) his original case, until his death in March 2002.

From the mid-1990s onwards, the proposal entered the modelling phase. In 1995, Paul Bernd Spahn, a German economist working at the time for the International Monetary Fund (IMF), developed a new version of the CTT (Spahn 1995; also 1996). His proposal was inspired by the pre-EMU European Monetary System. Like this system, which existed before the advent of the euro, the two-tier Tobin tax would consist of a target rate and an admissible spread or band for any given currency. When the currency is within the band, a low-level underlying CTT is charged. The exchange surcharge would be applied automatically whenever speculative attacks against currencies occurred; that is, it would be switched on whenever the trading price for a currency passed a predetermined threshold. The exchange surcharge would be much higher. The exchange surcharge does not have to be a fixed percentage; rather, as in Spahn's proposal, whenever the effective exchange rate transgresses the band, the difference between the band rate next to it and the effective exchange rate could be considered a negative externality and a windfall gain for one of the contracting parties. The difference between the band and the effective rate could be taxed at a high proportional rate, up to confiscating 100 per cent of the windfall gains. This would make currency speculation effectively unprofitable.

The Spahn model, which is usually taken to imply a lower level basic tax rate than in Tobin's original proposal, was adopted by most scholars, campaigners and activists around 1999–2000. Further developments followed, particularly, Rodney Schmidt's (2000) proposal for a new centralized net settlement systems to be used in collecting the tax. This technical innovation, proposed by an economist and a former financial professional, seemed to respond to the widespread criticism that the CTT is too easy to evade and, thus, difficult to implement. Both the Spahn model and the Schmidt proposal were incorporated, albeit the latter with some qualifications and modifications, into the *Draft Treaty on Global Currency Transaction Tax* that I wrote with Lieven A. Denys, a practising lawyer and law professor specializing in international taxation at the Free University of Brussels.

According to the draft treaty (Patomäki and Denys 2004), written in autumn 2001 and winter 2002, and first published at the WSF 2002 in Porto Alegre, the CTT is a multilaterally agreed global tax controlled by a democratic body. Most of the legal framework defining the tax base is based on the European Commission Sixth VAT [value added tax] Directive, which has, thus far, provided the model for Central and Eastern European states, China, the Russian Federation and many others. The tax is set at a sufficiently high level to curb the power of transnational financial flows; thus, it is closer to Tobin's original proposal than some later versions of the CTT. As far as principles of global regulation are concerned, the Treaty on Global CTT has the potential to act as an "icebreaker" in international law—to use the expression of Denys (2004)—by setting an easily realizable example of post-sovereign legal principles that enable efficient re-regulation and taxation in the world economy and other fields.

[21] Braithwaite and Drahos use the language of Scumpeterian economics, which can be seen as a limitation. In economic theory, "entrepreneurship" is the practice of starting or organizing something new, particularly new technologies or businesses. For Antonio Gramsci (1971), the famous Italian theorist of hegemony and civil society who wrote his *Prison Notebooks* in Mussolini's prison in the 1930s, entrepreneur is a specific social category. An entrepreneur is in itself "an organiser of masses of men; he must be an organiser of the 'confidence' of investors in his business, of the customers for his product, etc.". While the social group of capitalist entrepreneurs creates, together with itself, a strata of "organic intellectuals", there are also other groups and classes that similarly tend to generate organic intellectuals with alternative interpretations and visions of society. For Gramsci, organic intellectuals do not merely describe social life scientifically and propose new models of organizing social rules, practices and institutions, but also express, through the systematized language of a partly shared culture, the experiences and feelings that the masses could not articulate for themselves in a consistent fashion.

To a certain extent, the CTT campaign has followed the reactive scheme, which in fact presupposes the existence of proactive individuals and movements. However, it is clear that no regulatory change has been achieved, nor have the publics been placated. In some cases, national publics have been placated with the efforts made by governments or parliaments. In Canada, after the Tobin tax law was enacted in 1999, the CTT dropped off the political agenda. Canadian civil society organizations were still very active on this matter in 2000–2001, but for some reason these activities gradually faded away. In 1999, Europe, including Finland, became a centre of attention in this regard. As Erkki Tuomioja, the foreign minister of Finland from the Social Democratic Party explained:

> An article on the Tobin tax was published in the August 1999 issue of *Le Monde Diplomatique*. It was accurately reported that the manifesto of the new Finnish government included a passage on the necessity of studying the possibility of introducing a Tobin tax–like measure in order to reduce the instability and volatility of international financial markets. I was identified as one of those responsible for this commitment and, as a result, was flooded with complimentary e-mails and letters encouraging me to pursue the cause (2001:xiv).

Tuomioja promised, following the fairly successful pre-election campaign by Kepa—an umbrella organization of development NGOs—to take the CTT to the negotiations about a new government in March-April 1999, which he did. Using a typical lobbying effort, we were playing the game both ways. I told ATTAC France on many occasions that Finland was likely to be one of the EU countries taking the initiative in establishing the CTT. They seemed to believe us, although some wishful thinking was involved. Meanwhile Katarina and I also suggested that Tuomioja should be encouraged to take the issue further by sending him emails.

However, the limit of this effort was soon reached. In 2000, the coalition government, including parties from the Leftish Union to the Conservative Party, deployed a committee of four, more or less, orthodox economists, one of them (the chair) from the Central Bank. This committee hastily prepared a written report that effectively shot down the proposal. The basic argument was that the CTT represented "old-fashioned Keynesian thinking".[22] Despite the shallow argument, the national public was at least partially placated, since the issue had been taken "seriously" (at least something was done).[23] Something similar must have happened in other countries as well. Even in France, after the CTT law of early 2001, following the defeat of the Socialists in subsequent elections, the CTT seemed to have been sidelined until the Lula-Chirac initiative of autumn 2004.

Two strands of the campaign: "More development aid" versus "Another world is possible"

As Braithwaite and Drahos (2000) argue, sometimes the apparently weak may also be powerful in being able to initiate and lobby for a global regulatory change. However, in the case of the CTT campaign, there is an important difference between the two main strands of the campaign. The development aid–oriented NGOs have been advocating the CTT as a means to fight poverty in the global South. Their main point does not challenge the prevailing principles of global regulation; rather, developmental NGOs, global charities and the like are mostly interested in the revenue potential of the CTT. They reason that at least an extra $50 billion a year, on top of the existing aid, is needed to eradicate absolute poverty from the world. The CTT could be a way to raise if not all, at least part of, those funds. The CTT also has the benefit

[22] The CTT is clearly a Keynesian regulatory measure, but the committee presented no serious argument to show that Keynesian thinking would be somehow flawed or otherwise unjustified. Just labelling something "old-fashioned" is not an argument (see the final sections of this paper on Keynesian economic theory).

[23] The expert committee report was published in late 2000 (Berglund et al. 2000). Commissioned by Kepa, I wrote a counter-report published in January 2001, which received some publicity in Finland (Patomäki 2001b). A few ministers, particularly from the Green Party and the Leftish Union, publicly supported a position close to mine, but to no avail. The economists' report was taken to have concluded the debate.

of stabilizing forex markets that would thereby help enterprises in developing countries participate in world trade more effectively.

The other, explicitly political strand of the global campaign picked up the Tobin tax either as "one point of entry to attack the dictatorship of financial markets" (Cassen 2003:43) or as a key part of a strategy to transform the principles and institutions of global governance in order to make them more democratic, just and economically sensible (Patomäki and Teivainen 2004b; Patomäki 2005). This strand of the global CTT campaign contests the deregulation of financial markets that has been going on for the last 25 years. ATTAC and other movements have been advocating the CTT as part of the establishment of new generalizable—just and democratic—principles of global governance. These movements see the CTT as a step toward establishing alternative regulatory principles: global rule of law, global redistributive justice, global democracy and global taxes. These are political struggles that also concern the Organisation for Economic Co-operation and Development (OECD) world, not only the "poor out there".

War on Want has been a key organization in the "development aid" strand of the CTT campaign. Although it is an autonomous organization and critical of the neoliberalism of Tony Blair's government, War on Want is also supported by the United Kingdom's trade unions and has historical links with the Labour Party; it has been involved in the CTT campaign since 1999. Since 2002, it has hosted the Tobin Tax Network, "an informal grouping of campaign agencies, charities, faith groups and trade unions united in signing the Tobin Tax declaration calling on Gordon Brown to use his power and influence to implement currency transaction taxation at the earliest opportunity".[24] The network launched itself with Tobin Tax Day on 13 March 2002 when a series of high-profile events took place. It has now grown to more than 50 organizations, including Oxfam, Christian Aid, War on Want, Unison and the United Reformed Church. In 2004, the Tobin Tax Network, with support from the Cooperative Bank, commissioned research by a former financial markets trader, Sony Kapoor. Kapoor's (2004) draft report entitled *The Currency Transaction Tax: Enhancing Financial Stability and Financing Development* is meant to show that a CTT is feasible and that CTTs could raise money to help fund the Millennium Development Goals.

Kapoor's draft report adds to the literature on the CTT, for instance, in terms of emphasizing the significance of releasing central bank reserves for more useful and profitable purposes:

> Brazil, for example, has about $50 billion of foreign exchange reserves that earn an interest income of about $1 billion every year. At the same time, however, Brazil has dollar debts at an interest rate in excess of 13%. So this means that by holding these reserves, Brazil is losing 11% of $50 billion or $5.5 billion—more than 1% of its GDP—every year. (2004:25).

However, the report also presupposes the validity of orthodox (neoclassical) economic theory, albeit with some modifications and qualifications. It also seems that Kapoor's report is addressed, first and foremost, to the New Labour government in the United Kingdom and the transnational business community, including representatives of banks and financial dealers. This sets limits on the discourse of the report, and tends to make it somewhat alien to the aspirations of the ATTAC movement and other organizations participating in the WSF.

Kapoor's CTT proposal is first and foremost about charity. The aim is to get wealthy countries, the United Kingdom in particular, to establish a tax on currency transactions so that the revenues could be used as official development assistance (ODA) on the rich countries' terms, and subject to their assessment of the need. The report is uncritical of the current practices of ODA, and assumes that it is sufficient to give money through the traditional channels of bilateral and multilateral aid, that is, ODA as the way to eradicate poverty. Moreover, the report contains no systematic analysis of the legal obstacles and political forces opposing the CTT.

[24] From the Tobin Tax Network introduction at www.waronwant.org, accessed in January 2005.

The Draft Treaty on Global CTT (Patomäki and Denys 2004) outlines an alternative model, more in line with the aspirations of ATTAC and many organizations and movements participating in the WSF process. According to the draft treaty, the CTT is a multilaterally agreed global tax controlled by a democratic body. The tax is set at a sufficiently high level to curb the power of transnational financial flows. The Draft Treaty on Global CTT also has the potential to act as an icebreaker in international law by setting an example of post-sovereign global regulation and taxation that can also be applied in other fields. The following section discusses the different philosophies and understanding behind the two strands of the global CTT campaign by critically scrutinizing the Kapoor report.

"Mainstream" Economic Theory versus Global Keynesianism

Kapoor's draft report stresses repeatedly that it puts forward a "mainstream proposal". What does it mean to put forward a mainstream proposal in the early twenty-first century, particularly when the proposal is coming from London, a city many regard as a key in the Lockean heartland of global capitalism? According to Polanyi (1957:14), the Pax Britannica of the nineteenth century was maintained partially by force, but "more frequently it prevailed by the timely pull of a thread in the international monetary network". The financial system centred in the City of London has become an essential part of the power of London, well beyond the formal boundaries of the British Empire. Something similar has happened with the Pax Americana in the late twentieth and early twenty-first century.

Whereas classical economics was the ideology of the British Empire, standard neoclassical economics is the ideology of contemporary "globalization". Neoclassical economics is based on a set of relatively simple assumptions. All economic developments can be analysed in terms of supply and demand in markets. The basic axiom of orthodox economics is that prices, which are freely determined in open markets, ensure the optimal reconciliation of supply and demand. The technical term to describe this reconciliation is "equilibrium", which is derived from Newtonian mechanics. The claim is that equilibrium in open, free markets maximizes economic efficiency and overall welfare of society; conceived simply, the sum of atomistic individuals trying to maximize their utility and consumption.

There are contrasts to the more fundamentalist variations of the orthodox economic theory such as Friedman's (1953) famous case for freely floating exchange rates and Kapoor's (2004) account of forex markets underlining the possibility that financial markets may, and often do, "overshoot". The notion of overshooting—derived from the well-known neoclassical model of Dornbusch (1976)—presupposes that there is a known, unique equilibrium. The problem from this point of view is that the forex markets tend to create incentives for traders to occasionally push the price further from the equilibrium when the price is already below or above the price "justified by economic fundamentals" (Kapoor 2004:11). It seems the idea is that although financial markets are in general efficient, at times there is a need for regulatory mechanisms to correct destabilizing behaviour.

Kapoor (2004:10) is quick to emphasize that "not all speculation is bad". He does not explain this far-reaching point in any detail, but it seems to be based on the neoclassical idea that liquidity trading is rational and will, therefore, enhance the efficiency of markets, whereas some trading can be characterized as destabilizing (or "noise") in otherwise efficient markets. Again, the distinction presupposes the notion of the Pareto-efficient equilibrium, against which it is assessed whether trading is rational or destablilizing.

However, the notion of "efficient equilibrium" is a purely theoretical notion. Equilibrium theorists themselves do not know what an "efficient equilibrium" would designate in the real, concrete world (outside their abstract models). Kapoor gives an example where the US dollar/British pound exchange rate justified by economic fundamentals is 1.5; with the rate already at 1.6, he then shows how traders would have the incentive to push it even higher. In the real world, however, "the rate justified by economic fundamentals" cannot be determined in any objective sense.[25] True there are many relevant things, such as the comparative purchasing power of different currencies, their external balance and the competitiveness of their firms, to be used in forming various *opinions* about what the rate *should* be. Sometimes these opinions may converge; usually they do not.

The notion of "equilibrium" is a fiction that is technically derived from mathematics to designate whether a system of equations can be solved or not. It is a theoretical abstraction and does not refer to anything in the real economy. Even as a theoretical construction, it seems to be flawed.[26] If there were a unique Pareto-optimal equilibrium in a given market, neoclassical models have nothing to say about how to get there. Besides, if an acceptable specification of a market allows for one specification, it will typically allow for many. Even if the specification of the market were based on realistic assumptions, any of these equilibria would be Pareto optimal, and if there were a clearly specified way of getting there—none of these conditions are usually fulfilled, and probably cannot be fulfilled; these models say nothing about whether the narrow "efficiency" in the financial markets would actually enhance the efficiency of the economy as a whole.

Kapoor (2004:6) states "our proposal for a CTT is a market-based mechanism which, by changing the incentive structure in the market, helps discourage excessive speculation and encourages traders to give greater importance to economic fundamentals". Indeed, Kapoor's proposal is "market-based" in the sense that it presupposes the validity of orthodox economic theory, albeit with some standard modifications and qualifications. His proposal, thus, conveys the idea that once troublesome incentive structures are revised, then financial markets will become Pareto optimal and maximize the well-being of everyone concerned.

In contrast to Kapoor's analysis, Tobin's (1978) original case for the CTT rests on two Keynesian arguments. First, Tobin (1978:158–159) contested the benefits of the efficiency of forex markets: "whether the market is 'efficient' in any deeper economic informational sense is very dubious". For Tobin, who also called himself an Old Keynesian, the decisive factor is the unpredictability and openness of the future. In the world of perfectly rational expectations—in artificially closed systems where predictions would be possible—the anthropomorphic financial "market" would base its expectations on informed estimates of future equilibrium exchange rates. In the real world, however, uncertainty and contradictory expectations prevail. Because financial actors are trading in open systems, they cannot have identical and accurate expectations of the future. In fact, it is precisely because of this uncertainty that one trader is willing to sell currency X, while another thinks it is worth buying at that particular rate. With homogeneous or "rational" expectations, the values of currencies would be in "equilibrium", at least after a short period of adjustment, and thereafter no trading would take place in forex markets, except by those retail market actors who need currencies for consumption, trade or investments.

Moreover, Tobin argued in the 1970s, well before the spectacular financial crises that we have seen since, that

> national economies and national governments are not capable of adjusting to massive movements of funds across the foreign exchanges, without real hardship and without significant sacrifice of the objectives of national economic policy with respect to employment, output, and inflation (1978:154).

[25] Kapoor, like Dornbusch in his well-known model of exchange rates, simply assumes what cannot be known, and then builds an analysis on that fictional basis. This is typical of the neoclassical method in general: "the long-run exchange rate is assumed known. … We note further that, while expectations formation may appear ad hoc, it will actually be consistent with perfect foresight" (Dornbusch 1976:1163). If asked to pinpoint equilibrium or the long-run exchange rate of real currencies in the actual world, economists either evade the question or resort to the notion of purchase power parity. The problem with the latter is that it never corresponds to the actual exchange rates and may also, in the long run, deviate systematically and increasingly from the exchange rates. It is a well-known fact that the price level in less well-off countries is constantly lower than in better-off countries; thus, dollar-converted values make them look poorer than what they actually are. The difference has been particularly striking in the case of China and India during the last two or three decades.

[26] See Lawson (1997:86–92); also Addleson (1995).

Given the adverse socioeconomic consequences of short-term financial flows, Tobin argued that these flows should be curbed and slowed down. Tobin was mostly concerned about the autonomy of economic policy makers; stability per se was only a secondary concern.

Last but not least, the need to curb financial flows is based on a more general suspicion toward the effects of highly developed or mature financial markets. Keynes stated that:

> when the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. … It is usually agreed that casinos should, in the public interest, be inaccessible and expensive. And perhaps the same is true for Stock Exchanges. … The introduction of a substantial Government transfer tax on all transactions might prove the most serviceable reform available, with a view to mitigating the predominance of speculation over enterprise in the United States (1961:159–160).

Tobin's original proposal for a CTT merely internationalized Keynes' suggestion and applied it to the forex markets.

A neoliberal Tobin tax?

The intention of Kapoor's report—and that of the Tobin Tax Network, more generally—seems to be to convince the New Labour government in London as well as the transnational business community of the justifiability and viability of the Tobin Tax. The report opens up with quotations from various IMF papers as well as from Paul Volcker, former chair of the US Federal Reserve. Kapoor seems to assume, quite rightly in my view, that these are probably the kind of authorities that the New Labour government would listen to—later, Kapoor also draws on the authority of Lawrence Summers, US Treasury secretary under President Bill Clinton, as well as the magazine *The Economist* and Harvard University, among others. Furthermore, the draft report emphasizes that the CTT is "a mainstream idea":

> Conceptually, the first tier (base rate) CTT is very similar to Security Transaction Taxes, which are taxes levied on the buying and selling of financial securities such as bonds, stocks and property deeds. Countries such as the UK, US and Belgium have existing and well-functioning security transaction taxes in operation. The UK, for instance, makes more than £4 billion annually from the Stamp Duty Reserve Tax (Kapoor 2004:19).

One of the main chapters (chapter 6) of the report is devoted to the "business case for the CTT". While many of the arguments are well taken—financial instability does cost a lot of money to firms engaged in production of goods and non-financial services—this is also indicative of the politics of the report. In accordance with the neoliberal ideology, Kapoor's report in effect considers banks and corporations to be political citizens to whom one should address one's points when making a political argument.

From the point of view students of rhetoric—the classic treatise is Perelman and Olbrehts-Tyteca (1971)—analysis of political texts must start from the assumption that actors who make arguments position themselves in relation to a particular audience by choosing appropriate points, words and style, and set their political aims accordingly. Usually, a given audience shares a number of background assumptions. It is normal that a political speaker or writer takes these pre-agreements for granted and uses them as a basis for making his or her case. In the case of Kapoor's report, the self-evident background discourse is that of neoclassical economics. Moreover, the report emphasizes time and again that its author is market- and profit-friendly, that the proposal itself is not "radical" but mainstream and that the CTT is in fact good for business. The style of the report is also purportedly technical; it avoids politicizing anything. In other words, the report is written in a style that combines the conventions of the texts produced by financial actors and central bankers, on the one hand, and popular economic magazines such as *The Economist*, on the other.

In the sense of its rhetoric, we should understand Kapoor's insistence on political realism and feasibility. Since the author is talking, first and foremost, to the New Labour government and the transnational business community, including banks active in the forex markets, it seems that the only way he can convince his audience is by taking for granted its background assumptions and conventions.

Thereby, the CTT proposal seems to become neoliberal. This in turn is likely to alienate some other parts of the CTT movement. For the most part, the transnational movement for the Tobin tax has been struggling *against* neoliberalism. The CTT has been seen as a step toward an alternative world order and as an important symbol of hope, as the WSF puts it, "another world is possible". Now, Kapoor is not only making a case for a specific account of the CTT, he is also implicitly saying that another world is *not* possible. According to Kapoor, it is not "feasible" to talk about other worlds; there is only one possible world. To make any difference to the lives of the poor, he thinks, we should all accept neoliberalism and find more money to fight global poverty in terms of ODA, that is, charity. But what exactly is the difference he would like to make? Is it really possible to alleviate poverty and suffering by means of ODA with neoliberal reforms?

New sources of funding for the purpose of achieving the Millennium Development Goals

In September 2000, the UN Millennium Summit adopted the Millennium Declaration (United Nations 2000). In it, UN Member States reaffirm their faith in the UN Charter and make a commitment to a number of universal development goals—the Millennium Development Goals (MDGs). Among the most important of these goals—to be reached by 2015—are:

- to halve the proportion of the world's people whose income is less than one dollar a day and the proportion of people who suffer from hunger and, by the same date, to halve the proportion of people who are unable to reach or afford safe drinking water;
- to ensure that children everywhere, boys and girls alike, will be able to complete a full course of primary schooling, and that girls and boys will have equal access to all levels of education;
- to have reduced maternal mortality by three-quarters, and under-five child mortality by two-thirds of their current rates;
- to have halted and begun to reverse the spread of HIV/AIDS, the scourge of malaria and other major diseases that afflict humanity; and
- to provide special assistance to children orphaned by HIV/AIDS.

These are, of course, very important goals; however, their achievement is open to various interpretations (see Patomäki and Teivainen 2004b:26–27, text box 2). For instance, the aim to halve the proportion of people whose income is less than one dollar a day can be measured in terms of purchasing power parity—as the United Nations does—or in constant dollar terms, which would give less optimistic picture of the situation. "One dollar a day" also means different things in different social contexts. To a relatively self-sufficient rural farmer, one dollar a day may be sufficient for many needs. In an urban context, however, more money is needed to cover basic needs (because of increased commodification, for example). Thus, people may become poorer during the process of urbanization because they also become more dependent on markets. Although it is not the case that all MDGs are equally complicated and problematic, any simple quantitative yardstick of development tends to be biased, one way or another.

Furthermore, are there any concrete action plans or proposals to ensure that these development goals will be met in time? The Secretary-General's report of summer 2002 points out that the UN strategy is based on: (i) the Monterrey Conference for Financing for Development; and (ii) the World Trade Organization (WTO) Summit of Doha (United Nations 2002:III.45). In other words, the United Nations relies, first of all, upon the basic principle of Monterrey that every country is responsible for its own development and, second, on free trade. This is in line with the prevailing orthodoxy that the main method to finance development is to attract investments of transnational corporations. As a supplement to this economic orthodoxy, there is a plea for charity and belief in automatic technological progress. The Millennium Declaration is also based on the hope that official development aid (ODA) could be lifted from its all-time low (United Nations 2002:III.50), and that further development of medical technologies could help make cheap drugs more accessible to the poor (United Nations 2002:III.51). Indeed, some countries promised to raise the level of development aid. The United States—which gives proportionally less development aid than any other OECD country—promised to increase its aid by $5 billion. Other countries have followed suit and made similar promises. In autumn 2004, parallel to the announcement of the Lula-Chirac initiative in New York, Secretary-General Kofi Annan published a "note" for the General Assembly entitled *Innovative Sources of Financing for Development* (United Nations 2004). In this note—largely based on a study by the United Nations University/World Institute for Development Economics Research (UNU/WIDER) (Atkinson 2004; see in particular Nissanke 2004)—Annan assumed a more positive stand on global taxes in general, and particularly on the CTT, than in his previous statements and documents.[27] However, as in Kapoor's report, the CTT is conceived merely as a fundraising device.

The idea in Kapoor's draft report is that the revenues from a CTT could contribute to the charity part of the plan of the Millennium Declaration:

> To achieve [the Millennium Development] goals will require a substantial increase in development spending. Former President of Mexico, Ernesto Zedillo, in his Report of the High-Level Panel for Financing for Development, has concluded that additional resources of at least $50 billion per year will be needed to meet these targets worldwide. This estimate is based on detailed costings in some of the key goal areas by UN bodies such as UNICEF [United Nations Children's Fund], the World Health Organization and the World Bank. Since…ODA flows are presently at the order of $50 billion annually, to achieve the MDGs effectively means doubling current levels of spending on aid (2004:35).

According to Kapoor, the CTT would be established nationally, country by country. The tax would be collected by national central banks. Following this, at least some of the countries levying the CTT would establish a global MDG fund, either by informal agreement or by concluding a formal treaty. Since giving the revenues to the fund is ultimately a matter of charity, which is by definition voluntary, the countries making the biggest contribution to the fund would obviously want "a say in how the money is spent" (Kapoor 2004:36).

The logic of this proposal is not entirely clear. What exactly is the connection between the projected CTT and the fund? The tax rate in the OECD countries is characteristically between 40 per cent and 50 per cent. These countries already collect a wide variety of different taxes, including taxes on financial transactions. Why could they not, therefore, give a slice of the already established tax income to a global development fund, without introducing any new taxes? On the other hand, if the revenues of the CTT remained at the discretion of individual governments, what would guarantee that the revenues from the would-be CTT would in fact be transferred to the global fund (rather than, for example, military spending)? In the case of the United Kingdom, for instance, even if New Labour were committed to the transfer of the tax revenues to a global fund, of which I am sceptical, a Conservative government could decide otherwise. The same applies to any country establishing the tax on a national basis.

[27] It seems to me that the increasing pressure on Annan in 2004–2005, created by the US media and some politicians, and related discussions concerning his possible resignation, are not only due to the statement on the illegality of the war against, and in, Iraq, but also due to Annan's reversal of earlier UN policies, imposed by the United States, that global taxation must not be discussed within the UN system.

Leaving such considerations aside for a while, my main point here is that the objective of the Kapoor/Tobin Tax Network is to increase ODA with a CTT in order to combat poverty and hunger in the global South. This project may sound noble, but involves contentious assumptions. First, an extra $50 billion is in fact not that much money—and in Kapoor's vision, only a part of that $50 billion would in fact come from the extremely low-level CTT; many other sources would be needed. A small country such as Finland, with a population of about five million (less than 0.1 per cent of the world's population) spends some $40 billion on social security, health and education annually. Despite this high level of social spending, inequalities and social problems have also been on the rise in Finland since the early 1990s; after an economic depression that was caused by a combined currency and banking crisis in 1990–1991 and the simultaneous collapse of trade with the former Soviet Union, Finnish economic policies turned neoliberal, with the normal effects. If the comparison sounds distant, one may wonder whether an extra $16 per year to the poorest three billion people of the world would really make a major difference.

Second, despite manifold problems, social spending within most OECD countries is usually more effective in reaching its goals than is ODA. Apart from outright corruption, a large part of ODA goes to Western bureaucracies and professionals, including many of those working for various NGOs, and to Western corporations that are involved in development projects. A part of ODA also supports military-strategic purposes, for instance, to sustain strategic alliances in the ongoing "war on terror", that may be designed to be permanent. Only a small proportion of ODA actually reaches the poor and needy in the South. Assuming that this proportion is 10 per cent, an extra $50 billion to ODA means that less than *two dollars per capita a year* would go to the poorest three billion people of the world.

Third, and most importantly, ODA is in fact a power resource of the EU and the United States through the Bretton Woods institutions, which they largely control, and indirectly through the Western banks and corporations. These actors condition aid—as well as bilateral and multilateral loans and minor concessions on debt—on compliance with the Western will, for instance, in the WTO negotiations and on the adoption of good governance in the recipient countries. Essentially, "good governance" means the acceptance, or further reinforcement, of neoliberal regulation and economic policies both domestically and externally; downsizing the state and its military and welfare functions; and replacement of many state functions with charity-based NGO activities. Arguably, the price of these changes paid by both the middle class—or what used to be middle class in many countries—and the class of the extremely poor is higher than the few pennies that a selected few of the poorest people receive as compensation for the absence of global justice and democracy (see also Held and Patomäki 2006; Patomäki 2006). Indeed, it is not a coincidence that the only clear progress toward achieving the MDGs has taken place in China and in a few other Asian countries with genuine economic growth. In most other parts of the world, extreme poverty has been on the rise over the last two decades, and inequalities have been widening in most countries as well as between countries, including in China (see ILO 2004:37–45).

The role of power relations and political conflicts in global regulation

As noted, Kapoor's draft report avoids discussing politics, but it also refrains from mentioning any power relations, conflicts of values, visions about global regulation or economic and power-political interests. A political analysis of the opposition against the CTT is replaced in Kapoor's (2004:27) report by a conviction that ultimately a harmony of interests prevails; the CTT "is not redistributive, as no one is becoming worse off".

However, in contrast to the liberal thesis of harmony of interests,[28] it seems clear that global financial markets continuously redistribute wealth from the bottom and the middle to the top.

[28] See Carr (1964-:41–62) for a classical critique of this ideology: "The doctrine of the harmony of interests…became…the ideology of a dominant group concerned to maintain its predominance by asserting the identity of its interests with those of the community as a whole".

Evidence clearly shows that financial markets have aggravated global disparities (see Patomäki 2001a:chapter 3). Those who have suffered and are suffering the most due to financial crises are the weakest and poorest sectors of the world population, although the middle classes are also often hit particularly hard. Crises and their aftermath usually led to the absorption of wealth into the hands of the few. Moreover, the financial multiplication process, boosted by the processes of extraction of resources from the non-financial sphere to the financial markets, has amplified the concentration of resources into the hands of a relatively small number of collective and individual actors. Global financial markets have been instrumental in creating new "high net worth individuals". Some of the richest people of the early twenty-first century are fund managers or, in some cases, petty investors turned millionaires. Tax havens and offshore facilities have also been instrumental in making the rich richer and undermining the taxation capabilities of states.

Financial actors have used their direct power to push for neoliberal reforms—in particular privatization of pensions and social security—conducive to further expansion of financial markets. Although the pressure generated by financial actors is obviously not the only explanation for growing inequalities, there are good reasons to believe that the power of finance has had a significant effect on these developments since the early 1980s. Moreover, as I have argued elsewhere (Patomäki 2001a:chapter 3), the structural power of finance reinforces the neoliberal project of reorganizing social relations of production, exchange and accountability. The neoliberal transformation involves a shift in social relationships to favour creditor and rentier interests, thus strengthening its own power to transform.

Furthermore, gradually since the late 1950s and 1960s, the creation of Eurodollar markets and offshore facilities—safeguarded by the institution of state sovereignty—have made it increasingly easy to escape the rules and regulations of democratic welfare states. Offshore facilities and tax havens have enabled a partial return to the nineteenth century practices of laissez-faire capitalism. Despite the huge sums involved in drug trafficking, for example, tax evasion, private fraud, financial crime and public embezzlement are bigger problems.

Global finance also constitutes structural power. Credit rating, social allocation of capital and globalizing media in effect form a panopticon system of power and surveillance that promotes and maintains the hegemony of neoliberalism. Financial problems and crises tend to deepen the relations of dependency. The geo-economic gamble of the United States—consistently supported by the United Kingdom, which is dependent on the position of the City of London and offshore financial markets, and more ambivalently accepted by Japan, which has been squeezed between US unilateralism and a liquidity trap caused by a financial crisis—is based on this panopticon system of power. The socioeconomic effects of the structurally backed hegemony of neoliberalism are far reaching. The demands and claims to privatize, save social expenditures, cut down taxes, minimize state intervention and deregulate first, then follow with re-regulation in accordance with the US model (or the wishes of Washington and London) have had—sometimes intended, often unintended—effects on the welfare of perhaps most people on the planet.

There have been winners. The United States has been able to re-establish its central position in world politics; London has regained its position as the biggest financial centre. The major banks, investment funds and many multinational corporations have benefited, as have their managers and the related legion of dependent politicians, consultants, economists and journalists. The providers of casinos and tax havens (many of them mere statelets), and the lucky and skilful gamblers in the casinos and, in particular, their rich friends who are now able to avoid taxes, all belong to the group of winners. Some countries may have benefited, at least in the short run.

However, the increased power of global finance has meant absolute or relative worsening of life conditions for, perhaps, most people. All traditional measures—output growth, unemployment, interest rates and so on—indicate slackening global conditions. Decade after decade, there has been, globally, less growth and more unemployment and underemployment of industrial and human capacities.[29] Also, in many places where there is growth of GDP per capita, there often seems to be less welfare than before; crime, insecurity, worsening working conditions, environmental problems and social disintegration tend to absorb the apparent growth, except for the richest.

The standard justification for global "free market" financial markets is that they enable more efficient allocation of capital. Yet, it seems that the global financial markets are not primarily about funding long-term investments in production; rather, they are about hedging and finding short-term financial gains in forex, bond and equities markets. More implicitly, financial markets are about power and discipline. Global financial markets play a very effective role in disciplining states and other actors to follow neoliberal economic policies.

What is Really Politically Possible?

Given this structure of geo-historically constructed interests, dependencies and power relations, the question about political possibilities for realizing the CTT in any progressive—or even neoliberal—sense is not trivial. Many states, and other relevant actors, are not only likely to oppose the tax, but have consistently done so in the past, especially the United States and the United Kingdom. Kapoor's (2004:37) report tries to make a lot out of the fact that "in the UK, the Chancellor of the Exchequer, Gordon Brown, has stated on many occasions that he views the CTT with an 'open mind' as a possible means of financing international development". The implication seems to be, however, that the minds of the other members of the British New Labour government are in fact closed to the idea of the CTT.

Since the first 1999 NIGD report on the CTT (Patomäki et al. 1999), I have been arguing for a two-phase model of implementing the CTT that would make it possible for a(ny) grouping of countries to proceed quickly without the consent of every state, including such financial centres as London/United Kingdom or New York/United States.

In its first phase, the system would consist of the EMU-countries and a group of other countries or, alternatively, any bigger group of other countries. The initiative could also come from the South, for instance, from Brazil or India. However constituted, this grouping should establish an open agreement—any state can join at any time—and a supranational body orchestrating the tax and collecting the revenues of a small underlying transactions tax (10 basis points), a much bigger exchange surcharge, and possibly a relatively high tax on domestic-currency lending to non-residents (only to non-residents who are not yet within the tax regime). In the second phase, which should be carried out either when all major financial centres or most other countries have joined the first phase system, a universal and uniform Tobin tax at a still higher rate would be applied. In this phase, however, the bigger exchange surcharge should be retained.

The point of this model is twofold. On the one hand, the only real political possibility is to proceed without the consent of the United States, and probably without that of the United Kingdom. On the other hand, proceeding without the United States, the United Kingdom and related social forces, it is possible to make the tax regime more Keynesian, democratic and just. Once established, the United States and the United Kingdom would then have to join a democratic system of global governance on terms set by the others; thus, they would not be able to dictate the structures of the new currency transaction tax organization (CTTO) or its policies.

The idea of drafting a legal treaty on the CTT occurred spontaneously in a debate on the political aspects of the CTT in Vancouver, Canada, in October 2001, at a conference entitled Taxing Currency Transactions: From Feasibility to Implementation, organized by the Halifax

[29] See Freeman (2003); ILO (2004:38); Patomäki (2005).

Initiative. Subsequently, I contacted Lieven A. Denys, whose study on whether the CTT is compatible with the Maastricht Treaty of the EU was given to me in Vancouver. We combined some of the ideas that I developed in *Democratising Globalisation* (Patomäki 2001a) with some of the legal ideas that Denys had developed in other contexts. Now, the CTT has three main aims:

1. To curb foreign exchange markets and, thus, transnational flows of short-term capital. Thereby, the tax will *stabilize* financial markets and increase the economic policy *autonomy* of states. This will increase economic efficiency and well-being.
2. To create *global funds* for preventive and compensatory mechanisms, and more generally, for global common goods.
3. To gain *democratic control* over global financial markets and the social forces they have helped to unleash and strengthen.

The draft treaty incorporates all of the main aims of the tax. The tax base is defined as comprehensively as possible. In our proposal, the tax rate is set at a modestly high rate (for example, 0.1 per cent) since the point is also to curb financial flows. The tax itself is modified. A two-tier system of tax, following the Spahn model, confiscates windfall gains from overspeculation through the trigger of a higher tax during times of exchange rate turbulence. The tax is collected on a national basis, and the states will keep part of its revenues, but the tax itself is global in a sense that its terms are established by a multilateral treaty. Moreover, the bulk of the OECD countries' revenues will go automatically to a global fund. This fund is not meant to add to ODA. It is a global fund, based on a global tax that can be used for any global common good as defined collectively by the actors participating in the CTT regime.

The treaty establishes a new democratic organization, the CTTO. Although light in terms of bureaucracy, the CTTO has to be capable of both learning and self-transformation. The CTTO has to be open to different points of view, able to react rapidly to unexpected changes, and qualified to assume new tasks if needed. Moreover, there has to be a fair, transparent and accountable process whereby decisions concerning the allocation of funds can be reached. Only an efficient and open democratic organization can meet these requirements. On the positive side, a CTTO could also stimulate the development of new forms of democratic participation and accountability in global economic governance by virtue of its exemplary structure and initiatives.

The CTTO will govern the tax and control the global fund. It will consist of a council, a permanent secretariat and a democratic assembly. Three kinds of actors will be recognized as stakeholders: governments, national parliaments, and transnational civic actors and social movements, including not only NGOs, but also others, such as trade unions. In (qualified) majority decision making, the weight of governments and national parliaments will depend on the size of the population of their respective countries. Civic actors will take part in decision making in the democratic assembly, who may also come from countries that do not belong to the tax regime.[30]

In the first phase, although the regime has to be open for all states to join on equitable terms, there is no need for universal consensus on the need for the Tobin tax. The proposed treaty shall enter into force following the thirtieth ratification of the treaty, or on the date the preparatory group has established that the contracting states that have ratified the treaty account for at least 20 per cent of the global currency markets, whichever is later. That is, a grouping of countries can initiate the system at any time. The only thing that is needed is a state—for instance, Belgium, Brazil, India or South Africa—that is willing to convene an international conference for establishing the CTT, and a sufficiently large grouping of states interested in participating. The conference could take place in less than two years after the decision to organize it.

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[30] For more details, see Patomäki (2001a:202–205); Patomäki and Denys (2004:article 19).

The problem is, since the 1980s, many of the key systems of global governance have been harnessed to the project of locking in economic orthodoxy for good. Stephen Gill (1997a) has coined the term "new constitutionalism" to describe this project. New constitutionalism is a political and legal strategy to disconnect economic policies from democratic accountability and will-formation. The aim is to "constitutionalize" the protection of absolute and exclusive private property rights and the freedom of transnational traders and investors. This is achieved through regional and global multilateral institutions such as the EU, North American Free Trade Agreement, Bretton Woods institutions and WTO. These treaties and institutions are more difficult to revise than many constitutions; thereby, they provide solid and firm protection against all challenges to the prevailing regulatory principles. One of the consequences of the neoconstitutional project is the increasing difficulty of establishing the CTT.

There are now two consequent problems that the global CTT campaign must tackle. The first stems from the fact that in order to cover the required 20 per cent of the forex markets, in practice all EMU countries must participate in the regime. Since the EU does not have any competence over issues of taxation, it may seem correct to assume that the EMU countries could join a global treaty one by one, independently of EU institutions. National parliaments would play a leading role in this process. Once all of the parliaments of the Eurozone countries have ratified the treaty, the euro will enter the CTT regime. However, it turns out—as pointed out and elaborated by Denys in the CTT meeting at the European Social Forum in London in October 2004—this plan is in fact not as clear as I used to assume. The second-tier tax of the Spahn model concerns monetary policy, which now lies in the hands of the ECB. This implies that some EU-level decisions must be made; the European Commission is also bound to play a role because the European Commission continues to have an almost exclusive right to take regulative initiatives within the EU. Last but not least, any decision about taxes requires a unanimous decision by the Council of Ministers, since taxation is not within the Community competence.

Why is this a problem? The ECB is very much part of the neoconstitutional—in Gill's sense—architecture of the EU. It is insulated from democratic politics and is set to follow monetarist (orthodox) monetary policies from here to eternity.[31] Predictably, when asked to give an opinion on the Belgian legislation of summer 2004 on the CTT, the ECB not only made all of the standard arguments against the tax on pure orthodox economic grounds, but it also argued that the CTT goes against the freedom of capital as defined both in the Maastricht Treaty and in the new constitutional treaty pending ratification. Similarly, the technocratic and largely unaccountable European Commission has defined the common good of the EU in neoliberal terms. Although global taxes have now emerged on the EU agenda, the European Commission has given a negative opinion on the Belgian legislation—this is in principle confidential since the EU bodies are often very secretive. This is in line with previous statements by the European Commission on the CTT. Moreover, although the new procedures of "enhanced European cooperation" might be of help in providing a way to overcome the unanimity requirement of the European Council, the unanimity rule means, at least in principle, that any member state will have a veto right over the CTT. You just need a United Kingdom or a Luxembourg, for example, or a hardline neoliberal new member state from Eastern Europe, to shoot the CTT down in the Council.[32]

[31] See Gill (1997); Teivainen (1997b); Patomäki (1997).

[32] Due to the activism of France, the idea of a global tax for financing development has gained some ground in the European Union. In March 2005, EU Development Commissioner Louis Michel toured EU capitals to increase the amount of money spent on aid to poor countries. Global taxes are on the agenda; moreover, during the meeting of G7 finance ministers in London, EU Finance Council President and Prime Minister of Luxembourg Jean-Claude Juncker mentioned that the EU is considering introducing an EU tax on kerosene, the fuel used by the aviation industry. In the context of a discussion on debt relief for the world's poorest countries, the G7 finance ministers brainstormed on the use of special taxes to find new development aid funding. As the idea of a CTT was a taboo subject for some countries, the attention turned to the possibility of taxing global aviation. The United Kingdom opposition is, of course, making it very difficult for the EU as whole to make a move on the issue. In June 2005, EU finance ministers, agreed a voluntary levy on airline tickets to fund extra development aid, but only a handful of countries said that they would definitely implement it. The optional charge on airline tickets falls short of what French President Jacques Chirac originally proposed. "This will be a voluntary contribution which some member states propose to turn into a mandatory contribution but we are leaving this open", said Juncker, who chaired the talks between 25 EU finance ministers. Five or six countries were ready to go ahead first; the basic idea is that each country could decide if it wanted such a tax.

The second problem caused by neoconstitutionalism is global. Vander Stichele (2004) has recently claimed that the General Agreement on Trade in Services (GATS) liberalization of the financial sector may endanger the introduction of a CTT. GATS is among the most important WTO agreements, and was negotiated without any public discussion during the Uruguay Round (1986–1994). GATS entered into force in January 1995; however, in line with the original plan, the substantial negotiations about liberalizing trade in services did not begin before 2000.

GATS covers a wide area of economic activity, from birth (midwifery) to death (funerals). It includes health and education as well as areas ranging from water distribution to satellite communication. GATS is a potentially far-reaching agreement since its ultimate aim is to "liberalize" most, or all, of these fields. "Liberalization" translates into privatization and commercialization. For instance, water supply, transportation, schools, universities, hospitals and libraries would be sold to profit-maximizing private corporations—in practice, often Western transnational corporations. Although the exercise of governmental authority is excluded from GATS, it is possible that even parts of public administration, such as police and prison services, may have to be privatized and commercialized in the name of free trade in services.

Vander Stichele (2004:chapter 6:27–28) points out that in the GATS Annex on Financial Services, all states are required to follow "prudential regulatory standards". Prudential standards, under the GATS definition, do not "distort competition" or "restrict against foreigners". Bank reform in the Republic of Korea has already been challenged under the WTO agreement, although not yet in GATS. Vander Stichele (2004) argues that if a country, or a grouping of countries, established a CTT, they could be challenged by other members of the GATS agreement on the grounds that the CTT is not a "prudential measure". Since the CTT applies to all foreign exchange transactions involving a particular currency—independent of the nationality of the dealers—it probably cannot be argued to be discriminatory. However, since by (the orthodox) definition any measure or standard that does not revere the absolute freedom of market actors to invest by will or whim without any obstacle or restriction is "distortive of competition", there is a real danger that the GATS Annex on Financial Services could be used to challenge the CTT, particularly if the CTT is based on any sort of Keynesian or other non-orthodox reasoning. This might also become a further deterrent—and a political argument—against the CTT.

Conclusion

The Asian crisis did not lead to a global regulatory change. The New International Financial Architecture (NIFA), the official response to the crisis, is a set of policies and regulations that aim at making financial liberalization and deregulation more stable and legitimate. NIFA is not an attempt to reverse or transform these processes or their guiding principles, but to strengthen them (Soederberg 2004, 2001). In fact, the Asian crises provided an opportunity for the United States, the IMF and advocates of the Washington consensus to impose their preferred model on the Asian tigers. The accusation was that the Asian form of capitalism has been "crony", that is, it is corrupt and based on intimate and illegitimate networks of close friends. This was claimed to be the cause of the Asian crisis.[33] The solution was, of course, to replace the Asian model of "crony capitalism" with "free markets", in order to also make financial markets work properly. This was also the condition of the IMF rescue loans. Simultaneously, the Western corporations and banks had the opportunity to buy Asian means of production at a great bargain—for example, the dollar-valued price of Indonesian factories and enterprises in 1998 was only about 4 per cent of their previous value (Singh 1999:18). As a result of the Asian financial crises, these countries came under neoliberal domination more strongly than ever.

On the other hand, the global political movement opposing neoliberal globalization was strengthened as a consequence of the Asian crisis. This movement has demanded, among other

[33] For a discussion about the problems of this explanation, see Patomäki (2001a:25–29).

things, far-reaching regulatory changes, including the establishment of the CTT. While the Asian crisis strengthened the grip of the Washington consensus over the countries facing the crisis—until the crisis, they had formed the key exception to the rule of slackening global conditions; since the crisis, the key exception has been China—it also led to a new phase in the global alter-globalization movement that aims to establish alternative principles of global regulation.

However, the CTT campaign is divided. One part of the campaign would be content to use a minimalist version of the tax to raise funds for more development aid, mostly through existing channels, leaving global relations of power and regulatory principles intact. The hope is that if the CTT is compatible with neoliberalism, its chance for success improves. In 2004, this version of the CTT gained support in the form of the Lula-Chirac Initiative —and UNU/WIDER. The Lula-Chirac report *Action against Hunger and Poverty* (Technical Group 2004) does not exclusively focus on the need to generate global funds, but it seems to assume, by and large, the validity of prevailing economic theories and policies. It tries to avoid "distorting" free markets and would like to exempt a large part of all currency transactions from the tax—the so-called "market making transactions". The report assumes that the CTT can only be implemented if all of the major financial centres are within the system from the outset. In other words, the United States or any other major financial centre would have veto power over establishing the tax. Effectively, the same is true for any attempt to realize even a neoliberal version of the CTT through the UN system. Even in its neoliberal form, the CTT would be, after all, a tax that a few financial corporations—mainly banks—should pay. Moreover, the CTT might be seen as a precedent for other global taxes; thus, at least the United States will continue to oppose it. Kapoor's solution is to turn the CTT into a series of independent national taxes, united only by a voluntary global developmental fund based on a one dollar/one vote principle. Instead of a global tax, the CTT would merely be another form of aid. The real effects of this model would be rather limited and context preserving.

The CTT has already passed the modelling phase. There are now various—more or less fully fledged—competing models. In terms of Braithwaite and Drahos' proactive sequence, the possibility to realize the CTT as a truly global tax, also implying a democratic change in global regulatory principles, is dependent on the possibility of enrolling some states to support the model, and organizing an international conference to discuss a possible treaty. Although the initiative can—and in my view should—come from the global South, a lot depends on the future of Europe. Should the EU continue to be subsumed under neoliberal principles and undemocratic decision making, it may be very difficult to get the euro and, thus, the necessary 20 per cent of the global forex markets into the global CTT regime.[34] Mere transnational networks of NGOs lobbying for a single issue are unlikely to suffice in changing the constitutive principles and basic direction of the EU. In addition, there are also the global regulatory obstacles posed by GATS, and perhaps the WTO more generally.

Apart from the small opportunity of succeeding with a proactive sequence at the present world historical conjuncture, I can foresee at least two possibilities for a change that would make the CTT possible, even likely, as a democratically organized, global and redistributive tax. The first is that Europe would become something different. There are two sub-possibilities (see Patomäki 2004 for an explication of four different scenarios for Europe). The first is that the EU becomes a new federal state and superpower in the context of eroding systems of global governance and neo-imperial tendencies, possibly after a partial disintegration. This may result from a conflict with the United States, either because of a new war in the South that turns out to be utterly

[34] A return to the original proposal of Tobin—despite its technical weaknesses—might be preferable to the otherwise superior two-tier model that can be so easily defeated in the EU institutions. A simple Tobin tax could be approved by national parliaments of the Eurozone without the consent of the EU bodies, although the Commission and the Central Bank would most likely protest this process. Should the European CTT campaigners take this route, they must sharpen their skills for legal argumentation also in order to prepare for the foreseeable challenges in the WTO, particularly in terms of the GATS agreement, during the coming years of struggles in different European national parliaments.

unacceptable to most Europeans—at least in continental Western Europe, or because of an economic disaster such as the collapse of the US dollar.

A federal Europe is likely to be somewhat more social-democratic than the current EU. Although the EU has, thus far, remained more egalitarian than the United States, which has already returned to early twentieth century levels of inequality, the EU is following suit: inequalities are also rising gradually in Europe. The representation of Europe as more cultivated, more pluralist and more just than the United States is not credible unless there is clear supporting evidence in everyday practices. Moreover, perceptions of the counter-factual consequences of the overtly restrictive fiscal and monetary policies and welfare cuts may become more widespread due to sluggish growth, despite 20 years of sweeping neoliberal reforms. The view that these reforms have in fact contributed to European economic troubles may gain ground.[35] Consequent change in economic policies may also involve the establishment of the CTT, possibly with a grouping of other countries, but under the control of the EU. In contrast to the globally ambitious superpower scenario, the EU may also cultivate its *sui generis* character as a postmodern political community and develop its agency as a civic actor in the context of global social-democratic reforms. This is a more distant scenario, but one that is based on the same processes as the development of cosmopolitical civil society in Europe.

While the first major possibility for a change in the world political context stems from a potential transformation of Europe, the second follows the logic of the reactive sequence of global regulatory change. A new worldwide financial disaster—possibly leading even to a new Great Depression—and the consequent media hype would make the mass publics around the world want regulatory innovation and change. This time, a mere NIFA would not be enough. New "ATTACs" would emerge and demand a much more thorough change. However, the global dialectic of control may also take rather different forms than what the reformists might wish (see Worth 2002). It is not possible to predict or anticipate all of the consequences of an economic disaster, but at least we know two things. One, counter-hegemonic movements may assume nationalist, fascist or fundamentalist forms, thus precipitating a global catastrophe. Two, the familiar nineteenth century scheme—frustration and repression is seen as evidence that peaceful changes are not possible, that the only way to change anything is by means of violence—may well be repeated in world politics in the twenty-first century, and the long-term consequences might not be any less tragic than they were in twentieth century Russia. It does not seem particularly wise to rest one's hopes on the possibility of a new disaster.

[35] For this argument, see Boltho (2003).

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