

Can the casino economy be tamed?

By Wayne Visser

In two previous articles, I have outlined the problems of the world's speculative financial system, as well as some of the existing measures to attempt to control it. But many critics of this "casino economy" believe these controls are not substantial enough to have any real effect. So what do they propose?

In 1987, economist James Tobin suggested two possible routes for reform of the international monetary system: (1) making currency transactions more costly to reduce capital mobility and speculative exchange rate pressures (derived from Keynes' ideas); or (2) greater world economic integration, implying eventual monetary union and a World Central Bank.

The former approach, which has become known as the "Tobin tax", was favoured by Tobin and has also become most popular among many new economists. Tobin described his proposal as "an internationally uniform tax on all spot conversions of one currency into another, proportional to the size of the transaction", suggesting a charge range of between 0.5% to 1%. Economist Rudi Dornbusch goes further, suggesting a cross-border tax on all financial transactions instead of just currency trades, which could be collected by national governments.

Subsequently, the UNDP commissioned a report by a group of influential economists which concluded in support of a Tobin fee of between 0.05 and 0.25%. This was later endorsed at the UN World Summit on Social Development in Copenhagen in March 1995 by France's then-President Mitterand, Norway's Prime Minister Brundtland, and Denmark's Poul Nyrup Rasmussen, and later that year at the G-7 Summit in Halifax by Canadian Human Resources Minister Lloyd Axworthy and UN High Commissioner for Human Rights Jose Ayala Lasso, but rejected by other leaders.

Conventional anti-Tobin tax arguments include that it will dry up liquidity, be impossible to collect, and invite offshore forex operations, but US reformist Hazel Henderson counters that a smaller tax of between 0.01 and 0.03% would prevent liquidity problems, that new computer technologies make collection feasible and an added clause on currency exchange fees in the World Trade Organisation (WTO) agreement can prevent offshore jurisdictions by treating them as money-laundering.

US policy analysts Makhijani and Brown favour Tobin's second reform route, proposing an International Currency Unit, to be administered by a World Central Bank and based on an equivalent "basket" of goods in each country. The value of these "baskets" in domestic

currency would determine relative exchange rates, which would therefore depend on real domestic economic conditions rather than short-term currency movements.

A colleague, Watchel, agrees on the need for international unity, but calls instead for the co-ordination of interest-rate policies among the G-3 (the US, EU and Japan), thereby enabling countries to pursue their own interest-rate objectives without destabilisation from competing interest rate policies induced by foreign exchange rate transmissions and speculation.

Yale University professor and official historian of the UNDP, Ruben Mendez has proposed a social innovation that may work in conjunction with a currency exchange fee or as an alternative to it. He proposes that a not-for-profit global foreign exchange facility (FXE) should be established to perform foreign currency exchange transactions. It could be set up as a public utility, possibly franchised by a group of governments and the UN to offer a little competition to private forex banks, and in partnership with the UN, IMF and BIS.

GCFUN Commissioner, T. Ross Jackson, on the other hand, has suggested a currency market "circuit-breaker fee" analogous to a similar one on Wall Street, which could be used in conjunction with halts in trading (common on all stock exchanges) if a currency came under speculative attack. This would represent an important social innovation because it offers national governments and central banks a new domestic macro-management tool to insulate their currencies and economies from attack - without having to raise interest rates and subject their citizens and businesses to a recession.

All of these proposals and others need to be brought onto political and financial agendas and given more serious consideration for their potential role in reducing the systemic risk of financial markets and restoring self-reliance to countries and communities who are adversely affected by present financial market shocks, crises, capital flight and general volatility.

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