The Currency Transaction Levy

A presentation by David Hillman of Stamp Out Poverty at the Sixth Plenary Meeting of the Pilot Group on Solidarity Contributions for Development held at the OECD in Paris on 28th May 2009

Firstly, I would like to thank our hosts, the French presidency, for inviting Stamp Out Poverty to speak. It is a great pleasure to be addressing you here in Paris, which I feel is the spiritual home of the Leading Group.

France has after all played a key role in its evolution. From the Landau report to the Action Against Hunger and Poverty report – where Presidents Chirac and Lula stated for the first time that "a tax on foreign exchange transactions is technically possible". The setting up of the Leading Group itself, with its inaugural meeting here in Paris in 2006, which has seen the launching of UNITAID and IFFIm, that have to date raised more than $2 billion for health-related outcomes. The theme of innovative financing continued in 2008 with the UN Financing for Development Conference in Doha at the end of the year, and the appointment of Philippe Douste-Blazy as Special Representative on Innovative Finance to the UN Secretary-General. We welcome the enthusiastic support of our work on the Currency Transaction Levy (CTL) that he expressed in plenary this morning, and I would like to thank him publicly for the important leadership he is showing in driving the mission of new and innovative financing around the world. Lastly, I would like to acknowledge that this is a unique Leading Group meeting because of its convergence with the work of the High Level Task Force on Innovative Financing for Health Systems.

We all know that we are facing an unprecedented global financial crisis, with serious impacts on health, poverty and hunger. The economic crisis is hitting developing countries in 3 particularly disastrous ways: foreign investment is drying up, aid is being slashed and commodity prices and exports are plummeting. The High Level Taskforce estimates that an extra $30 billion a year is needed for health above ODA commitments. The UN in a recent report has said that 104 million people will be pushed into hunger in 2009, moving the total to well beyond one billion. As well, the Global Fund to fight HIV/AIDS, TB and Malaria is facing a funding gap of between 4 and 8 billion dollars.

So what can the Currency Transaction Levy deliver?

According to Professor Rodney Schmidt of the North-South Institute in his report for the UN, levying a CTL of 0.005% on the world's most traded currencies would yield an annual income in the region of $33 billion a year. In his work, Professor Schmidt undertook the most detailed econometric modeling to date to show that this rate is too low to significantly impact the volume of the market. This rate of half a basis point, or half of one hundredth of 1% (0.005%), was not established by Stamp Out Poverty but proposed by City of London think-tank, Intelligence Capital - whose President, Avinash Persaud, has just been appointed to the UN President's taskforce on the Financial Crisis under the leadership of Professor Joseph Stiglitz. Indeed, Professor Stiglitz, the highly renowned economist, in his evidence to a recent Inquiry into this subject, by the UK All Party Parliamentary Group on Debt, Aid and Trade, said: "At this low rate [0.005%] the Currency Transaction Levy is entirely feasible".

But why target the foreign exchange market as opposed to any other market? Firstly, because of its sheer size – it is immense and growing. In 1973 it was worth $4 trillion per annum increasing by a factor of 10 in 10 years to $40 trillion per annum by the mid-1980ies. This exponential growth continued. In 2004, the market was worth $1,900 billion a day ($1.9 trillion), which equates to $500 trillion a year. This staggering amount is equivalent to a pile of $100 dollar bills stretching from the surface of the earth to the surface of the moon. By 2007, it had reached $800 trillion a year – a 71% increase in 3 years. By last year, 2008, it is believed to be worth more than $4 trillion a day, that's more than $1,000 trillion a year – a doubling of the 2004 figures. The volume of this market, therefore, equates to a pile of $100 bills that not only reaches from the earth to the moon – it now reaches the entire way back to the earth again!

Secondly, as a revenue stream the CTL has to meet certain widely-recognised criteria; namely it needs to be sufficient in volume, predictable and additional. Even in this economic crisis, unlike most other areas of the financial sector, the foreign exchange market is still growing. The market is thus not just of enormous size but also extremely robust as an income base, which makes it a strong candidate for the supply of ongoing revenue. The CTL would therefore generate predictable funds of the necessary quantity with money which is new and additional. Especially in meeting the criteria of sufficiency, where there are not too many possible instruments to choose from, I ask you can we really afford to ignore such a substantial source of finance?

Why is it feasible?

It is quite possible that this proposal could not have been done 10 years ago but times have changed. First and foremost, the market is fully computerised. Payment would be automatic when a currency trade is settled. So it is efficient and inexpensive to implement with little scope for avoidance. The introduction of both *Real Time Gross Settlement* and the *Continuous Linked Settlement (CLS) Bank* in order to remove settlement risk from the system has made collection far simpler. This allied to the global messaging circuitry supplied by SWIFT means that required information can be efficiently copied to tax authorities. Automated payment would be received at central banks before being passed on to Governments through their Exchequers.

Precedent and Progress

- **Financial Transaction Taxes:** It is not unusual to tax financial transactions. Such levies are commonplace on stocks and bonds and indeed general electronic transfers. They exist in many countries including India, China, the US, UK and extensively across South America. Examples include the UK stamp duty on share transactions of 0.5%, which brings in more than £5 billion a year and a small tax levied in the US which pays for the Securities and Exchange Commission. As taxing financial transactions is, in fact, quite normal, the question that arises is why have currency transactions remained exempt from taxation for so long?

- **UNITAID:** The way in which UNITAID operates is an important proof of concept for a prospective CTL because it exemplifies the use of nationally collected tax revenue (principally aviation levies), pooled internationally, and spent on a global public good (in the case of UNITAID on HIV/AIDS, TB and malaria treatments). Crucially, it does not require universal participation to work. This is a key precedent for the CTL as with UNITAID, only those countries that wish to participate, need to do so. As well, in order to become operational UNITAID overcame a number of legal issues. This experience is of great value in terms of facilitating implementation of a CTL in the future.

- **Legislation:** It is important to note that legislation already exists in 2 EU countries for a CTL, in France it was passed in 2001 and in Belgium in 2004.

- **Today's announcement:** Most immediately the announcement of Minister Kouchner this morning that France is ready to pioneer a Working Group of states to investigate the implementation of a Currency Transaction Levy is a clear mark of progress that deserves to be heartily applauded!

Make it happen

The Minister's announcement is important news because the CTL is the most obvious candidate to be the solidarity levy to follow in the footsteps of UNITAID. We hope very much that the Minister's intention is to create more than a Working Group, potentially an Implementation Group, and note that a number of countries have expressed strong interest (at Leading Group meetings last year and in Doha) in taking part in such a Working Group. Notably, these include Chile, who will be shortly taking on the next Leading Group presidency after France. We are keen to see swift progress to agree a 'terms of reference' for the Working Group – perhaps based on the one agreed for the Taskforce on Illicit Finance (set up under the Norwegian presidency in 2007), which includes countries, experts and civil society. We also hope to move to a rapid recruitment of members of the Working Group so that its work can commence as soon as possible. Having taken this lead, we are keen that France advocates the CTL in key international fora in Europe, at the G8 and at the G20. Further, it would be extremely disappointing if the High Level Task Force were not to include the CTL in its recommendations when it reports tomorrow.

Let me conclude by saying that for years people have been looking at the CTL as a problem. I ask you, I invite you, instead to look at it as a solution - a solution that can truly bring new and additional finance to the table. France has seized the initiative with the launching of the Working Group. I put it to you that if there was ever a time to make this proposal happen – that time is now!

Thank you for listening.