The idea that governments necessarily have a critical role in economy and society is again plain since the global financial crisis. For 30 years, the democracies said they were ineffectual in coordinating economic life, and markets were perfect for this political role. The paper provides a corrective to policies based on such views, by exploring the weakened situation of governments and political élites in general, vis a vis the shortage of social purposes of the global financial sector, and its destructive outcomes at present. Through an interpretation of the ideal and less than ideal relations between governments and the sector, it assesses current failures of governments to agree on international controls or taxes on banks and shadow banks, and draws on my recent UK policy report, ‘The Tobin tax revisited’. The focus is mainly on English-speaking countries. Criteria about the feasibility and desirability of democratic controls over the sector are drawn from a broad framework about the purposes of banks and their role in global society. Many controls and taxes are modest reforms, so modest that the vehement opposition by the financial sector could also be subject to interpretation.

Through this year, 2010, various countries announced reforms to their financial sectors. These indicate how the relation between the democracies and the sector is being re-established since the financial crisis. Given that it was the worst since 1929, many expected that governments would manage, somehow, to tame ‘global finance’. This paper cannot assess every reform. Instead, my aim is to take an interpretive view of the state-economy relation to give some public clarity to reform proposals. In particular, what social purposes are involved? I use the huge unpopularity of a Tobin tax on financial transactions, particularly within the sector, as an illustration. Social movements have supported it, although technical disputes between those economists with dogmatic predictions, the financial ‘industry’ and populists are part of the problem.¹

There are two types of ‘crisis averting’ and/or reform proposals and many rightly accept some combination is necessary. First, a tax like Tobin is a market-type reform to change incentives and techniques in trading. Many taxes aim to raise revenue, or to discourage socially negative activities (Pigou taxes) or both: the financial industry is lightly taxed. Second, there are stiffer regulations for improving the nature and activities of banks and shadow banks, even to try to reduce systemic problems. On the latter, the democracies are deeply divided. But the former, market reforms were, by mid 2010, no longer even considered. Accepting that we cannot know if political fortitude and greater unity among our governments will gather momentum, and noting that thousands of regulations already exist which either fostered the crisis or proved ineffective, I ask whether Tobin-type taxes are possible and feasible. I then consider criteria for desirable reforms, and whether Tobin-type taxes meet some or any of these criteria.
Many are aware that, from mid-2010, the outlook for international consensus on socially desirable financial reforms was bleak. Public anger against banking had again divided into pro-state and anti-state camps (notably the USA). Among governments, Europe and the USA are at cross-purposes on reforms. Canada and Australia reject any reforms (at the G20 late June 2010), on grounds that their financial systems are ‘perfect’. This is hubris in Australia; I cannot speak for Canada. Europe has also thrown itself into austerity due to politicians’ fear of bond and currency markets. Mid July 2010, Goldman Sachs (GS&CO hereafter) settled a fraud case brought by the SEC, with a puny payment. This sketchy summary implies the financial sector has returned to business as usual despite the largest – mostly unconditional – multi-government bailout ever seen.

A brief background to the Tobin tax is presented first. The idea was proposed in 1972 by the US economist James Tobin who argued for a small tax on ‘all spot conversions of one currency into another, proportional to the size of the transaction’ (Tobin 1978: 155), as a financial disincentive aiming to induce, through the market, slower financial movements. Tobin said it would mitigate the problem of ‘excessive inter-currency mobility of private financial capital’ (1978: 153).

In many versions of the scheme, a 1.0 to 0.01 per cent tax would be levied on transactions. Tobin wanted it to apply ‘to all purchases of financial instruments denominated in another currency – from currency and coin to equity securities’, and to ‘all payments in one currency for goods, services, and real assets sold by a resident of another currency area’. He had no wish to limit trade, but saw ‘no other way to prevent financial transactions disguised as trade’ (Tobin 1978: 159). A small tax level is most onerous on volume trading with fast turnover. He wanted these incessant, large transactions to be reduced, in order to ‘moderate swings in major exchange rates’ and to encourage money to stay put for long-term investment. It would make fast and heavy flows, or flipping of ‘hot money’ suddenly quite expensive.

A large literature now exists on the idea. Global capital movements have multiplied and currency transactions (alone), according to Bank for International Settlements (BIS) estimates in 2007 (before the crisis), comprised some US $3,200 billion in daily turnover in foreign exchange markets. Of that, Forex trade by ‘non-financials’ was about 17 per cent, and hedging-speculation accounts for more than 80 per cent (Garnaut 2009: 68-71). Overall, the total turnover in the main spot and derivatives markets rose from 22 times world GDP in 1995, to nearly 70 times in 2007 (Darvas & Weizsacker 2010: 3-4).

Opponents of Tobin argue typically that volume transactions provide hedging, give ‘depth’ to liquidity, reduce volatility, and arbitrage helps in ‘efficient’ price discovery, therefore none of these transactions is ‘speculative’. Tobin insisted it was simply for technical-Keynesian
purposes of throwing ‘sand in the wheels’ of international finance, to provide a ‘modest national autonomy in monetary and macroeconomic policy’ (Eichengreen, Tobin & Wyplosz 1995: 163), although it might not reduce risks of a massive crisis or ‘excessive volatility’.\(^3\) To counter these dangers, later proposals for a second-tier Tobin scheme argued for a prohibitively high penalty tax to apply automatically on panic or contrived panic runs on exchange rates, i.e. aimed at prevention. This is alleged (Wahl & Wardlow 2001) to benefit regions most at risk from frivolous runs and is another term for capital controls (with the Tobin tax a ‘soft’ control).\(^4\)

One recent example in February 2010 was the sudden bet on a Greek default. Yet Greece is relatively wealthy, has the capacity to improve its (terrible) public finances and GS&CO both helped the Greek government to hide certain debts *some years ago*, and then, on the basis of this inside knowledge, started the run on Greek debt. The later EU bailout of ‘Greece’ was an indirect way of saving foolish loans by EU banks (and GS&CO) to a country known as imprudent. A similar bailout (and IMF austerity) occurred in the SE Asian financial crisis of 1997. The EU’s austerity plans after bond traders’ shorting of Greece, Spain and Ireland in 2010, signal the financial sector’s triumph.\(^5\) Although governments bailed out the sector at huge cost, the sector speedily resumed its *political rule* to determine that citizens and not the sector must suffer. Britain’s new Tory government is notably craven (given the UK’s bank bailout).

**A ‘Robin Hood tax’?**

Despite this pessimistic prognosis about democratic control, the allure to populism (and decency) of ‘taxing the rich’ has often been linked to Tobin’s 1972 idea. Yet, soon before he died in 2002, Tobin still supported the tax, but worried that too much was hoped of it; and he did not want it used to oppose global trade (*Der Spiegel* 2001). Tobin’s aim is *not* primarily a source of tax-collection, but imposes an incentive through the stick of a tax to discourage socially negative transactions. If social benefits result, tax receipts are far less. I discuss this further under the heading of desirability.

On 8 November 2009, the then UK Prime Minister, Gordon Brown, proposed a tax on financial transactions at the meeting of G20 finance ministers. Although long rejected by the US Administration and the financial sector, the Robin Hood element yet again came back in the news, given European support. Why is the tax such a touchy topic? Are objections well founded or are there other, more worrying elements of it? What have Tobin tax proponents hoped to achieve? Without doubt, too much is expected of the tax; for example, it would force banks to pay for huge state costs of bank bailouts and stimulus packages, it would curb ‘excesses’ in financial trading and perhaps fund global development and energy alternatives. It sounds like magic.
With Brown’s revival of Tobin and endorsement by President Sarkozy and Chancellor Merkel, its purposes again extended beyond Tobin’s initiative of 1972. At the G20 financial crisis meeting in St Andrews (November 2009), Brown argued ‘there is a real and understandable concern about the fairness of risks and rewards for taxpayers, citizens, shareholders and bank employees … and it cannot be acceptable that the benefits of success in this sector are reaped by the few but the costs of its failure are borne by all of us’. He proposed ways that the financial sector ‘might contribute to the potential cost of any remaining risks which would be otherwise borne by the taxpayer’, with capital insurance, systemic risk levies and resolution funds, and a ‘financial transaction tax as a means of increasing the contribution made by the financial sector to broader social objectives’ as HM Treasury described its Tobin brief (HM Treasury 2009). Brown’s intention was for the Tobin tax to gain tax revenue, and perhaps legitimacy from an angry public. That sidestepped the aim of discouraging negative behaviour. I treat these two aims separately.

The paper is a sociological analysis, which disputes the assertions that one can easily distinguish between speculation and hedging, or between the precautionary motive and wild risk-taking. Life is a gamble but a motive to hedge one’s ‘bets’ can transform into activity that is like gambling (and may pass on risks); and vice versa. The lead-up to the global financial crisis, it needs to be remembered, was motivated (or justified) by banks as spreading risk.6

In looking at opponents, one must note that no one fully understands the capital markets, much evidence about reforms is inconclusive and predictions are always guesses. Precautionary measures are all that can be hoped for. The sooner the financial industry stops demanding ‘certainty’ the better but, like global warming, political and social conflicts are immense. So, my main point is:

Given uncertainty, no one can predict the outcomes of reforms, or the sources of another financial crisis. It follows that it is disappointing that by 2010, technocrats were merely closing more loopholes after another (appalling) bank disaster. This is one reason for contradictory rules of the past 30 years and their unintended consequences for us all. Honest public experiment is in order, with or without a Tobin-type tax. More importantly, a new historical settlement between the democracies and the financial sector, of the magnitude of the US New Deal and post-war full employment commitments to citizens, is the yardstick to assess reforms.7

That seems to be light-years away (though we cannot predict). Just on a modest reform like Tobin, opposition is so immense it has little chance. The arguments deployed by Timothy Geithner (US Treasury Secretary), Dominique Strauss-Kahn (IMF managing director) et al against Brown’s idea were presented as technical. So, too, the financial sector’s opposition also claimed to be a ‘technical’ rebuttal of Tobin’s ‘technical’ idea. Political-technical opposition that
a tax is not feasible – i.e. not possible, is different from opposition purporting to be ‘technical’ but involving serious differences in economic theories and, ultimately, social theories, democratic relationships and systemic relations, on desirable reforms. Keynesians (who are Tobin supporters) are in battle with many orthodox economists (as later argued). From a sociological view most protagonists offer unhelpful predictions for and against a Tobin tax, which are conjectures. Political-technical objections, which this section explores, have been refuted for some time.

**Political-Technical Objections: ‘neither possible nor feasible’**

The first objection is that imposing a Tobin tax is not feasible ‘technically’ because the tax would be difficult to collect. This is clearly untrue. The UK’s stamp duty on the value of spot share transactions is very cheap to collect; so is Australia’s (Darvas & Weizsacker 2010: 7). The BIS supervises the computer infrastructure at the interbank level. Tobin ‘radicals’ argued years ago that existing technology could easily be put to ‘democratic ends’ (Patomaki 2001:146-7; Wahl & Wardlow 2001).

It is disingenuous of banks to oppose a transaction tax on such grounds, because they charge customers for all conversions of currencies. Other aspects of ‘technical’ opposition are curious, like problems of money-laundering and financial havens for terrorist activities which could be tracked and, even if difficult to identify, might be deterred by a progressive tax.

The second argument, by Geithner, Jamie Dimon, CEO JPMorgan, et al, is that banks would pass the costs of any controls (eg. a ban on charges for ‘pre-payments’) or transaction taxes, on to customers (and the rest of society) – and similarly that the UK’s 50 per cent (one-off) tax on executive remuneration ‘could be easily circumvented’ (Parker & Murphy 2010). As noted, banks already take a myriad of lucrative fees from customers, most ‘hidden’. Options discussed in January 2010 by the Obama Administration were a tax based on the size and ‘riskiness’ of an institution’s loans and other financial holdings, or a tax on ‘profits’. In March 2010, Brown looked to some similar levy (Parker, 2010). Yet the new PM Cameron introduced austerity, apparently because the rating agencies threatened downgrades (Stephens 2010: 7). This source is totally unreliable. Although ‘Geithner has said repeatedly that taxpayers should be repaid in full for the bailout’ (Calmes 2010), his negative arguments against Tobin and bonus taxes surely apply to any proposed taxes. These technical objections accept that governments are neither willing nor able to set effective controls on, nor to tax, the industry. Despite the fact that governments socialised banks’ losses, it had few conditions.

The only way for democracies to prevent tax evasion, cost passing, relocation and banks redefining ‘profits’ to ‘losses’, or ‘riskiness’ to ‘risk-free’ strategies, is to be firm. It is doubtful
now that they will be firm, but at the least government officials could stay aloof from Wall Street/the City et al. Some critics are so pessimistic they see governments run by a financial sector that is a parasite on society. The lobbying spent by the financial industry distorts electoral processes. Revolving doors and poaching among governments and finance could be prohibited via well-designed employment contracts. Any bank that relocates taxable activities could lose transfer rights, or which passes on costs to customers could be fined or forced to reveal any costs (gaining more disgust from the public). Geithner and the more critical President Obama have yet to develop the political fortitude of President F. D. Roosevelt (though to be fair, this took some time). In his October 1936 speech announcing the Second New Deal, he said:

Powerful influences strive today to restore that kind of [‘do-nothing’] government with its doctrine that that Government is best which is most indifferent to mankind. … We had to struggle with the old enemies of peace – business and financial monopoly, speculation, reckless banking, class antagonism…. They had begun to consider the Government of the United States as a mere appendage to their own affairs. And we know now that Government by organized money is just as dangerous as Government by organized mob. Never before in all our history have these forces been so united against one candidate as they stand today. They are unanimous in their hate for me – and I welcome their hatred. (Roosevelt 1936)

Perhaps again, all is not hopeless when ‘organised money’ is delighted to see Tea Party and Tory Party in unison against government decency. Perhaps new governments will ‘welcome their hatred’ in interests of democracy and humankind. We do not know.

A third, more political ‘technical’ argument much quoted at the G20 meeting in late 2009 and by mid-2010 in Germany (Peel 2010), cites political problems about gaining uniform global agreement. This means any tax wouldn’t work unless all countries imposed it, on grounds of relocation ‘off-shore’ as above. James Tobin supported a system of international uniformity enforced by the IMF, but always said he thought it had no chance.

I realize that … I am seriously opposed by a powerful tide… I cannot expect bankers and others who would pay the tax, or suffer any reduction it might cause in the transactions from which they profit, to approve. They, of course, have considerable influence on central bankers and on international monetary and financial officials (Tobin 1996: 498).

Tobin’s comment could help explain why the CEOs of Deutsche Bank and Barclays proposed a uniform insurance tax in January 2010. The problem, as will be discussed, is whether insurance changes behaviour to prevent dangers. Insurance can increase dangers. In contrast (and not whether it is desirable), a Tobin tax is simple and not easily re-defined, because it applies to the most ordinary and quickest short-term transaction alike.
Although global uniformity is important for better ‘feasibility’, some Tobin proponents take the problem of gaining a uniform tax to be a technical argument too, saying that, provided it involved Europe, and Japan ideally, it could be a critical mass. Others call for the US imposing it unilaterally (Baker 2000). Their technical argument is that most currency transactions start and end in five or six currencies. In 2007, the UK Forex transactions, for example, were dollar and euro primarily, then yen and pound sterling and, to a far lesser extent, the Swiss franc, Australian dollar and Swedish krona (BoE 2007). Over 97 per cent of EU spot and derivative transactions take place in the UK and Germany (Darvas & Weizsacker 2010: 9). Some suggest a lower tax rate is less liable to evasion in the absence of global uniformity (Patomaki 2001: 164-5). Here a seemingly technical problem is used to avoid admitting political opposition.

Indeed, the rise of fast speed algorithm trading in 2010 – where human discretion is allegedly ruled out by computers betting against other computers – led to a ‘flash crash’ in stocks in the USA on May 6, 2010. One solution is to ban high frequency trading, or to trigger ‘stops’ but either of these ‘solutions’ puts the onus and expense on regulators, yet again. The other is a Tobin-type modest tax, which simply prices these trades out of the question.

With the unparalleled increase in financial products during the 1990s, and in inequality, the Tobin tax became a demand of social movements opposed to global poverty. Hope was also placed on carbon taxes before carbon trading became _de rigueur_. James Tobin (1996: 498-9) was heartened that former US Federal Reserve chair Paul Volcker and Stanley Fischer (then IMF Deputy Director) were interested in his tax after Mexico’s distress in 1996. And, immediately after September 11, 2001, considerable government interest grew in favour of equity. Gordon Brown, then Chancellor of the Exchequer, proposed taxes on Forex transactions (Tobin tax) and on arms deals in November 2001. Major work by international bodies (not just protesters) led him to make calls for a ‘global new deal’: the US blocked it. Indian and French Prime Ministers supported a Tobin tax; German, Brazilian, Belgian and Malaysian leaders expressed ‘interest’.11 One might have thought in 2008-09 that governments could agree on a similar tax. As we know, the Tobin idea and equity measures that might isolate terrorism were lost from view after 2002, with the Afghanistan and Iraq wars. Yet, after the financial crisis, Gordon Brown extended its aims in 2009: to make the finance sector pay for being bailed out, rather than impose burdens on populations. So, for some, it is a tax that ‘collects the money where it is abundant’ (Wahl and Wardlow 2001: 13); and to others, it aims to reduce activity ‘of no economic value added’ (Turner 2010). In fact, many existing taxes involve both aims, even if they are analytically distinct.
In sum, any future tax is most effective when global. While feasible, others argue Tobin’s uniform idea is too slight: Paul Davidson (1997) wants ‘boulders’ (an internationally agreed ‘Clearing Unit’) not mere sand. Orthodoxy’s defence of the benign nature of financial markets is re-emerging even when, as Volcker said to US bankers (Luce & Braithwaite 2010), there is not a scrap of evidence to show any benefits from the financial activities of the past 20 years (except ATMs). Like Tobin, Volcker disagrees with the notion that these markets are efficient and incorporate the latest information. (The ugliest issue is who gets privileged access to information, government regulators, or firms like GS&CO.)

James Tobin’s further aims clarify the feasibility problem. I then assess systemic problems.

**What did Tobin really want, in regards to feasibility?**

The clearest explanation of Tobin’s scheme is in his 1978 article. He is not as stressed about exchange rate flexibility (introduced in 1971) as about the effects of mobility of private capital in fixed and flexible regimes. Significantly, he recommends the tax only with deep regret, failing an integrated world with ‘a common currency, common monetary and fiscal policy, and economic integration’ (1978: 154). This implies a democratically elected global government, with a Treasury. He recounts benefits of federalism, for reducing ‘movements of funds to exploit interest arbitrage or to speculate on exchange rate fluctuations’, with their social ‘disturbances and painful interregional adjustments’ (Tobin 1978: 155). Although the European Union is bravely moving towards such federalism, (which Tobin welcomed), it lacks democratic and fiscal institutions to make regional economies ‘tolerable’ across Europe. Strains are marked since the global financial crisis.

Accordingly, Tobin saw that the ‘one world’ ideal was unlikely to be viable ‘soon’, which is why he felt, with financial markets having become so international while goods and labour (and their prices) move ‘sluggishly’ (1978: 154), that ‘something’ should be done to minimise negative social effects. In 2010, the viability of the ‘one world’ ideal remains a huge ‘if’. The global financial crisis showed that the world’s finances are more integrated than ever before, and risks passed onto billions of citizens. The ‘one world’ idea became the ‘globalisation’ propaganda of Anglo-American finance, at the expense of institutions of international cooperation, or financial regulation driven by anything other than neo-classical ‘organised money’ ideas. Yet before 2007, the G7 was the advisory entity: G20 is a major improvement in widening decision-making. But governments vary greatly from one another (even in the democracies) and global governance is a distant prospect. What seems likely is a pluralising
world into regional blocs whose dynamics have yet to develop. Whatever responses do emerge, they are an historical experiment with few precedents.

The next sections explore the tax’s desirability according to different theories of proponents and opponents. With the crisis, many taken-for-granted ideas were found wanting while politicians faced an urgent need to do something. This places the legitimacy of states in difficulty since, in democracies, agreements have to be sought with the major conflicting social groups. The trend has been for technocrats in the public and private arenas to take control, largely on the understanding that the economy is the preserve of private economic actors and (excepting a financial crisis) the state as an actor should stay outside the economy. Few economists (Marxists included) extend their expertise to serious theories of the state and policy. Keynesians are more modest, albeit also with a technocratic world-view.

Most publics favour control and a ‘populist’ (or ‘democratic’) tax on a sector that it loathes. For governments, a big tax could also stem a market revolt against government debt (created to bail out the self-same sector). This is politically tricky. Nationalism is usually an element of populism, while the City asserts its post-imperial cosmopolitanism. With regards to the Tobin idea, even if the City were induced to fund new service and manufacturing industries, such productive development would take time to build. The possibility of a City in decline means UK politicians are anxious, even to the point of dissimulation. In fact, many governments up to 2007 wanted big financial centres and now, with bond and currency markets threatening, fear is heavy and reform ideas more divided.

We do not know how these opposing interests will play out. Conventional commentators, today, tend to agree that short trips of ‘hot money’ are not directed to investing in longer-term development of society. Instead, financial institutions lend to each other, boosting the volume of financial transactions in order to make capital gains. The crash resulted in high unemployment and distress, whereas funding for development creates new wealth.

**What are the social purposes of banking and money?**

The issue of wealth creation raises the most sensitive question – the social purposes of money and the obligations of banking (raised by Adair Turner: 2010). Tobin used a Keynesian view to justify his tax idea. Joseph Schumpeter also influenced him. Perhaps banks need reminding that they are the ‘engine of capitalism’ (Schumpeter 1954: 318; 278), and not simply ‘intermediaries’ between lenders and borrowers of orthodox theory. The purpose of banks is to take the risks of funding new development, which creates future wealth. But, under competitive pressures to ‘disintermediation’, the dynamism of credit-money was precariously put to trading financial products in the capital (wholesale) markets on high levels of leverage. That resulted only in a
‘small proportion’ of UK credit going to financing investment and trade (Turner 2010: 17). Moreover, the creation and sales of financial products (promises) were done by shadow banks and banks, showing they were intermediaries however much a diversion from the original Schumpeterian role. Banks’ failure to maintain the payments system (even) led to the first run on a bank in the UK since 1866, Northern Rock (2007), and its further US horror after Lehman went in 2008.

In regards to money, Schumpeter shows how ‘loans create deposits’ which are in turn lent out, deposited, lent out, many times over. These typical banking practices became lost from public view when banks gained ‘self-regulation’, aimed for shareholder value and rejected the need for effective prudential central bank supervision. As more now see, banks’ money-creating powers are ‘special’. Unlike the arduous production of goods and services, money is manufactured in mere acts of lending and borrowing. Yet if credit-money is created ‘without limit’, as banks can do collectively, this is dangerous because ‘the quantity of new purchasing power … is supported and limited … by future goods at present prices’ (Schumpeter 1934: 115, his emphases). Credit-money is ‘freely produced’, but ‘too much’ can create inflation (and then deflation) in the absence of limits – preferably imposed by the authorities to make money scarce (Ingham 2008: 75).

A series of historical compromises between the antagonists in money relationships came to mark modernity, capitalist economies and their relations to governments. The NAIRU ‘compromise’ after the 1970s (wrought by Volcker) had few beneficiaries other than the financial sector, which gained seeming ‘certainty’ with limits ignored (eg jobless debtors). In Anglo-American countries, private sector interests disputed the legitimacy of the old democracies, and broke ‘the deal’ that central bank lender of last resort was guaranteed if banks acted ‘effectively as an arm of the state in supplying the bulk of money’ (Dow, 2010). Wall Street and the City acted as competing city-states, as though adrift from their institutional boundaries. From 2001 to 2007 and before, UK and US limits on private bank credit-money production and on safeguarding deposits hardly existed, the UK being the worst offender with its ‘light touch’. This unfortunately is a well-established historical business model of some 400 years: the damage of private banking fecklessness is passed on to populations (via hapless governments) as money contracts after ‘expanding’.\(^\text{15}\)

Despite problems of defining the line between investment and gambling, the danger of collapse is more likely when increased financial ‘intensity’ does not result in ‘improved capital allocation, increased growth, or increased human welfare’; nor, as Adair Turner also argues, in delivering ‘value added for the real economy’ (2010: 6). Banks might create ‘cheap’ near money and trade at high speeds, but for what social purpose? Post Lehman 2008, central banks had no
option but to lend the more trustworthy fiat money to private sector banks to stem the flight by
depositors and prevent the entire payment system from collapsing.

Lending for innovation in potentially profitable developments is ‘self-amortizing: it
creates a debt, but also the value-added to repay principal and interest. By contrast, loans to
create or buy financial assets and instruments are not’ (Bezemer 2009: 9). Credit booms are zero-
sum games reliant on general economic activity to support debt-based consumerism, which
eventually cannot produce revenue sufficient to pay interest payments. Products packaged on
jobless mortgagees expressed the bankruptcy of bank innovations.

By early 2010, systemic problems were the focus of debate. The greatest of these, moral
hazard, looms largest since the bailouts came before rules (the US in particular). The fragile
banking system of a smaller number of larger oligopolies that can ‘move markets’ (and thus
‘win’) quickly reverted, lending and borrowing for bets with privileged information. The BIS
asked global bank CEOs and main central bankers to discuss the resurgence of ‘excessive risk
taking’, and BIS reports that ‘financial firms are returning to the aggressive behaviour that
prevailed during the pre-crisis period’ (Sender 2010). Later in 2010, the ‘stress tests’ on banks
were only designed to reassure shareholders they were not required to provide more capital (Kay
2010: 9). They did not assure depositors or anyone fearing future government bailouts.

Over 2010, banks enjoyed ‘a colossal and also lucrative carry trade … [such as]
borrowing at zero in the US and lending at, say, 9 per cent plus in Brazil’ (Lex FT Jan 8
2010:12), yet lent for development even less. They perceive too many credit risks, and
entrepreneurs and consumers are equally preoccupied in servicing their debts and unwilling to
take on new debt to finance production and consumption (Ingham 2008: 70).

Banks need reminding of the social purposes of credit creation. The first question, from
Schumpeter’s analysis, is how to compel and cajole banks to lend in their dynamic, wealth-
enhancing role. Second, Sheila Dow (2010) rightly argues that banks must keep deposits safe, to
maintain integrity and confidence in the payments system. But private producers and controllers
of money, after thirty years of unregulated competition became predators on the social fabric.
They passed on risks to society yet, after all this, still retain the upper hand in terms of economic
and financial power and, since so many government officials and even ministers were themselves
in the financial sector, this is often taken for granted. Interestingly, the Financial Times,
industrialists and other erstwhile supporters of the sector described this problem as the lack of
public legitimacy in the settlement between governments and ‘organised money’. This criticism
is diminishing through 2010. Virtually no one has queried why caveat emptor should apply only
to this ‘industry’ but no other. Some did suggest that limited liability should not prevail in
banking when liability is banking’s reason for being.
So, given the situation as it is today, is a Tobin tax desirable, or are other measures better?

**Opponents**

Some economists are vehemently opposed to a tax on the wholesale money markets because they believe, despite all that has happened, in the ‘efficient market hypothesis’, as does the financial industry. According to a large inter-dealer broker, Tobin taxes:

... would drive high-frequency traders out of countries where [Tobin taxes] are imposed or prompt them to cut back on their trading. ... [Taxes] would have a large impact on the costs. ... Any friction in the marketplace in terms of taxes is dangerous. ... It will slow down trading activity and reduce the commissions and taxes raised in the financial sector. ... It ... could harm other investors, who will find the equity and bond markets less liquid and face larger spreads. ... [and harm] the already fragile capital markets for smaller companies. ... A US-based Tobin tax could drain so much liquidity out of the markets that it would affect the dollar’s status as a reserve currency ... Business likes certainty [the Chair of GFI Group concluded]. (Masters 2010, my emphases)

Wholesale markets must not be touched; there are no dubious products but simply a happy stream. Banks’ purposes of creating money to fund wealth-creating future development (or whatever) are merely a function of the spreads, the narrower the more efficient. But if low transaction costs played a role in the explosion of trading activity, that rise ‘significantly outperformed the pace of expansion in economic activity’ from 2000-07. Therefore, the allocation of capital and risk to the production process cannot have been as ‘efficient’ as market defenders claim (Darvas & Weizsacker 2010: 5-6). In other words, more transactional activity was generating less economic activity in the non-financial sector.

Indeed, the wholesale markets created liquidity (= credit money notably) at hitherto unseen levels up to 2007, and suddenly, sales in some assets stopped, no ‘price’ could be given, ‘market liquidity’ was not available (Turner 2010: 11) and some markets ceased to operate. The financial markets suffered the equivalent of a run on the banking system (Access Economics 2009: 27). It was an own goal in the sense that key producers, the shadow banks et al, finally shorted their own products and created the run in a wholesale, cost-free market: not from a Tobin tax. (I believe BNP Paribas behaved decently in August 2007 by freezing its products instead.) Keynes’s warning that there is no possibility of liquidity of investment for the whole community, i.e. a farmer cannot switch every asset to money deals on Monday and return to farming on Friday, is not addressed. Turner wants to ‘dethrone’ the idea that ‘more liquidity, supported by more trading, is axiomatically beneficial’ (2010: 1).
**Worries**

Opposition to a Tobin tax presents a view of society comprising markets alone. Their neglect of banking corporations, and failure to consider the purposes of banking, are worrying. More, their predictions replicate their faith in predictive models that fed the crisis.

Yet some claims for a Tobin tax are dubious. Some imagine a Tobin tax could introduce competition (Stephens 2010). Given that Turner suggests the tax might reduce dangerously excessive market liquidity (Turner 2010: 2), Tobin could diminish the market-moving capacities of large oligopolies and the pace of competition. This is desirable because, although these powerful capacities are restricted to a few economic agents, more entrants doing the same thing is no improvement.

Hopes for vast tax revenue for global equity, moreover, would be short-lived if a Tobin tax worked, effectively. Global benefits are less instability for depositors and domestic economies (perhaps). Banks might lend for long-term investment. If a Tobin tax does not change transaction behaviour, larger tax receipts would accrue to countries where most wholesale trading takes place (in Europe, the UK and Germany). Tobin cannot be an evenly distributed source of global revenue for public purposes (but lucrative for specific government budgets).

Finally, which proposal would change the structure of competition? If oligopolies have overwhelming information edge (demonstrated in the SEC suit against GS&CO, 2010), how would more entrants reduce this? Some assume that competition is an answer for all ills. Other choices rather than an increased number of private providers selling roughly similar services could produce more responsible types of banking practices. The financial sector is in a spiral of ‘autonomous competition’ whose dynamics are well beyond the understanding or public utterances of Goldman Sachs’s Lloyd Blankfein or Deutsche Bank’s Josef Ackermann. There is an impasse in a dysfunctional yet highly resistant sector. Hopes look bleak for a settlement that could claim legitimacy in the minds of the majority of citizens, given the inability of politicians to broker and legitimate such a settlement. To a sociologist, a new settlement is the basic ideal.

**Other taxes and regulatory measures**

In Europe since 2008, regulators looked at diversity of prudential requirements for banks, to alter banking behaviour over time periods and cycles. Dynamic provisioning by banks, and variable capital surcharges could ‘lean against the wind’ of asset inflations and busts (Posen 2009: 10). But could that successfully undermine predictive risk analyses? Measures for precaution are necessarily based on conjecture. Adam Posen (2009: 13) suggests a Tobin-like tax on real estate transactions, similarly not for tax revenue aims but to change incentives variably against real estate booms and busts. But authorities rarely want to suffer the odium of stopping a boom ‘too
early’: since life is based on conjecture, central banks need firmness against market noise as well as government noise.

Although major revenue-collecting taxes are a popular democratic demand (which effective Tobin or real estate taxes cannot meet), many of these taxes disappeared after the 1970s. Governments introduced global financial regulations that aimed to ‘harmonise’ financial interests. Some investment rules against what is termed ‘expropriation’ explicitly counteract national attempts to improve living conditions (Schneiderman 2001: 531; Schaberg, 1998). The privatised nature of economic globalisation is behind the reduction of progressive national taxes on corporations, and the failure to work out global corporate taxes. Private equity firms enjoy extraordinarily lucrative tax rates (15 % on capital gains: Lex *FT* 2010, Feb 4: 12).

The financial sector is notoriously hard to tax: profits are shifted offshore in the conspicuous absence of international agreements. Fischer Black, who invented the option pricing framework, argued in 1972 that it was a form of leveraged gambling which should be taxed (like gambling), and he refused to be involved personally or, in 1994, with Long Term Capital Management (LTCM). He was appalled that LTCM was ‘loading up on risk’ – heavy short-term debts which can bring down a firm (cited Mehrling 2005: 138-9; 297-9) and other firms. A contrary desirable idea is a tax on short-term loans for prevention, again not for revenue purposes. Margin loans, too, could revert to the USA’s former 90% equity requirement.

Also, it should be pointed out, that unlike most economic sectors, the finance sector is ’essentially’ exempt from value added taxation. The amusing side of this is the difficulties in measuring the ‘value added’ in financial products (Darvas & Weizsacker 2010: 8). The realist side, signified in the phrase ‘financial services industry’ is there is a perception by the *industry* that, like others, they are creating and selling value-added service products. This gives rise to two thoughts: If financial products do not create value, do they allocate capital and risk efficiently and so perform ‘benefits for the real economy’ (Turner 2010: 1) that taxes (whether VAT or Tobin) would ‘distort’? And, secondly, if they do create value services, why are they not taxed at comparable rates to others? This takes the discussion some distance away from the Tobin tax itself as well as the levels at which states normally tax economic processes, and perhaps leads to another, deeper analysis of what constitutes value.

Banks promoted an insurance levy (early 2010), the worst option, because insurance was another source of their major bailouts. By 1999, Wall Street had gained both de-regulation (abolition of Glass-Steagall) and government protection, with FDIC extended to *guarantee* investment banking for any risky activities.17 Wall Street also turned to AIG (Lewis 2010), whose standard insurance practices and risk minimising techniques (typically distrust the weak) were *never applied to the banks*. Insurers usually screen out the ‘unsavoury’ and apply
contractual incentives for loss prevention, risk reduction and honesty, in order to minimise ‘morale hazard’ and reduce insurance payouts (Heimer 2002: 136). But private and public insurers (AIG; FDIC) and central banks (guarantees of LOLR) apparently did not try to prevent carelessness and dishonesty. They all fostered moral hazard by reducing motivation to prevent losses or contain ‘excessive’ fragility of credit expansion. Critically, insurers paid Wall Street to the max notably after the Bush Administration bailed out AIG with $185 billion. Insurance does not prevent dangers; it only here reinforced Wall Street’s sense of entitlement. Even if a large insurance levy saves some government costs of monetising banking disasters, it will not rescue the world at large.

**What could Tobin taxes achieve?**

Public-finance perspectives suggest there is a case for tax if financial transactions cause negative external effects on society. But a Tobin tax rate would need to be small (0.01%) so that it did not drive out transactions with ‘welfare gains’ (e.g. ‘efficient’ allocation to production: Darvas & Weizsacker 2010: 8; 13). Instead of baying assertions of ‘right or wrong’, therefore, one could agree that not all derivatives and naked credit default swaps are ‘gambling chips’. A corporate pension fund needs a naked CDS against bankruptcy of its own corporate sponsor; Rolls Royce needs to hedge dollar-pound changes (Jackson 2010). The question is, which transactions are running a book on socially undesirable transactions and contribute to systemic risk? We can never predict which speculation will later prove destabilising, but that suggests a precautionary strategy, particularly when a high volume of trading, by pension funds for example, tends to lose overall.

The approach of public finance shows welfare losses as a negative externality of ‘diminishing social demand’ for a product with market magnitudes where large supply of a product equals ‘private demand’ – not the much lower, socially-optimal quantity where supply equals ‘social demand’. A very small tax drives out significantly ‘bad’ transactions but not the others (Darvas & Weizsacker 2010: 13-14). That approach goes further than Lord Turner, if into geometric calculation. Turner cites how a ‘non-trivial proportion of complex securitisation was driven by tax and capital arbitrage’, of ‘no economic value at the collective social level’, which he calls ‘socially useless’ (2010: 22). But so were ‘no hoper mortgage’ packages.

Against the inordinate fear of ‘touching’ the market, it is possible that Tobin taxes would reduce private demand for socially damaging products, slow its pace and scale, and reconfigure the way financial decisions are made. Instead of the assertion that high volume trading leads to price discovery and real ‘information’, traders exploit minor information advantages, and rely on conjecture, gut feelings, competitive anxieties, from firm and financial centre pressures to win
market share (Pixley 2004; 2009). Excessive financial trading is not productive because, although privately profitable, it does not increase the flow of goods and services. Its low transaction costs also encourage short-term investment projects rather than projects needing long-term nurturing. Traders simply sell on firms’ poor quarterly returns (Pollin et al 2002: 8; 10). The exploitation of discrepancies in global prices and of regulatory loopholes can destabilise governments and firms; once every bank copies an innovation, there is a higher likelihood of instability. Innovations and their inflation are the major problem.

Taxes on financial and real estate transactions (and variable reserve requirements) do not 'stop' the financial markets; instead, in slowing/diminishing the frantic competition, the necessary trust and confidence in a ‘product’ becomes obvious. Regulators have time to think about which loophole to plug next. The faster the pace, the greater the need for trust, which more quickly turns into distrust, fear, and dissembling to pension funds and regulators – and to extremes in the Lehman case (Whimster 2009: 269-73). A slow-down might allow trust to counter-parties to be reconfigured. It gives something like ‘cooling off periods’ to re-consult gut feelings. Instead of trying to reduce uncertainty, which is not possible, it seems preferable to consider precautionary principles, and taxes that punish undesirable transactions of dangerous products and foster funding for development are therefore socially desirable. (I believe that the removal of caveat emptor as a technical legal excuse for selling toxic financial products appears on no agenda except mine.)

If the aim, however, is to make the financial sector pay taxes per se, and pay back its massive debt, other taxes are needed, because an effective Tobin reduces tax receipts. The sector should also fully fund the cost of its effective supervision. (Effective sticks of taxes to deter the lucrative carrots of incentives like bonuses and share options could, like Tobin, be less revenue creating than a wealth tax. Yet effective taxes save on regulatory costs.) Perhaps governments could call its bluff in this way. If the financial sector wants to avoid taxes, it must prove that it does not ‘add value’ with the inference that it is socially useless. A Tobin tax that does not drive out the legitimate social purposes of banks might well be thought preferable to a value added tax.

Both corporate and government legitimacy with the public is low, although long-term benefits await governments that acknowledge the socially expressed wishes for a fairer, democratic settlement. A Tobin tax should be removed from the ‘index of forbidden thoughts’ (Turner 2010: 30) and allow a more public, open discussion of what actually adds value and why it should or should not be taxed. The Tobin tax can only complement other measures, making as James Tobin remarked, a modest contribution.
Conclusion

We cannot know whether the democracies can or will tame the financial sector. Ages ago, wiser financiers argued only a major crash would restore confident governments. But as early as 2010, the banks became aggressive again, and reforms that passed US Congress in July will not be implemented until 2011; Basle III not until 2018. That may be too late to avert another crisis in credibility. The loathed Tobin tax is modest and, again, getting nowhere. Despite its modesty, this failure might suggest that it is not possible to tame what appears more like a global protection racket. There again, its modest desirability could be a political means to call the sector’s bluff. International agreement could stiffen governments’ resolve and mitigate their own races to the bottom. If that could even start, we might see a new democratic, historical settlement involving more people across the world than ever before.

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1 Sociology no longer aims for predictions or ‘laying down laws’, but interpretation. Many economic debates for and against financial reforms are couched mostly in dogmatic terms of firm predictions, which is unhelpful.

2 According to the BIS ‘Triennial central bank survey or foreign exchange and derivatives, 2007 (Bis.org), in 1998 Forex daily turnover was US$1,490 billion. On estimations of Tobin-type tax revenue, see Barber T. & G. Packer 2009 ‘European leaders push case for Tobin tax’, FT December 12-13: 4. It cites France’s foreign minister, Bernard Kouchner, as estimating €20 billion to €30 billion a year could be raised by a levy of only 0.005 per cent.
I argue that Tobin’s ‘sand in wheels’ metaphor does not acknowledge the social relations of trust and the hierarchical structure of the finance sector.

Various countries (Chile with a 30% tax), prevent so-called ‘hot money’ from parking and moving out in a week. India, China and others have various controls.

I add that the acronym used by traders to describe these countries is beneath contempt.

See Pixley (2010) on confusions in behavioural finance between risk (known chances, i.e. gambling proper) and uncertainty (the social world of money and finance). Also note that putting eggs in different baskets is an old peasant precaution, hardly an innovation.

The idea of a historic settlement goes back to Karl Polanyi in particular. The type of financial settlement relevant for today’s multi-global world and the supreme threat of global warming, obviously point to a very different type of settlement for 2010 onwards, than that achieved after World War II.

The UK Labour government did partially nationalise some banks and totally with Northern Rock. Why these were to remain temporary measures, when state banks do not have to aim for ‘shareholder value’ is a mark of government timidity.

In the UK stamp duty (0.5% tax on the value of spot share transactions since 2001), transfer of ownership is only officially stamped after the tax is paid. This is a design issue cf. Sweden’s financial transaction tax was easily avoided by relocation. Similar taxes are imposed in Ireland, Korea, Australia, Switzerland, Greece, Hong Kong, India and China, most very successfully. The UK revenue started at £2.9 billion pa, rose to £4.2 in 2007 and was £3.2 bn. in 2008 (Darvas & Weitzsacker 2010: 6-7).

The RBA forced banks to show that each ATM transaction costs AUD$2.00 (in withdrawals from another bank than a customer’s). Since customers have to agree each time, it gives people more occasion to despise banks than they already do. The mendacity (gouging) of trivial and mostly hidden bank charges, mount up to ‘nice little earners’. Commissions and fees of money managers are similar sources of public fury.

This is the phrase used by Gordon Brown quoted from an article in The Guardian listed in globalpolicy.org/socecon/glottax/currtax/index, downloaded December 5 2001; Denny, C. 2002 ‘US blocks push to lift aid to poor countries’ Sydney Morning Herald 24 January: 7

The French Assembly voted in favour in November 2001, with the ‘Association pour une Taxation des Transactions financieres pour l’Aide aux Citoyens’ claiming credit for the Currency Transaction Tax (CTT). The Halifax movement claimed victory in the Canadian parliament in 1999. The Jubilee movement on Third World debt relief also supported a CTT. At the UN, John Langmore, then Director of the UN Division for Social Policy and Development, argued the CTT gained impetus with the UN’s Zedillo report on financing for development. Braithwaite & Drahos 2000; Ford & Desir 2001; Langmore 2001.

This concept is the central theme of the Global Policy Institute at London Metropolitan University.

Pixley (2007 and forthcoming) shows 75 and 82 per cent of Australians and Britons, respectively, have no trust in banks and financial institutions. Latest data is 2009 in quality British and Australian surveys.

It is worth quoting a passage (Schumpeter 1934: 114-15) as a textbook description of the build up to 2007. He cites a case where ‘the banking world [could] … start inflation and arbitrarily determine the price level, not only without loss but even with profit: namely if it pumped credit means of payment into the circular flow either by making bad commitments good by a further creation of new circulating media or by giving credits which really serve consumptive ends. In general no single bank could do this. [Among other things] … the consumptive credit [would] become bad if it did not lie within the limits in which it could be repaid by the debtor out of his income. But all banks together could do it. … And that this is possible … is the chief reason why special legal restrictions and special safety valves are actually necessary in practice.’ He goes on to suggest that just as the state ‘under certain circumstances, can print notes without any assignable limit, so the banks could do likewise if the state … were to transfer the right to them in their interest … and common sense did not prevent them from exercising it.’ As we now know, ‘common sense’ did not enter the sorry story of states ceding this right to banks after the 1970s.

The reason for historic social compromises in democracies is due to the important purposes of money, intrinsic to capitalist economies, and the need for state legitimacy in saving creditors at the expense of debtors (see Ingham 2008; and literature on ‘different’ forms of capitalism, in money and some security for labour and debtors). Politicians turn to populism in face of angry debtor/electorates and, in the USA, seem to deny they are politicians.


The analogy is to house buying on the spur of the moment, where a week’s cooling period is mandatory before exchange of contract in some countries.