

Currency Transaction Levy explained

Taken from "[¥€\\$ to Health – the Currency Transaction Levy: Funding the Health Millennium Development Goals](#)", published by Stamp Out Poverty and the International HIV/AIDS Alliance

RESULTS
the power to end poverty

RESULTS UK recently signed up to a [declaration calling for a Currency Transaction Levy \(CTL\) for health](#). It is an initiative that NGOs including RESULTS have been campaigning on for years, but what is it and what implications could it have for the health of people living in the developing world?



[Stamp Out Poverty](#) and the [International HIV/AIDS Alliance](#) have published a briefing paper entitled "[¥€\\$ to Health – the Currency Transaction Levy: Funding the Health Millennium Development Goals](#)" which makes the case for the introduction of a CTL to raise much needed, additional resources for efforts to reduce child mortality, improve maternal health and to fight diseases of poverty such as HIV, TB and malaria (see action sheet for

more details of the need for the CTL).

What is the Currency Transaction Levy?

The CTL is a proposal to harness some of the vast wealth of the foreign exchange market through a very small levy – just 0.005% on currency transactions. It would apply the levy to all wholesale or interbank transactions of a particular currency. It can be applied anywhere in the world, but would not require all countries to sign up. Many countries (including the UK and the US) already apply levies to some financial transactions that occur within their territory.

How much could the CTL raise?

A CTL rate of 0.005% levied on all major currencies would generate US\$33.41 billion a year. A CTL levied on just the British Pound would annually yield US\$4.98 billion. The US dollar is the most widely-traded currency in the world, and a CTL that includes the dollar would therefore raise the most money.

Would the CTL have negative side-effects?

The CTL would apply only to the wholesale foreign exchange market and would therefore not affect the retail market or have an impact on remittances from migrant workers. This is important because remittances from migrants account for a large percentage of some low-income countries' GDPs.

The percentage of the transaction taxed under the CTL proposals is so low that it would not adversely affect the market, while being high enough to raise substantial amounts of income. A CTL rate of 0.005% may cause FX trading activity in the wholesale market to fall by 14%. However, this would not affect the normal operation of the market. For example, between 1998 and 2001 the US dollar interbank market fell by 11% without any effect on the normal operation of the FX market. Furthermore, a CTL rate of 0.005% would not prevent further growth in the FX market. For example, if a CTL rate of 0.005% had been levied on the pound in 2004, by 2007 the sterling market would still have increased in trading volume by 26%. Professor Joseph Stiglitz, who heads the UN President's taskforce on the financial crisis, has said: 'I cannot believe a sterling stamp duty at the rate of 0.005% would result in the diversion of financial transactions from the UK to other countries.'

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The foreign exchange (FX) market is the largest in the world by volume with \$3.2 trillion of FX transactions occurring every day. Unlike most other areas of the financial market, the FX market has continued to grow, even during the economic downturn. While most types of financial transactions are taxed, the FX market is an anomaly in that it remains untaxed. Collection of a CTL would be simple to set up and efficient to run, as the entire FX market is electronic and operates through an interconnected global network of central banks and national payment systems that cooperate in the oversight of cross-border payment systems.

Is the CTL the same as a Financial Transaction Tax or a 'Tobin Tax'?

There is understandable confusion over exactly what 'Currency Transaction Levy' means – often fuelled by media portrayals describing all Financial Transaction Taxes (FTT) as Tobin taxes. The CTL is a type of financial transaction tax, but it is a limited version of a full FTT regime. The proposal for a Financial Transaction Tax that recently hit the headlines is a broad levy applied to various categories of financial transactions including stocks, bonds and currency. Its motivation is to both regulate the market and produce revenue. The proposed rate is 0.05%. Crucially, it would require universal participation in order to work, which means that it would require a huge amount of political capital and buy-in to establish – something that isn't very likely to actually happen. For this reason we are concentrating on the limited sub-set of a CTL, which is in the current political climate feasible.

A further confusion is that there are three distinct currency transaction levy (CTL) proposals, only one of which is properly referred to as a 'Tobin Tax':

- 1) Initially, there was James Tobin's original idea from the 1970s of a 1% levy on currency transactions. The measure, by making currency transactions more expensive, favoured trading in goods and services, intending to price out speculative activity. The motivation for this was regulation of the market, not to raise revenue.
- 2) A second version of the idea emerged in the late 1990s in response to the South East Asia crisis. Here the collapse of the Asian Tiger economies was made much worse by aggressive currency speculation by powerful financial actors. An even higher rate CTL was proposed, at potentially far greater than 1%, to prevent this kind of behaviour by simply making it unprofitable to trade the currency under attack. Here again the motivation was regulation, not revenue.
- 3) Since 2005 a much smaller rate currency levy has been proposed specifically to raise revenue for global public goods. Its aim is to take advantage of the enormous volume of today's foreign exchange market. The proposed rate is 0.005%. This low rate is designed not to distort normal market activities. Its motivation is to raise revenue and not to regulate. And the potential income it could produce is in excess of US\$30 billion per annum. It is this modern version of the CTL that organisations working for international development are currently advocating for world governments to establish.

Is there a precedent for this type of 'solidarity levy'?

UNITAID, which is financed principally through aviation levies and has helped drive down drug prices and develop new treatments for HIV, TB and malaria, exemplifies the use of nationally collected tax revenue, pooled internationally and spent on a global public good. Importantly, it has not required universal participation to work. Countries that wish to participate work together to harness the income stream. A CTL would operate according to the same principle.

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Is the UK government supportive?

Gordon Brown has been co-chairing a High Level taskforce on innovative financing for health, and at the G20 Finance Ministers' meeting in November he finally publicly supported the idea of a Currency Transaction Levy. In addition, Lord Turner the head of the Financial Services Authority has recently supported the idea of the CTL.

Are there any examples of successful CTLs?

Two recent examples spring to mind:

In May 2007, INTL Global Currencies, a City of London firm specialising in foreign exchange with developing countries, ran a week-long trial of a CTL. In the process, it raised £4,000 for the charity Widows and Orphans International. In his evidence to the All Party Parliamentary Group for Debt, Aid and Trade Inquiry, Philip Smith of INTL Global Currencies explained: 'It's not a huge amount but we felt it was illustrative of a week's turnover for us across all our countries. And we're not an enormous entity which would have raised a lot more.' He said it took a 'press of a button' to add the levy into its system. He said INTL had informed its clients about what was happening and said the feedback was very positive. Nobody had commented on any problems and he added that rolling the levy out on a larger basis would be very simple: 'It's just an extra feature in our dealing system and I would imagine every financial institution would have a similar set-up'.

Source: Report of the All Party Parliamentary Group for Debt, Aid & Trade, Meeting the Millennium Promise (2007).

In August 2009, Ethical Currency became the first FX broker in the world to voluntarily levy 0.005% on all of its transactions. Ethical Currency's founder, Alastair Constance, recognised that 'as funding for international development becomes more scarce, we need to be creative about finding new and sustainable sources of income'. The money raised will be donated to the Global Fund to Fight AIDS, Tuberculosis and Malaria. Alastair Constance believes a similar levy would be easy for traders to replicate as FX transactions are all electronic and that, over time, the tax would be barely noticed.

Source: Report The Guardian, The time is ripe for a Tobin Tax, Thursday 27 August, 2009