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Paper by invitation

A Compound Tobin Tax: A Political Economy Investigation

Summary: The paper focuses on international tax proposals and analyzes rationales and challenges for adopting a com-pound global tax. It is proposed here that such a compound global tax instrument would mainly need to focus on two tiers. The one, based on the U.S. President Joe Biden's 2021 suggestion, would need to close off tax avoidance and tax evasion possibilities for large multinational and transnational corporations; and the other, based on the James Tobin's 1972-tax proposal, would seek to eliminate the speculative dimension of international foreign exchange dealings. These tiers are discussed extensively in this contribution, concluding with the suggestion that policy coordination is paramount.

Keywords: International financial instability, Financialization, Multinational corporations, Tobin tax, Policy coordination.

JEL: F3, F6, G01.

Contemporary global capitalism revolves around economic neoliberalism, hyper-globalization and financialization, with the latter being its dominant influence. What has become clear is that global capitalism has become quite susceptible to frequent and systemic crises under financialization as the system now prospers ever increasingly on debt accumulation and quick profits (i.e., "profiting without producing"). Evidently, huge income streams from intangible sources such as drug patents, software, and royalties on competitive intellectual property have migrated to certain jurisdictions (e.g., "tax havens") which allow multinational and transnational companies to avoid paying higher taxes in their traditional home countries. As a result of the detrimental short termism of the free market system in addition to the extraordinary swelling of transnationalism and financialization in recent decades, countries have been debating on significant changes to international tax rules that apply to multinational companies and the foreign exchange markets.

These efforts on international tax regulations go as far back as the 1920s, where countries sought to put in place a global tax regime that could set procedures in the context of taxing multinational companies that operate across borders. The focus was also on preventing double taxation, which could happen when different countries tax the same income stream two or more times resulting in high tax rates on earnings from global trade and enterprise. Although that century-old framework mostly prevented double taxation, it was not designed to avert non-taxation or double non-taxation.

Double non-taxation arises when multinationals do not report income in either their home country or in the locality they made the income. Instead, multinational businesses prefer reporting income in countries known as "tax havens" or offshore financial centres where they are taxed at zero or very low rates.

Moreover, the Bretton Woods system disbanded during the period 1968-1973. In August 1971, U.S. President Richard Nixon announced the "momentary" deferral of the dollar's convertibility into gold. This suspension resulted in a forceful crisis, which actually marked the breakdown of the Bretton Woods system. Efforts to restore the fixed exchange rates failed, and by March 1973, the major currencies worldwide started to float against each other. Since the 1970s, in addition to the end of the Bretton Woods system, the overall value of global financial assets has increased significantly in size and magnitude. Consequently, there has been a lot of interest in the idea of a tax levied on foreign exchange dealings. The basis of this idea is that many financial market transactions are linked to speculative trading which can actually reallocate the ownership of existing financial assets without any beneficial impact on the real economy. The origins of this argument can be found in John Maynard Keynes' *Treatise on Money* where he contended that: "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" (John Maynard Keynes 1936, p. 160).

In that context, James Tobin (1978) suggested a new system for international currency stability, which must include an international fee on foreign exchange transactions. In terms of currency markets, Tobin (op. cit.) proposed the taxation of foreign exchange transactions and a policy intervention labelled as the "Tobin tax", with the intention of disincentivizing short-term currency speculation. In contrast to other types of tax, the Tobin tax is meant to be applied to financial sector participants as a means of controlling the stability of a given country's currency. By the late 1990s, the term Tobin tax was used more widely to be applied to all kinds of short-term transactions taxation, whether across currencies or not. Hence, several theoretical elaborations and intense policy research has emerged, and discussed in what follows.

1. Setting the Relevant Framework

- Concern emerged in view of the severe speculative attacks on the European Exchange Rate Mechanism (ERM). To prevent global financial crises, notable economists have called for "sand to be thrown in the wheels of international finance" by imposing a tax on foreign exchange dealings (Barry Eichengreen, Tobin, and Charles Wyplosz 1995). Furthermore, to address these speculative occurrences, Ruth Kelly (1993, 1994) and Geoffrey C. Harcourt (1995) have advanced modifications of a tax on foreign exchange dealings. However, some disagree with this point claiming that where taxes on financial dealings are imposed, volatility may not be reduced.
- Official interest in a financial transactions tax has also been expressed by the United Nations agencies United Nations Development Programme (1994) and United Nations Conference on Trade and Development (1995), which have seen

its possibilities for raising large amounts of revenue that could be used to finance development goals.

- In the wake of the 1994 Mexican *peso* crisis, even the IMF endorsed, although cautiously, limited support for transactions charges and restrictions on selected international financial dealings (David Folkerts-Landau and Takatoshi Ito 1995).
- Economic literature over the period 1990s-2000s emphasized that variations in the terms of levying a charge on trade-related transactions provided a swift means of dodging a tax levied on currency only. Accordingly, most debates on the issue have shifted towards a general financial transaction tax, which would capture such prospects. By 2010, the Basel II and Basel III accords aimed at improving international banking standards, even though orthodox economic analysis has tended to reject the application of such regulatory criteria to the same degree as the "Chicago School" has persistently held.
- In the early 2000s, France and Belgium sought to implement a Tobin tax amendment. In addition, in July 2005, former Austrian chancellor Wolfgang Schüssel advocated for a European Union Tobin tax to ground the EU's financial structure on a more stable and independent foundation. However, the proposal was rejected by the European Commission (Spiegel International 2021)[1].
- In July 2006, in a comprehensive study, analyst Marion G. Wrobel (2006) evaluated the differing experiences of several countries with financial transaction taxes and stressed the Swedish case where the revenues from taxes were rather disappointing.
- Canada was the first country in the G20 group to formally accept the Tobin tax. On 23 March 1999, the House of Commons of Canada approved a resolution which authorized the government to "enact a tax on financial transactions in concert with the international community". However, ten years later, in November 2009 at the G20 finance ministers' summit in Scotland, the representatives of the minority government of Canada publicly argued against the House of Commons resolution of 1999.
- In November 2008, at the G20 "Summit on Financial Markets and the World Economy", participating countries recognized by and large that financial crisis was not merely an aberration that could be fixed by fine-tuning the system as there was no international mechanism capable of coping with and preventing global financial crises. The representatives concluded that major changes were necessary in the global financial system to provide oversight, reduce risk, and offer an early warning method of forthcoming financial crises (Dick K. Nanto 2009).
- In September 2009, French president Nicolas Sarkozy brought up the issue of a Tobin tax again, suggesting it should be adopted by the G20. On 7 November 2009, Prime Minister Gordon Brown also stated that G20 should consider a tax on speculation, although he did not indicate that such a tax should be on foreign

[1] **Spiegel International.** 2021. https://www.spiegel.de/international/europe/ (accessed October 30, 2021).

currency trading alone. Despite these efforts, the BBC reported that there was a negative reaction to the idea among the G20 (BBC World News 2021)[2].

- In 2005, the NGO "Stamp-Out Poverty" in the United Kingdom developed the Tobin tax idea into a modern proposal. The proposal explicitly favoured a mechanism designed solely as a means of raising development revenue. To explore the feasibility of such a tax, the Stamp-Out Poverty NGO hired the firm Intelligence Capital in London. The Intelligence Capital found that "a tax on the pound sterling wherever it was traded in the world, as opposed to a tax on all currencies traded in the UK, was indeed feasible and could be unilaterally implemented by the UK government" (quoted in Stephen Spratt 2006).
- The Sterling Stamp Duty has been one of the most highly structured hallmarks in the world. It was thought to be set at a much lower rate than that Tobin had envisaged in 2001. Its supporters claim it would not have affected foreign currency markets and could still raise large sums of money. As in 2007 the global currency market grew to £400,000 billion per annum – which is equivalent to $3,200 billion a day – with the trade in sterling worth £34,000 billion a year (Bank of International Settlements 2021)[3], a sterling stamp duty set, say, at 0.005% would have raised revenue around £2 billion a year. In addition, in November 2007, the All Party Parliamentary Group for Debt, Aid and Trade published a report on financing development. The report recommended that the UK government should undertake rigorous research into the application of a 0.005% stamp duty on all sterling foreign exchange transactions, in order to raise the additional revenue needed to pay for the Millennium Development Goals (Spratt 2006; HM Revenue & Customs 2021[4]).
- On 23 November 2009, the former Prime Minister of Belgium and first permanent President of the European Council Herman Van Rompuy advocated for a European version of the Tobin tax. This tax would go beyond financial transactions as "all shopping and petrol would be taxed". However, his sister Christine Van Rompuy countered him and suggested "any new taxes would directly affect the poor" (European Council 2010)[5].
- By 11 December 2009, European Union leaders articulated their broad support for a Tobin tax in a communiqué sent to the International Monetary Fund. Likewise, on 29 June 2011, the European Commission called for Tobin-style taxes on the EU's financial services sector in order to generate direct revenue, starting from 2014. Subsequently, the EU financial transaction tax (EU FTT) was a proposal made by the European Commission in September 2011 to introduce a financial transaction tax within the 27 member states of the European Union by 2014. The tax would only impact financial transactions between financial institutions, with the charge being between 0.01% across derivative contracts and

[2] **BBC World News.** 2021. https://www.bbc.com/news (accessed October 30, 2021).
[3] **Bank of International Settlements.** 2021. Statistics: About Foreign Exchange Statistics. https://www.bis.org/statistics/about_fx_stats.htm?m=6%7C381%7C674 (accessed November 01, 2021).
[4] **HM Revenue & Customs.** 2021. https://www.gov.uk/government/organisations/hm-revenue-customs/ (accessed November 01, 2021).
[5] **European Council.** 2021. https://www.consilium.europa.eu/en/european-council/ (accessed November 01, 2021).

0.1% against the exchange of shares and bonds. According to the European Commission, the FTT could raise €57 billion every year, of which around €10bn (£8.4bn) would go to Great Britain, which has Europe's largest financial centre in London. At the same time, the Commission suggested to reduce existing charges that were imposed by the 27 member states (European Council 2021; Spiegel International 2021).

- For advocates of a Tobin tax, there is a wide range of opinions on who should administer a global Tobin tax and for what purposes the revenue should be used. In early November 2009, at the G20 finance ministers' summit in Scotland, the British Prime Minister Gordon Brown and France's President Nicholas Sarkozy suggested that revenues from a global financial transactions (Tobin) tax could go to the world's fight against climate change, especially in developing countries (European Council 2021).
- Being faced with stiff resistance from some non-Eurozone EU countries, particularly United Kingdom and Sweden, a group of eleven EU member states began pursuing the idea of utilizing enhanced co-operation to implement the tax in states that would wish to support the initiative and participate. The proposal was approved by the European Parliament in December 2012 and by the Council of the European Union in January 2013 (European Council 2021; Spiegel International 2021).
- In 2009, officials at the Central Bank of China proposed an overhaul of the global monetary system in which the special drawing right (SDR) would eventually replace the U.S. dollar as the world's main reserve currency. Their goal was to adopt a reserve currency that is disconnected from a single country (the United States) and would remain stable in the long-run to foster economic stability, thereby lessening the financial risks caused by the volatility of the U.S. dollar. To accomplish this objective, the Chinese officials advocated for a new world reserve currency system based on a basket of currencies instead of just the U.S. dollar. Moreover, in March 2016, Chinese policy makers drafted rules to levy a genuine currency transaction tax, which was labelled as a Tobin tax in financial media. This was widely viewed as a warning to curb shorting of China's currency, the yuan. However, it was expected to keep this tax at 0% initially – calculating potential revenue from different rate schemes and exemptions – and not to impose the actual Tobin tax unless speculation increased.
- In 2016, Democratic Party POTUS nominee Hillary Clinton included in her political platform promises to impose "a risk fee on the largest financial institutions" and "a tax on high-frequency trading". Besides, Clinton mentioned separately her intention to "close corporate and Wall Street tax loopholes (…) like inversions that reward companies for shifting profits and jobs overseas" (The Office of Hillary Rodham Clinton 2016).

Financialization began with the fall of the Bretton Woods system and the rise of neoliberalism. Since the early 1970s, financialization has occurred as countries have shifted away from industrial capitalism. The term also describes not just the increase of the market and financial sector's presence but the increasing diversity of transactions and market players as well as their intersection with all parts of the economy and

society. The financial industry, with its emphasis on short-term profits, has played a major role in the decline of manufacturing in most countries worldwide. However, a booming financial services industry has led to growth in other sectors, and financialization has resulted in a massive increase in the amount and diversity of offered financial instruments.

Since the beginning of financialization in the 1970s and 1980s, the overall value of global financial assets has skyrocketed. In 1990, the value of global financial assets rose at $56 trillion, which is equivalent to 263% of global GDP. Twenty years later, that number reached a shocking $219 trillion (Bank of International Settlements 2020). In recent years, deregulation and new financial technologies have had a major impact on the financial sector. Even after the 2008 recession, the laws regarding the methods and amount banks are able to borrow are relatively lax, creating further liquidity. The last decade, in particular, has seen a massive increase in securitization which, in practice, occurs when an initiator packages a pool of financial assets into one group and then sells this group of interest-bearing repackaged assets to investors. As financial institutions and their clients are constantly seeking new avenues for profit, the financial instruments they offer have grown more and have become more diverse. Besides, more people have access to financial information and the market than ever before due to the internet (Thomas I. Palley 2007; Charles Potters 2021).

The shift to "shareholder capitalism" over the past five decades provides an important framework for understanding better how financialization has been operationalized. Other research focuses on the ways in which large companies have come to dominate economies due to financialization. Their dominance, according to research authors, is primarily a result of their ability to cater to and play in financial markets. Relatedly, financial markets exhibited explosive growth because, simply put, there were more than $6 of foreign exchange trading for every $1 of foreign trade in 2016 (Bank of International Settlements 2020). According to the most recent data published by the BIS, for the first half of 2020, the total notional amounts outstanding for contracts in the derivatives market exceeded an estimated $640 trillion; or, by comparison, over 30 times more the U.S. GDP – that was almost $21 trillion in the same year. The playing field is not a "level" playing field for small firms simply because they are unable to produce the massive monetary returns demanded by large investors.

Critics of financialization focus on its emphasis on short-term profits and its deleterious effects on economies, societies, and political organizations. Indeed, the roots of financialization run deep, and its causes stretch far beyond the banking and financial services sectors. Others contend that financialization has led to "unproductive" capitalism, and transnational corporations (TNCs) have been playing a key role in the ongoing globalization process. Indeed, it is not just the international banks that are involved in the global aspects of financialization, due to much of global investment by multinational and transnational corporations have highly financialized components to them. The growth in power and influence of transnationals and multinationals under the forces of globalization has also been seen as being one of the most significant developments because their strategies largely determine the volume and nature of trade flows, the levels and types of foreign direct investments, and financial movements (C. Fritz Foley, James Hines, and David Wessel 2021). Still, Keith Cowling and Philip R. Tomlinson (2011) – among many others – consider various industrial policy-

governance related concerns (for instance, transnational corporations can accumulate or even exploit government resources while weakening the tax base).

Within such a global political economy environment, the subsequent sections of the paper focus on international tax proposals and analyze rationales and challenges for adopting a compound global tax. Such a compound global tax instrument would mainly need to focus on two tiers. One, based on the U.S. President Joe Biden's suggestion, which would need to close off tax avoidance and tax evasion options for large multinational and transnational corporations; and the other, based on the Tobin's tax proposal, would seek to eliminate the speculative dimension of international foreign exchange dealings.

2. International Tax Proposals

The Tobin tax was initially recommended in 1972 as a means to "throw some sand in the wheels of speculation". The intent of the proposal was threefold: (1) to reduce foreign currency speculation; (2) to make national economic policies less susceptible to external shocks; (3) to raise substantial amounts of revenue for international organizations. Moreover, the enactment of the proposal would need to be agreed internationally and be imposed multilaterally since one country acting alone would find it very difficult to implement the Tobin tax. Without such an international arrangement, foreign exchange dealings would quickly shift to those jurisdictions which did not levy the tax. As Jane Inch (1996) suggested, "the collection by private clearing systems would be difficult to organise without an international supervisory body" (p. 207). Having the United Nations, for example, to manage a Tobin tax would solve this problem and would give the institution a large source of funding independently from donations by participating states.

There have also been national initiatives about the tax. Indeed, most of the actual application of Tobin taxes, whether in the form of a more general financial transaction tax or a specific currency transaction tax, has occurred at a national level. Yet, whilst finding some support in countries with strong centre, centre-left, or left-wing political parties and groups, such as in Latin America and France, the Tobin tax proposal came under much criticism from both mainstream economists and conservative or right-wing governments. Especially those with liberal market systems and a large international banking sector, which contended that not only would it be impossible to implement this policy intervention but it would also undermine foreign exchange markets.

Bearing in mind that a uniform tax rate would call for an international agreement, Tobin himself recommended that those countries applying the tax, which would also generate most of the revenue, could themselves levy the charge on financial transfers to those smaller nations which did not utilize it. Nevertheless, identifying the taxable financial transactions, taxing international short-term capital flows, and actually collecting the tax could pose challenges. To overcome them, David Felix (1995) claimed that tax collection should "at least initially be quite manageable" (p. 207). He went on to acknowledge that "Over time, evasive innovation could become more of a problem. Transnational companies could devise intrafirm accounting gimmicks to transfer funds, transactions could be shifted to offshore tax havens, etc. Would the tax

loom large enough for these institutions to incur the cost and risk of such evasive activity on a substantial scale? '*Quien sabe*'?" (Felix op. cit., p. 207).

A key problem with Tobin's tax is tax avoidance: market participants would have an incentive to substitute a financial transaction choice that is subject to the tax with another that is not subject to it (Tobin 1994a, b; 1996). Being able to make such substitutions, financial markets would innovate to avoid the tax. Hence, the real issue is how to design a tax that takes account of all the methods and limits of substitution that financial investors have ben utilizing by changing their patterns of activity to avoid the tax. Taking account of these considerations implies a tax that is bigger in scope and magnitude, and pushes the design towards a compound global tax that clearly incorporates the tax suggested by Joe Biden in 2021. Following Palley (2000); (see also Philip Arestis and Malcolm Sawyer 1998), there are four important benefits that emanate from such a compound global tax.

> First, it is likely to generate significantly greater revenues. Second, it maintains a level playing field across countries so that no individual policy instrument is arbitrarily put at a competitive advantage against another. Third, it is likely to enhance domestic market stability by discouraging domestic asset speculation, (tax avoidance and tax evasion). Fourth, to the extent that advanced economies already put too many real resources into financial dealings, it would cut back on this resource use, freeing these resources for other productive uses. (… Such substitution is costly both in resource use and because alternative mechanisms may not provide exactly the same services …). Thus, just as a free market system provides an incentive to avoid a Tobin tax, so too it automatically sets in motion forces that deter excessive avoidance (Palley 1999).

Tax avoidance strategies and loopholes have led a number of countries worldwide (for instance, "tax havens") to race to the bottom to lower their taxes on large corporate profits –undermining their fiscal capacity to fund public investments or increasing their reliance on government revenue from other sources, such as, salaries, wages, and import duties. These countries use "tax finessing" strategies by offering zero or extremely low (usually low single digit) tax rates to multinational and transnational businesses, or set up leaky domestic tax laws that allow these large corporations to use tax havens to reduce their global effective tax rates. Tax haven countries (e.g., Switzerland, The Bahamas, Cayman Islands) can benefit by attracting capital to their banks and financial institutions and creating jobs for the country's residents, which can then be utilized to build a thriving financial services industry. The laws of these *tax-saving* jurisdictions aim to incentivizing large companies to keep their headquarters in them as their home country or country of residence irrespective of whether they do in fact business there (Corporate Finance Institute 2015-2021; Cody Kallen 2021; Jeremy Litton 2021).

In 1998, the Organization for Economic Cooperation and Development (OECD) presented a number of considerations to identify tax haves. Some of the most common points are:

- No or nominal tax on relevant income;
- Lack of effective exchange of information and transparency;
- No substantial economic activities.

However, some countries use more than one approach. For example, Switzerland and Luxembourg famously operate as tax havens, but they are also source countries where companies do real business. Sporadic attempts to fix the problem failed. These efforts were mostly too often driven by advanced countries trying to discipline tax havens. The attempts often focused on developing countries' tax regimes, but ignored the similar regimes of rich countries like Switzerland, Luxembourg, and Ireland. They also failed miserably to address the fact that high-income countries propped up the tax system with domestic laws that allow their multinationals and transnationals benefit from using tax haven jurisdictions (Corporate Finance Institute 2015-2021).

As stated in Organisation for Economic Co-operation and Development (2021), such tax-avoidance practices cost countries between $100 billion and $240 billion in lost tax revenue annually. According to statistical information and publications (Corporate Finance Institute 2015-2021; Organisation for Economic Co-operation and Development 2021 – among other sources), some of the 50 largest U.S. companies, including Microsoft, IBM, Google, Apple, General Electric, Pfizer, Nike, Exxon, Mobil, Chevron, Walmart, and the financial institution Goldman Sachs, have stashed. This hideaway was roughly $1.8-2.2 trillion offshore by utilizing tax havens to lower their effective tax rates well below the statutory tax rates enforced in the U.S. and in other developed countries. Reporting and hearings in the U.S. and the U.K. showed by what means Google, Apple, Pfizer, Starbucks, and other profitable companies had lowered their effective tax rates into single digits with "tax-saving" practices by shifting profits to tax havens. Similar "tax-saving" methods and practices have been utilized by large corporations in Europe and elsewhere. However, media commentators, reporters, and civil society ensured that policy makers and the public would not ignore the issue. As a result, it became clear that failing to confront this massive problem was no longer an option given that the Great Recession and long-running fiscal challenges coupled with the growing inequality and the recent devastating pandemic considerably increased the pressure on fiscal budgets (Corporate Finance Institute 2015-2021; Kallen 2021).

This latest large-scale attention helped reach an initial "in-principle" agreement, which includes all OECD countries, the European Union, as well as China, India, and low-tax countries where U.S. multinational and transnational corporations have been shifting their profits. On 8 October 2021, world leaders disclosed that 136 countries and jurisdictions agreed to a new framework for taxing multinational and transnational firms. In fact, more than 90% of world output is covered. This is a once-in-a-century declaration that has countries welcoming a more constructive way to approaching the complicated economics and politics of taxing cross-border business. With fiscal budgets strained after the COVID-19 pandemic, most governments worldwide want more than ever to discourage multinationals from shifting profits and tax revenues to low-tax jurisdictions irrespective of where their transactions are undertaken. The 136 countries also concurred on the global minimum tax rate of 15% proposed by the U.S. President Joe Biden as part of a worldwide effort to restrain multinational companies from avoiding taxation by shifting their profits to jurisdictions with low rates. Under the agreement, countries could tax their companies' foreign earnings up to 15% if they remain untaxed because of subsidiaries in other countries (Kallen 2021).

The October 2021 accord is an important attempt to address challenges, presented by a hyper-globalized and increasingly digital world capitalist economy, in which profits can be relocated across borders and companies can make online earnings in places where they have no taxable headquarters. Technical details would still need to be worked out, but it could take at least a couple of years before the agreement comes into effect. The deal also addresses how states can tax the proceeds of "digital services" like advertising on global platforms or streaming services (by tech giants, such as, Amazon, Google and Facebook). Over the past years, many countries considered, proposed, or implemented digital service taxes (DSTs) as profits flowing from digital services were often being entirely untaxed. Nevertheless, uncoordinated DSTs have led to an incoherent and disjointed patchwork of taxes and have raised the possibility of double taxation (Litton 2021).

This latest agreement represents a major change for tax competition laws as its global outlook would remove incentives to use accounting and legal methods to shift profits to jurisdictions with low tax systems because the profits would be taxed at home anyway. Plainly, the minimum global tax and other provisions aspire to end decades of tax competition efforts between national governments to attract foreign direct investments. Although many countries may be seriously rethinking of their tax policies for multinational and transnational corporations in light of this minimum global tax, their governments can still set the local corporate tax rates they desire. However, tax experts assert that a voluntary approach could work if it is adopted by advanced countries where multinational and transnational firms have their headquarters, by making sure that even if these large companies avoid taxes by moving profits to overseas subsidiaries, those profits would still be taxed at home up to the minimum global tax rate. Furthermore, the new deal allows countries to tax some of the profits that arise within their economies in a non-discriminatory way and gives taxing privileges to avoid double taxation. In effect, difficult short-term politics could be overcome to achieve policy goals with large long-term benefits (Kallen 2021; Litton 2021).

3. Rationales and Challenges for Adopting a Compound Global Tax

Three rather different, but not mutually exclusive, sets of reasoning have been advanced in support of a compound global tax. The first reasoning is the huge volume of transactions carried out by multinationals, transnationals and major financial institutions, which is seen to have a quite adverse effect on the world economy. This large volume of foreign exchange dealings is viewed as generating high volatility in exchange rates, intensive short-termism and speculative economic excess (overtly, "a wild orgy of financial speculation"), with consequent detrimental effects on real economies. Crucial to this line of argument is the capacity of the compound global tax to reduce speculation and thus volatility. However, based on the current composition of foreign exchange dealings, the U.K. would collect near to 30% of the total tax revenue, U.S. almost 16%, Japan 10%, and Singapore 7% in 2019 (Bank of International Settlements 2020).

The second reason for proposing a compound global tax is simply its revenue raising potential, especially for financing development goals. In addition to the 15% tax on large corporations, a Tobin tax alone of, say, 0.05% could have raised over

$150-200 billion a year during the past three decades. Such a tax would be "largely invisible and totally non-discriminatory" (United Nations Development Programme 1994, p. 9). These tax receipts could be used for worldwide investments. Furthermore, the financial sector and transnationals are both undertaxed. In addition to the financial sector, the large transnational companies are undertaxed because they have been utilizing intelligent and sophisticated methods and loopholes of tax avoidance and tax evasion.

The third rationale concerns the possibility of enhancing the autonomy of national economic policy, and reducing the constraints on such policy imposed by the financial markets and the power of transnational and multinational corporations. Thus, policy makers and others concerned with the volatility of international markets along with those who attach significance to public financing of world development now see a compound global tax as important. Such an argument stems from an increasing realization that markets do not operate in as an efficient manner as portrayed in, for example, the rational expectations literature. It is recognized that free foreign exchange markets can suffer from several problems. Therefore, the help of a concerted policy action can boost growth and, at the same time, help rebalance economies and societies.

It is clear that there are two distinct traditions in the analysis of competitive markets. The first holds that international markets have "won" over state intervention in the foreign exchange dealings, and the current wisdom is now a movement towards realizing this victory. Neoliberalism arose as an answer for how national governments should act in the face of the market power that had been demonstrated. Yet, the neoliberal agenda, far from being one that worships free markets, is one that has replaced the policy actions of governments with the rule of transnational corporations. By retreating from government intervention in the domestic and international economies and glorifying the rights of corporations to act as "persons" in the economic sphere, neoliberalism has ceded political power to those who have economic power. According to Friedrich A. Hayek (1944), "Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends" (p. 95). The assumption of rational expectations held by market participants merely serves to reinforce this statement.

The second, the Keynesian/post Keynesian analysis, contends that asset bubbles and financial crises are an indication of the rather chaotic nature of the economy, the instability which arises from speculation, and the suggestion that long-term commitment should be encouraged. In this second analysis, the tendency of firms to grow ever larger and to come to hold market power reduces the natural inclination of competition to lower prices. This has variously been described as, for example, "noise" trading and trading motivated by price signals. The key issue is whether market prices are based on economic fundamentals or bubbles, fads, herd behaviour and coercive market structures. In fact, markets have become increasingly concentrated over the past hundred and twenty-five years as traditional capitalism has given way to finance capitalism, and multinational and transnational corporations have grown in size and scope (Vladimir I. Lenin 1916).

The compound global tax can be used to generate revenue streams for countries that see a great deal of short-term capital movement. Therefore, the compound tax

could be used as one of several policy instruments to disincentivize profit shifting and discourage speculation and unstable capital flows. However, the application of the compound global tax could raise questions of the allocation of the proceeds of the tax. A number of proposals have been put forward on the way to distribute the tax proceeds. To the extent that it is the IMF or World Bank who are the intermediate recipients, a further proposal may be to enhance the lending capabilities of these institutions especially to less-developed and developing countries, which could embrace growth and development, infrastructure, poverty eradication and other needs, and anti-pollution projects. Part of the international agreement could clearly be that a proportion of the tax collected is paid over to an international body. In addition, used for agreed development and environmental purposes, in one way, this collection can be comparable to the collection of value-added tax in EU member countries with the equivalent of 1% of turnover being handed on to the European Union (Kallen 2021).

The workings of the compound global tax could be reinforced by making the approval of such a tax to be a condition of membership of the IMF and the BIS, though that may not be sufficient to prevent the growth of offshore and other shady dealings. A small country may have so little to gain from membership of the BIS as compared with the potential revenue for the location of offshore financial markets. Although the offshore locations are competing, based on low or no tax, there is the question of how much revenue could be generated. It can also be asked whether the tax could be levied on the participants, based on their location rather than on the location of the transaction (Litton 2021).

One common argument raised against the compound tax relates to its possible distortionary effects. The argument is straightforward with a compound global tax, which might actually entail lower quantity and fewer resources being allocated to that particular market. There can be little doubt that the introduction of a compound global tax would be a major economic and political development but, at the same time, it would have to be introduced on a "big bang" basis. Otherwise, foreign exchange dealings would quickly move to those jurisdictions that were not applying the tax. Still, many would vigorously oppose the institution of a compound global tax considering such a charge as an interference in the market mechanism that could make it more inefficient and dampen capital investment. It could be argued that volatility may not be a result of speculation but rather of balance-of-payments problems and uncoordinated national monetary policies, and that speculators actually include companies changing currencies to protect themselves against losses from a depreciation of their currency holdings. It could also be asserted that the market is now too large for any single private or public party to sway, and that the activities of speculators may contribute to the liquidity of market participants. In view of the above, it is likely that the proposed compound global tax, in political and practical terms, would be a "non-starter".

Furthermore, the final incidence of the compound global tax is considerable for at least three reasons. The first is the extent to which the compound global tax falls upon those involved in international trade or in long-term foreign investment would determine the degree to which the tax affects world trade and investment. The second is the overall impact of the compound global tax on the level of aggregate demand.

The third is the distributional effects of the compound Tobin tax that would clearly depend on the final incidence of this global tax. Nonetheless, there may be clear political obstacles to the introduction of such a compound global tax. Two main challenges stand out. One is the international coordination, which would be required; and second, the political power of both the financial sector and transnationals. There is widespread agreement that the compound global tax would have to be implemented on a coordinated international basis, through a concrete international agreement, giving it its global characteristic. Still, revenue collection would also be a national responsibility. The obvious difficulty that arises here is obtaining international agreement over the introduction and the exact rate of the compound global tax, when the revenue from the tax might be unequally distributed across countries. It could also be expected that the economic and political influence of multinational and transnational corporations and the financial markets would be reduced.

4. Concluding Remarks

It seems that there are two major problems that have emerged from the free market capitalism obsession, which has swept the globe: the "Keynes Puzzle" and the "Polanyi Puzzle". The "Keynes Puzzle" is perhaps the most troubling of the two for it portends to the boom-bust cycles that have been accentuated as the globalization process has caused further integration. The more integrated and intertwined economies become, the more they move in concert with one another. Consequently, investment booms generate over-investment due to irrational exuberance and the invariable refrain that "this time it is different". When history repeats itself, as it always does, the ensuing bust due to irrational retrenchment only accentuates the downturn. Governments ought to regulate financial markets in order to keep these movements in check. The "Polanyi Puzzle" also vexes the markets. Complete *laissez-faire* is doomed to failure since it "could not exist for any length of time without annihilating the human and natural substance of society" (Karl Polanyi 2001, p. 3).

Considering that a sophisticated understanding of the needs for beneficial intervention is a requisite to appropriate selection of thorough, technically proficient, and well-planned strategies and policies, the proposed compound global tax is a feasible option for raising substantial sums of revenue. It could substantially reduce the volume and unrestrained fluctuations of foreign dealings, with significant resource savings and the hope that it would diminish the volatility of global markets. It can also strengthen existing anti-inversion rules and regulations to prevent large multinational and transnational corporations from effectively exploiting tax avoidance and tax evasion options. A well-designed international tax reform proposal would alleviate such problems, not exacerbate them. Still, its introduction can face formidable political problems and obstacles and its implementation would need to be carefully arranged and managed. In this sense, we should conclude by suggesting that the compound global tax by itself cannot perform miracles. It would seem more appropriate to use the compound global tax as one of several policy instruments that could be effectively deployed to disincentivize profit shifting, and discourage speculation and detrimental short-term capital flows.

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