The Tobin Tax: a reformist utopia

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Heikki Patomäki. Democratising Globalisation: The Leverage of the Tobin Tax , Zed Books 2001 Reviewed by Rachel Hardcastle

This book was conceived as a response to the Asian and Russian financial crises of 1998. Its author is an academic specialist in international relations who is involved in ongoing attempts to gain a platform for discussion of the ?Tobin Tax? within Europe and the EU. Democratising Globalisation was written partly to provide a theoretical basis for this campaign, organised by the Service Centre for Development Cooperation in Helsinki and carried out in conjunction with ATTAC in Paris.

The so-called Tobin Tax originated in a proposal by the economist James Tobin, first made in 1972 and re-elaborated in 1978, to curb the volatility of the speculative dealing on the foreign exchange markets by the imposition of a low deterrent tax. The proposal has been taken up enthusiastically by some reformist strands of the anti-globalisation movement, notably ATTAC (Association pour une Taxe sur les Transactions financi?res pour l?Aide aux Citoyens).

The book falls into three sections: Chapters 1 to 3 are concerned with the asymmetric expansion of finance capital and its destabilizing effects on world markets, along with an analysis of the various financial ?actors? and of the power structures of global finance. Chapters 4 to 6 address the technical and political feasibility of implementing a tax along the lines proposed by Tobin. In chapters 7 and 8 the author expands on his vision of the emancipatory and democratising potential of his proposed tax regime, and addresses some of the problems the tax cannot solve on its own. Throughout, Patomäki is concerned to insist on the illegitimacy and falsity of the classical liberal and neo-liberal economic models, particularly as established by Friedman in his essay ?The Case for Flexible Exchange Rates? (1953) as constituting a fundamentalist orthodoxy for the functioning of capitalism since the abandonment of the post-war Bretton Woods arrangements in 1972.

It needs to be said at the outset that this book is a difficult read. This is due partly to the style which, at worst, veers towards post-modernist impenetrability: ?Hegemony is based on particular ways of constructing the plausibility of claims and interpretations in contextual fields of communication. It is not primarily a property of actors but of relational, discursive practices reproduced by positioned actors in a concrete world historical context?. In addition, despite Patomäki?s explicit adoption of a scientific realist position, there is a pervasive air of unreality surrounding many of his arguments, due in large part to the difficulty of linking the sterile world of his ?actors? (never classes) and ?contextual fields? to lived experience, even where he is talking of the need to redress the balance between the world?s powerless many and over-powerful few. This air of unreality becomes more pronounced in the later chapters, where economic and structural analyses give way to virtually unfettered wishful thinking. Nonetheless, as an exposition of the thought of a significant and would-be dominant strand of the anti-globalist movement, it must warrant critical attention.

The 20th century resurgence of finance capital is traced by Patomäki through the emergence of unregulated offshore havens and the Eurodollar market in the 1960s, the abandonment of fixed exchange rates in the early 1970s, and the aggressive deregulation and liberalisation of the 1980s and 1990s. The decisive step was taken in 1971, when the US withdrew unilaterally from the fixed exchange rate mechanism to help boost a flagging US economy. This mechanism had been in place since the Bretton Woods agreement of 1945; a system of fixed exchange rates, pegged to a dollar set to the gold standard, was intended to provide stability for the resuscitation of the world economy after the devastation of the Second World War. Once the dollar was floated, all major currencies followed suit, opening up the potential for global speculative trading in currencies.

He illustrates the manner and degree to which market liberalisation brought about a rapid and increasing disproportion in the weight of finance capital in relation to productive capital and national GDP. This foreign exchange (forex) trade and the trade in other financial instruments was facilitated by increasing deregulation, resulting both in an explosive growth of financial capital, while production stagnated or actually decreased, and in increased exchange rate volatility. The figures presented by Patomäki underline the scale of this growth: standing at $18.3bn per day in 1977, forex trading reached a level of $1,599bn in 1998, while, in a similar time-frame, cross-border transactions in bonds and equities rose in the US from 4% to 230% and, in Italy, from 1% to 640%, of GDP. All of this has had a highly destabilising impact, with currency and financial crises having huge effects in the real world, regardless of the underlying state of the non-financial economy.

This resurgence of ?high finance? has been deliberately instigated by the US, the UK and the anti-Keynesian neo-liberal economic orthodoxy set on its current course by Friedman and his acolytes. The system is crisis-ridden because dealing in foreign exchange and arbitrage involves short-term calculations, gambling on exchange rates and returns rather than investing in long-term productive ventures, a gambling facilitated by the easy availability of credit (leverage) to finance the deals. The system is crisis-ridden in another, systemic way: the financial markets cannot perpetuate themselves without sucking in further resources from non-financial sectors of the economy. Elements outside the market (socialised pensions, welfare provision, etc) must be commodified and brought within it.

Patomäki offers a model of the functioning of the markets in terms of the sociology of the financial ?actors? and institutions, who are both the product and the perpetuators of the closed system of neo-liberal orthodox economics, the application of which to the open and indeterminate systems of the real world increases volatility and instability. The ?actors? comprise banks, brokers, various types of fund, wealthy individuals, and multi-national corporations. Apart from wealthy individuals, the ?actors? are collective, and defined by Patomäki as ?a rule-based, organised system of relational practices of individual agents?. He elaborates a description of the socialisation of these agents largely within the framework of orthodox economic theory acquired in the elite academic institutions of, primarily, the US and the UK. Their adherence to the neoliberal economic model is sustained by a system of incentives to encourage short-term speculation over long-term investment, namely the vast bonuses given to the managers of well-performing funds. Since, however, this form of wealth generation is a zero-sum game, the winner in a speculative coup gains at the expense of losers and there is no overall growth, the orthodoxy to which the agents are committed also demands a constant influx of new funds into the financial markets, through the transformation of other assets into finance capital, through privatisation and the opening up of new markets.

The global system, in which the actors / agents flourish, was devised principally by the US and the UK. Notwithstanding its global reach, it must still function in the context of a world divided into nation states, and the power imbalance between them, notably the US and everyone else, has been intensified by the workings of the financial markets. Despite its non-financial economic problems in terms of declining real wages, balance of payments deficit, etc, the dominant position of the US has enabled it to dictate the terms on which the financial markets are structured, ?shift[ing] the basis of US hegemony towards the more indirect structural power of global financial markets?. In other words, the will of the US ruling elite could be ?naturalised? as the functioning of impersonal market forces. The UK positioned itself with the US early on, first in the deliberate cultivation of the London Eurodollar markets in the late 1950s and early 1960s, to provide an alternative centre for trading in dollars and a site for external expansion by US multinationals.

How should the instability and injustice of the current system be addressed? The enormous volume of forex trading, projected to be $2,400bn per day in 2004, in theory allows the raising of significant levels of tax income at even a very low rate of taxation. In Chapter 4, Patomäki turns to setting out the case for a tax on currency trading based on that proposed by Tobin but with certain modifications. The modifications aim to make it more all-embracing and effective and to give it a redistributive and democratising role which was certainly not part of Tobin?s original plan, he was interested primarily in stabilising the markets within a Keynesian framework and in tipping the balance away from the markets in favour of national autonomy. Patomäki sees the benefits of a tax on currency transactions as threefold: it will restore a measure of stability to the financial markets; it furthers the concept of ?justice as fairness? by making speculators and investors bear the costs, and risks, which currently fall on the sections of society least responsible for the markets; and it can, in its decision-making and institutional bodies, embody democracy and empowerment on a global scale.

Tobin saw his tax as being administered by the IMF, but the IMF, World Bank and other such institutions are now too tainted by complicity with the neoliberal project to be credible. Patomäki sees the need for a new Tobin Tax Organization (TTO) initially linked to, and supportive of, the United Nations, but ultimately, perhaps, even superseding the UN. (It is, perhaps, in his elaboration of the functioning and role of not only the TTO but also of the bodies of a rejuvenated UN in pp.199-213 that Patomäki most notably sets off on the yellow brick road to Utopia: we are, most definitely, not in Kansas any more.) Tobin saw his tax as viable only if universally adopted, but Patomäki puts forward a modified version which he hopes would overcome the problems envisaged by Tobin, even if only a small number of states initially agree to form a ?Tobin Tax Zone? (TTZ). He considers that this would be possible with as few as 30 countries, even if the major financial centres were excluded by the initial refusal of the US and the UK to join, once their combined share of the forex markets was greater than 20 per cent.

Tobin?s arrangements, as they stand, would be ineffective against transfer of monies offshore, but Patomäki?s system allows for a low basic rate (initially perhaps only 0.05 per cent) on transactions internal to the TTZ coupled with a punitive rate on cross-border transfers. The markets would have to be highly regulated, with all methods of tax evasion and avoidance rigorously cut off and prohibited. The tax raised would be returned largely to the state in which it was levied, but some would be redistributed and some put into a Global Intervention Fund, a reserve for the TTZ countries to help shore up currencies in particularly unstable conditions. Some, of course, would also have to be set aside for the huge transnational regulatory bureaucracy needed to police the system. The candidates for initial participation in the TTZ are the EU, Canada (which has expressed agreement in principle with the Tobin tax) and those countries hardest hit by market fluctuations in recent years, e.g., Brazil, South Korea, perhaps even Japan.

Patomäki goes into considerable detail in outlining the administrative and political mechanisms for his modified version of the Tobin tax, which is intended to restore much-needed stability to the financial markets and to bring some relief of the sufferings, and redress of the powerlessness, of the world?s poorest groups. He cites the international campaign to ban landmines as an example of an effective but, initially, non-universal agreement between states. For him, the tax is not just pie in the sky: ?Any critical, emancipatory argument would be incomplete without a concrete, practically realisable Utopia, which informs hope and political action. A Tobin tax regime is such a Utopia.? The Latinized word Utopia? is famously ambiguous. It can transliterate either the Greek eutopia, ?perfect place?? or outopia, ?no place?? the one a possibly realisable ideal, the other possible only in the imagination. Patomäki intends the first alternative; why do we say that his proposals must be relegated to the second?

For all the author?s insistence on the real effects of marketisation, neoliberalism, the hegemonic activities of the US and the UK, the agency of states, and so on, his view of this reality is curiously incomplete. He writes as if he believes that the poverty and insecurity visited on an increasing majority of the world?s population is an unfortunate by-product of the functioning of capitalism, to be decried by states, rectified by reform and a return to the ?good capitalism? of investment in production from the ?bad capitalism? of currency speculation and financial bubbles. He completely side-steps the extent to which neoliberal policies are carried out deliberately and calculatedly in the interests of capital, not only by economic and political methods but by global war and terror. Landmines are also politics by other means, and it is notable that one of the glaring omissions from the list of signatories to the Treaty to ban their production is the US. Hopelessly optimistic towards the end of the Clinton era, when it was written, Patomäki?s perspective has become pure fantasy in Bush?s new world order, when not only sanctions, protectionism and covert ?dirty tricks?? but outright gunboat imperialism, are the order of the day.

In fact, although offering a structural and political analysis of the global financial markets, he does not fully raise the question of whose interests the system serves, apart from the personal and culturally-constructed interests of the ?actors? and the geopolitical interests of states. Yet the extraction of ever more profit, which is what the dominance of finance capital is all about, is surely the goal, and represents the interests of capitalism itself. That goal and those interests are being actively furthered by the governments of those very EU and ?hard hit? states that Patomäki sees as the core of his Tobin tax regime. Why should Schröder or Chirac care for the poor of Brazil or Japan when they are hell-bent on finding ways to impoverish their own working populations? No amount of increased liberal democracy will change that, the democracies of the mature EU states cannot even exert any meaningful control over their own governments, let alone on the world economy.

Although Patomäki talks about power, hegemony and empowerment, he never decisively engages with the basis on which power is wielded; states use power for hegemonic ends, ?financial actors? wield the power invested in them by their construction as agents of neoliberal orthodoxy and movers of money. The ?interests opposing the Tobin tax? (pp172-180) are, politically, the offshore centres and the state powers of the US and the UK. Together or singly, the US and UK have acted in the 1980s and 1990s to stifle opposition in the UN and the World Bank and to squash debate on the Tobin tax in the EU. ?Any given identity and interest is nothing more than frozen politics. Yet the powerful structures sustaining that identity and related interests of the London-Wall Street-Washington axis appear to be deeply sedimented and not easily changeable ... Perhaps a Big Crash or, at least, powerful external political forces and historical transformations are needed ...? And these forces? Presumably, the ?national parliaments ... [and] civil society actors [including] NGOs, non-national parties, labour unions, transnational religious movements, etc? who will be elected/delegated to the probouleutic chamber of Patomäki?s envisaged Tobin Tax Organization.

What Patomäki will not say is that the ?identity and interest? of the forces opposing the Tobin tax is that of capital itself; he will not say this because his answer to the problems brought about by global capitalism lie within the capitalist system itself, in its reform, not its overthrow. Reform will not work, cannot work. The effects of neoliberalism and privatisation are not by-products of capitalism but part of its logic. The role of the state is to facilitate the functioning of capital while ?managing? the inevitable protest from below,

whether through coercion or concessions. For the state, it is a balancing act: the level of political and economic oppression it feels free to impose depends on how much it thinks it can get away with, which in turn depends on the level of consciousness and solidarity of the oppressed classes and groups within society. The only gains against the neoliberal agenda in the last decade have been the results of mass action and the intervention of the organised working class, a combination that first burst upon the contemporary scene in Seattle. The only thing standing between the social gains, welfare, health, pensions, education, of European workers and the theft of those gains through privatisation is the co-ordinated mass action of the working class: Patomäki glosses over the fact that his two leading recidivists, the US and the UK, are also the two western powers which have had the greatest success in smashing organised working-class resistance under Reagan and Thatcher.
Capitalism, including finance capitalism, depends ultimately on the extraction of surplus labour from those that actually do the work, whether that work is directly productive, as in manufacture, or ancillary to production (directly, as in distribution or sale or, less transparently, in maintaining and reproducing the society in which the system functions). When it comes to the decisive balance of forces and relations of production under capitalism, and the generation of wealth over and above the economically marginal, those who do the work do not own or manage the means of production and those who reap the profits do not do the work. To put it at the most basic level, in such a system, power can only possibly exist in two classes, that which controls or that which carries out non-marginal production. It can only actually exist, while the system functions, in the former; while only the latter have the power to change the system. Changing means smashing, not reforming. Slaves in the ancient world dreamt of emancipation purely in terms of their becoming masters to others? enslaving others, but a capitalism in which the many turn tables by exploiting the few is not possible, in logic or in reality.

Here lies the core problem in Patomäki?s proposal. The only force in society capable of wielding the power necessary to make the markets submit to the Tobin tax is the globally-organised international working class. If that class ever organises itself so consciously and effectively as to dictate to the capitalist market and the states and institutions that regulate it, why on earth should it be satisfied with the fruits of a 0.05 per cent tax on currency transactions and a system that is basically a more cuddly version of capitalism? Why should a class with the resources of the world and the experience of mass, collective democratic organisation in struggle, limit itself to the footling levels of redistribution and democratisation envisaged by Patomäki?

Fundamentally, the problem with the Tobin tax boils down to this: as a reform to be carried out under capitalism, it will never be realised; as a goal to be achieved following the overthrow of capitalism, it is simply irrelevant.
