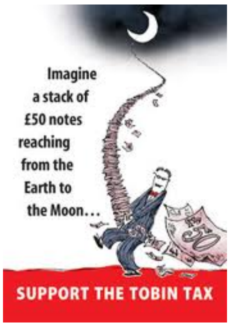
A sensible Tobin Tax [1]

Written by **Tim Worstall** [2] | Wednesday 8 January 2014



This might come as something of a surprise but there is, out there in the real world, a proposal to have a sensible Tobin Tax. As opposed to the deeply not sensible Tobin Tax as supported by the Robin Hood Tax campaign. That's a financial transactions tax which would be a completely appalling idea. The sensible one is in fact from China [3]:

> Britain?s bid to become a global hub for trading in Chinese assets has run into a major snag after a top Chinese official suggested a ?Tobin Tax?, a levy on financial transactions to curb capital flows. Yi Gang, director of the State Administration of Foreign Exchange, called for an ?in-depth study? of a Tobin tax, particularly on foreign exchange trades and flows of speculative hot money. SAFE is the world?s biggest fund, commanding the central bank?s $3.7 trillion in foreign reserves. ..... Mr Li, who is also deputy chief of China?s central bank, wrote in the Communist Party journal Qiushi that curbs may be needed to ensure an ?orderly? transition as the country opens up its internal capital markets and moves towards a free float for the yuan.

It's worth recalling what Tobin himself actually advocated. Back at the end of the fixed exchange rate system known as Bretton Woods he wanted to increase the power of governments over markets. To do so he advocated a small tax on all foreign currency transactions. This would slow down, or reduce, the amount of money washing through the echanges and thus make it easier for central banks to manipulate the exchange rates. He saw this as a good thing, we now do not, therefore we're not in favour of such taxation.

However, there is still a place for such taxation: no, not such a tax to be imposed on our now free markets in currency (or anything else) but as a stage to be gone through when moving from a near entirely non-market system to a free market one. And it's in that context that China is suggesting one on their currency, the yuan. The liberalisation of such a market is a good idea, obviously. But there's very definitely an element of not quite wanting to go to complete and total liberalisation in one fell swoop. There's a good 70 years of economic mismanagement there to overcome and the shockwaves of an immediate and pure free market would be considerable. Not a bad idea at all to take it step by step.

The real problem with this of course will be that those Robin Hood, the FTT, people will say that if it's OK for China to have a Tobin Tax then why wouldn't it be a good idea for us to have one? The answer being that China having one is part of the transition from a rigged market to a free one: our having one would be an entirely unwelcome move back in the other direction.

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