September 28, 2011

To Ease the Crisis, Tax Financial Transactions

By PHILIPPE DOUSTE-BLAZY

Paris

IT has been three years since the collapse of Lehman Brothers and the start of a financial crisis that still casts a dark cloud over the global economy.

Governments, both rich and poor, urgently need a way to calm speculation in the financial markets and to raise revenue. On Wednesday, the European Commission president, José Manuel Barroso, proposed a tax on financial transactions. Such a measure, already supported by the German chancellor, Angela Merkel, and the French president, Nicolas Sarkozy, is long overdue.

Indeed, a tax of just 0.05 percent levied on each stock, bond, derivative or currency transaction would be aimed at financial institutions' casino-style trading, which helped precipitate the economic crisis. Because these markets are so vast, the tax could raise hundreds of billions of dollars a year globally for cash-strapped governments and could increase development aid.

The global economic storm may have sprung from the high-pressure trading rooms and overheating economies of developed countries, but its effects have also been felt far away. Any additional revenue raised by a financial transaction tax should therefore be devoted not only to shoring up slumping economies in rich nations but also to helping the world's poorest countries.

While the rich world remains preoccupied with its own economic problems, the World Bank estimated last year that 64 million people in low- and middle-income countries had been forced into extreme poverty — living on less than $1.25 a day — as a result of the food, fuel and financial crises. And poor countries have been hit by their own budgetary pressures. Cuts to life-saving health services, schools and support for poor farmers are already taking place. Research for Oxfam last year suggested that 56 low-income countries faced a combined budget shortfall of $65 billion as a result of lower domestic tax revenues, export earnings and aid. If the world economy dips for a second time, the consequences are likely to be devastating.

At the time when poor countries need outside assistance the most, aid budgets are shrinking, damaging progress toward the Millennium Development Goals of reducing avoidable deaths, hunger and poverty.

Traditional donors must stand by the poorest in bad times as well as good. And we must move beyond the old paradigm of aid to a 21st-century solution. A new architecture of development assistance should provide stable, reliable and robust revenue streams that can weather global economic storms and changing political landscapes.

The financial markets themselves can provide such solutions. In 2006, Unitaid, an international agency based at the World Health Organization in Geneva, introduced the world's first innovative tax for development — a small levy on airline tickets, usually about $2, that in its first five years has raised around $2 billion to help save lives by providing treatment for H.I.V./AIDS, malaria and tuberculosis.

There is an urgent need to expand such solutions. It is fair, given its role in precipitating the economic crisis, to look to the largest and most profitable industry in the world — the financial sector — to play its part.

Calls for an international F.T.T., or financial transactions tax, are now increasing in Europe. Germany, Spain, Portugal and Belgium publicly support it. And Mr. Sarkozy has made it a priority for France's presidency of the Group of 20, ahead of its crucial November meeting.

Fears about the feasibility of an F.T.T. are overblown. Indeed, more than 40 such taxes have already been put in place around the globe. Britain, for example, has a very successful F.T.T. on shares — known as the stamp duty — which raises more than $6 billion a year and has not had a significant impact on the competitiveness of London's finance sector. Other countries could likewise institute this tax without harming major financial firms.

If more countries introduce F.T.T.'s, it is essential that the tax be used not only to plug holes in European budgets. A financial crisis that began in the trading rooms of New York and London has pushed farmers in Nepal below the poverty line and cost young girls in Zambia their schooling. The problem is global, and our response must be global, too.

We must seize the opportunity to ensure that some of the financial sector's extraordinary wealth is harnessed to protect and benefit the world's poorest people.

Philippe Douste-Blazy, the French foreign minister from 2005 to 2007, is the chairman of Unitaid and a special adviser to the United Nations secretary general on innovative financing.

This article has been revised to reflect the following correction:

Correction: September 29, 2011

An earlier version of this Op-Ed misstated the usual levy on airline tickets. It is about $2, not about $5.