Billions more need to be spent on international development.

This is a way to pay for it . . .
INTRODUCTION

Thousands of men, women and children die from hunger and preventable diseases every day.

Our generation is the first to have the technology, expertise and resources to stamp out poverty.

World leaders are calling for new money to be found. $50 billion extra each year would provide clean water, healthcare and education to the most deprived.

This is not expensive. Rich countries spend $600 billion on defence and $245 billion on farm subsidies each year.

We need to find new ways to raise these funds. A solution could be found in the richest market in the world – the trade in money itself.

A simple stamp duty on currency transactions is practically and politically possible and would raise this urgently needed revenue.

Given the incredible amount of money traded every day, it is very surprising that the currency market has remained exempt from stamp duty for so long.

THE PROPOSAL

The UK government would introduce a very small stamp duty of half of one hundredth of 1% (0.005%) on sterling currency transactions. This would generate as much as £3 billion of income per year. The revenue would be ring-fenced for spending on international development.
WHY IT WORKS

- **Stamp duties are a proven way to raise revenue**; the stamp duty on share transactions alone raises more than £4 billion each year in the UK.

- **The currency market is immense**, worth £250,000 billion per annum.

- The proposed rate of duty is so modest that experts agree **the market can afford it** without damaging trade or causing loss of business in the City of London.

- The duty is **technically feasible** since the market is electronic – it would be easy to enforce and collect.

- The duty would be **simple to implement** by Parliament – it could be enacted within one year.

THE BREAKTHROUGH

The proposal is **fundamentally different** from previous currency transaction propositions because:

- The rate of the **duty is sufficiently low** for business to tolerate and for politicians to accept.

- The duty would be **applied to all sterling transactions** rather than to all currencies traded in the UK.

- **The UK can go it alone** – a stamp duty can be imposed unilaterally on all trades in pounds, wherever they take place in the world, and payment cannot be avoided (for detail see page 8).

THE CLIMATE

International political will now exists for a substantial expansion of development spending. World leaders are clamouring for new money for poor countries. In Europe, France and Belgium have already passed legislation for a levy on currency transactions.

‘It is about action to right wrongs – this year, now, urgently. No longer evading, no longer procrastinating, no more excuses.’

Rt Hon Gordon Brown MP, Chancellor of the Exchequer, January 2005

Don’t just take our word for it – see what the experts say . . . . . .

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## What the Experts Say

### PRESIDENT CHIRAC
of France,

### PRESIDENT LULA
of Brazil,

### PRESIDENT ESCOBAR
of Chile

### PRIME MINISTER ZAPATERO
of Spain

from the *Action Against Hunger and Poverty* report²

‘A tax on foreign exchange transactions is technically feasible.’

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### This report further states

‘The proposal to levy a tax on financial transactions at a very low rate would lead to the collection, on a stable and predictable basis, of a significant amount of resources for development, while not interfering with the normal functioning of the market.’

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### PROFESSOR LIEVEN DENYS
an author of the Belgian currency transaction tax legislation passed in July 2004

‘If you accept the concept of income tax, you accept the concept of redistribution; those who can afford more, pay more. This is the same idea. The banks – those that most benefit from globalisation – would effectively be giving something back to those who will never see any of globalisation’s benefits.’

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### ALAN SITKIN
former foreign exchange trader, now lecturer at the European Business School.

February 2005

‘The currency market is so fantastically deep that it is nonsense to think that such a small increase in transaction costs would have any significant effect on liquidity.’
Business professionals are changing their minds, politicians are speaking out

PROFESSOR AVINASH PERSAUD
former head of currency research at JP Morgan, UBS Phillips and Drew and State Street Bank, Chairman of Intelligence Capital and former Visiting Scholar at the IMF. September 2004

‘I have changed my mind about the feasibility aspect. I think you present it as a stamp duty for foreign exchange, very simple and easy to do, which raises revenue.’

JOHN CHRISTENSEN
senior economist at the Association for Accountancy and Business Affairs. February 2005

‘For a stamp duty like this to work, certain tests need to be met. Firstly, is it politically possible – is there a will in Government to proceed? Then, crucially, is it practical to collect and will it raise sufficient revenue? The Chancellor appears open to using currency transactions to raise development finance so I believe the political will is there. As for ease of collection and revenue potential, it is clear to me that this stamp duty would be effective.’

RT HON SHIRLEY WILLIAMS
House of Lords. February 2005

‘The question we need to ask ourselves is not whether the UK can afford a modest stamp duty on currency transactions, because we can afford it, but rather, what will the cost be to the world if we don’t implement it.’

2005 is Make Poverty History year. Prime Minister Tony Blair and Chancellor Gordon Brown have made bold pledges to use this opportunity to bring millions of people in poorer countries out of poverty. The UK, along with all United Nations countries, signed up to the Millennium Development Goals (MDGs) in the year 2000, to achieve universal primary education for every child, a massive reduction in infant mortality, mothers dying in childbirth and deaths from HIV/AIDS and malaria.

To date, progress has been slow because rich countries have not backed their words with the money required. The aid target agreed upon in 1970 (0.7% of GNI) is only very gradually being reached – not quickly enough to respond sufficiently to the scale of the need.
Current plans to significantly increase aid spending, such as the International Finance Facility, do not look as though they can alone produce sufficient funds to meet the MDGs.

Yet the political will to break new ground is there. In September 2004, 100 countries took part in the launch of an extensive high-level report into new ways to finance development. They concluded that the funds needed to eradicate poverty can be generated if decision-makers on the world stage prioritise the needs of the poor and have the political will to secure the money required. The report specifically states that: ‘a tax on foreign exchange transactions is technically feasible’.

It is, therefore, now widely accepted that the currency markets can be used to raise funds for international development. ‘The greatest scandal is not that hunger exists, but that it persists even when we have the means to eliminate it. It is time to take action. Hunger cannot wait.’ If the UK implements a stamp duty on sterling currency transactions it will be leading the way in developing this powerful new income stream. We have a unique opportunity to make progress.

3 Prime Minister Tony Blair, World Economic Forum, January 2005.
www.britischtourism.org/eng/news/050126.htm

4 New York Declaration on Action Against Hunger and Poverty, signed by 100 countries, September 2004: www.france.diplomatie.fr/actu/article.php?art=45325

5 Action Against Hunger and Poverty report launched by President Chirac of France, President Lula of Brazil, President Escobar of Chile, Prime Minister Zapatero of Spain, UN General Secretary Kofi Annan, New York, September 2004: www.diplomatie.gouv.fr/actual/pdf/Reportfnd.pdf

6 www.oxfam.org.uk/what_you_can_do/campaign/mdg/mandela.htm
Can the stamp duty be avoided by trading outside the UK? Can currency traders use tax havens to avoid paying? Does it need to apply to all countries to be effective?

These key questions illustrate why a stamp duty on sterling currency transactions is such a breakthrough. The crucial distinction lies in applying a duty to all sterling transactions rather than to all currencies (ie: dollars, euro, yen) traded in the UK.

This stamp duty cannot be avoided for three reasons:

- Sterling balances abroad are held in the UK through nostro accounts with UK banks.
- A large proportion of sterling transactions are settled through the CLS Bank directly with the Bank of England.
- Legal regulation, enacted by a finance bill in parliament, would compel currency traders to pay stamp duty on sterling transactions.

The duty will apply regardless of where in the world the sterling transaction takes place. There will be no benefit in relocating the trade outside the UK, including to an offshore haven, because the duty is collected within the UK.

This highlights a fundamental difference from previous currency transaction tax propositions. The UK can implement this measure unilaterally and financial institutions cannot avoid payment.

Why target the market in currencies?

Currency trading is the largest market in the world, worth £250,000 billion per annum.10 Equivalent to a pile of £50 notes that would stretch from the earth to the moon. This is fifty times greater than the total value of all goods and services traded globally each year.10 Trade in sterling alone accounts for £21,000 billion per year.

Is the Chancellor open to imposing this stamp duty?

Gordon Brown has stated on many occasions that he approaches ‘new and innovative ways’ to substantially increase development spending – such as a currency transaction levy – ‘with an open mind.’11

Who will pay the stamp duty?

The stamp duty will be levied on all sterling transactions, other than those undertaken by the Bank of England. The principle players are banking institutions. The majority of sterling transactions are bought and sold by 30 massive finance houses. The total pre-tax profits of the five wealthiest financial institutions that traded foreign exchange in the last year was $74 billion.12
Can a stamp duty on currency transactions be evaded?

Since September 11 2001 there has been a massive tightening of financial control to combat money laundering and the financing of terrorism. Evasion in this climate is very difficult, especially as all electronic transactions leave an e-trail. Banks and other financial institutions will weigh up the potential costs of evasion (penalty, suspension of licence, risk to reputation and the costs of setting up new foreign exchange instruments) against the costs of compliance (a very small percentage of their total profits). With a stamp duty as low as 0.005%, evasion would be more costly than compliance.

Will the stamp duty adversely affect trade, lead to a reduction in currency trading in the City of London, or damage the foreign exchange market?

At 0.005%, the stamp duty will result in a tiny increase in the cost of currency trading. This additional cost will not negatively impact trade as the typical gross margin on export transactions is greater than 30%. Since the stamp duty applies wherever sterling is traded, there is no incentive to move the trade outside the UK, so the City of London will not be impacted. Because the rate of the stamp duty is so low, it will have a negligible and non-distorting effect on such a vast market.

Will a stamp duty reduce liquidity in the market and cause an increase in volatility?

Some banking institutions have argued that a stamp duty on currency transactions would result in decreased liquidity, which in turn would lead to problems of volatility in the foreign exchange market. While such a criticism might have had some validity for a stamp duty of 1%, currency experts now concede that this will not be the case with a levy of 0.005%. Technological developments have recently brought down transaction costs in the market. Even after adding in the cost of the 0.005% stamp duty, the transaction costs will still be lower than they were in 1998, when currency markets were as liquid as they are today.

How would a stamp duty be implemented?

A stamp duty would be announced by the Chancellor of the Exchequer in a budget, followed by legislation in the annual finance bill. Statutory rules and regulations for the reporting of sterling currency trades would be set out in the bill, so that the duty could be efficiently collected and would be illegal to avoid. It would be possible to enact this stamp duty within one year.

How does this proposition differ from James Tobin’s original tax?

The economist, James Tobin, first proposed a currency transaction tax 30 years ago when the currency market had a daily value of $18 billion.
The market is now worth almost $2,000 billion per day. Tobin’s original proposal was for a 1% levy, 200 times the 0.005% stamp duty proposed here, and it was not intended as a revenue stream for international development. The purpose of his tax was to impede daily currency trading and to discourage speculative activity. Today’s proposed stamp duty would not hamper normal market operations. The original Tobin tax was born of a different time, proposed at a different rate and designed for a different purpose.

What are the principles of the disbursement of revenues? What benefits would revenues create?

The favoured option for the disbursement of funds raised from a levy on sterling and other currencies, such as the euro, is through a multilateral body under the aegis of the United Nations. Governance of funds will need to be transparent, accountable and democratic. The system will require the confidence of both beneficiary governments and their populations, as well as observers in the international community.

A stamp duty on sterling alone will see, within ten years, every child in sub-Saharan Africa in primary education and provide resources to perform the ten basic surgical procedures needed all over the world.

7 Nostro account – a foreign currency current account, maintained with another bank, used to receive and pay currency assets and liabilities denominated in the currency of the country in which the bank is resident.
8 To reference footnote, visit www.stampoutpoverty/briefing4-05
13 Liquidity is the ability of those wishing to buy currencies to transact with those selling currencies. It is measured by the presence of sufficient numbers of buyers and sellers for a particular currency so that a single deal does not change the price of a currency significantly.
14 Former foreign exchange trader, Alan Sitkin, now lecturer at the European Business School: ‘The currency market is so fantastically deep that it is nonsense to think that such a small increase in transaction costs would have any significant effect on liquidity.’ February 2005.

Please also refer to the report on which this pamphlet is based, by international finance expert and former derivatives trader, Sony Kapoor, available at www.stampoutpoverty.org
Dear Mr Brown

I welcome your commitment to the Millennium Development Goals and your work to double current levels of aid. It is clear that you care a great deal about the plight of the world’s poor.

It has recently become evident that a simple stamp duty on sterling currency transactions, levied by the UK alone, would raise substantial revenue. This modest transaction cost (0.005%) can be afforded by the market, imposed unilaterally on sterling trades and cannot legally be avoided. The duty is easy and inexpensive to apply, and would not damage trade or business in the City of London.

Since the stamp duty on shares raised £4 billion for the Exchequer last year, I ask you please to implement a stamp duty on sterling currency transactions now, to provide the urgently needed funds to stamp out poverty. Please do not delay, as each day we fail to act costs lives. I look forward to your response.

Yours sincerely

Stamp Out Poverty is a campaign of the Tobin Tax Network, a coalition of organisations including: ActionAid, CAFOD, Christian Aid, Oxfam, Save the Children, UNISON and War on Want.
Stamp Out Poverty is a campaign of the Tobin Tax Network, a coalition of over 50 UK charities, campaign agencies, faith groups and trade unions.

To find out more about the Stamp Out Poverty campaign please visit our website:

www.stampoutpoverty.org

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Network members

- ActionAid (UK)
- Action for Southern Africa
- Africa Europe Faith and Justice Network – UK
- African Initiatives
- ATTAC
- Bakers, Food and Allied Workers Union
- British Youth Council
- CAFOD
- Catholic Institute for International Relations
- Christian Aid
- Chartered Society of Physiotherapy
- Christian Socialist Movement
- Communications Workers’ Union
- Fellowship of United Reformed Youth
- Fire Brigades Union
- Freedom to Care
- Friends of Le Monde Diplomatique
- Friends of the Earth (England, Wales & Northern Ireland)
- GMB
- Greenpeace UK
- Hope for Children
- ICFTU
- International Alert
- MÉDAC
- Movement for the Abolition of War
- Muslim Parliament of Great Britain
- National Board of Catholic Women
- National Council of Hindu Temples
- National Federation of Women’s Institutes
- National Justice and Peace Network
- New Economics Foundation
- New Internationalist Cooperative
- National Union of Journalists
- One World Trust
- Oxfam
- People & Planet
- RESULTS (UK)
- Save the Children
- Stakeholder Forum for a Sustainable Future
- STUC
- Tearfund
- Traidcraft
- Transport and General Workers’ Union
- TUC
- UNISON
- United Nations Association
- United Reformed Church
- United Society for the Propagation of the Gospel
- War on Want
- Welsh Centre for International Affairs
- World Development Movement
- World Vision
- WWF (UK)