

Sand in the wheels or spanner in the works? The Tobin tax and global finance

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Abstract

This paper presents a radical critique of the Tobin tax—a tax on currency transactions—by undercutting certain assumptions about the size and character of the world's foreign exchange markets which furnish the tax with its basic rationale. While it is acknowledged that only a fraction of the massive volumes of FX transactions relate directly to trade in goods and services or to cross border investments, it is denied that all the residual transactions are motivated purely by exchange rate considerations (speculative or hedging activities). Rather, the argument is that a significant proportion of FX trades have money market characteristics and that these trades, together with domestic money market transactions, play an important role in the day to day operation of the global financial system. This perspective is used to show that the imposition of a Tobin tax would cause extensive material damage to the system, with consequences that may run counter to the expectations of supporters of the tax.

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