INTERNATIONAL FINANCIAL

MARKETS AND EMPLOYMENT

AND SOCIAL POLICY

Report of a Round Table Discussion
Ottawa - 29 May, 1995

TRADE UNION ADVISORY COMMITTEE
TO THE ORGANISATION
FOR ECONOMIC COOPERATION AND DEVELOPMENT
(TUAC - OECD)

Founded in 1948 as a trade union advisory committee in connection with the European recovery programme (Marshall Plan), the Trade Union Advisory Committee (TUAC) to the Organisation for Economic Cooperation and Development is an international non-governmental organisation having consultative status with the OECD.

It groups some 44 national central organisations of trade unions representing 67 million members in 24 of the 25 OECD countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States.

Through regular consultations with various OECD bodies, it coordinates and represents the views of trade unions to governments of industrialised countries. It seeks to ensure that economic policies aiming at growth also aim at full employment and improved social welfare, safeguarding the interests of working people in the formulation of economic strategies.

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PREFACE

On 29 May, 1995, representatives of the trade unions from the G7 countries met with the host of Halifax Summit, the Canadian Prime Minister Jean Chrétien, to present the trade union statement to the Summit. Prior to this Labour Summit the Canadian Labour Congress organised a Round Table discussion for the international participants and members of the CLC Executive Committee on the impact of financial market volatility an employment and social policy. This was addressed by James Tobin, professor of economics at Yale university and Nobel-Prize winner. The Round Table was chaired by Bob White, president of the CLC.

The following paragraphs summarise Professor Tobin's intervention and the ensuing discussion which concentrated on the feasibility of an international transactions tax. A written paper from Professor Tobin is annexed, together with the relevant section from the trade union statement to the Halifax Summit, the list of participants and some press comments.

All the participants agreed that the current functioning of financial markets is having a negative impact on employment and has also reduced national governments' sovereignty to pursue policies to restore full employment. An international transactions tax is one element of what TUAC's believes to be necessary - the development of a New International Financial Order.

REPORT OF ROUND TABLE DISCUSSION
ON INTERNATIONAL FINANCIAL MARKETS
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Ottawa, 29 May, 1995

"The sun never sets in financial markets from Hong Kong to New York." (J. Tobin)

Bob White opened the Round Table and introduced Professor Tobin.

James Tobin said that most financial transactions on international financial markets were of a speculative character. They were reversed within a week. Long-term considerations based on economic fundamentals were taken account of less and less. For a typical trader the long-term began "after the first ten minutes". Speculation consisted in the anticipation of how other speculators would react to an announcement made in the markets. Increasing speculation reduced the ability of governments to manage their own economies through macroeconomic policies. The exception was the "Big Three" (US, Japan and Germany) which were powerful enough to control their own currency areas.

The Bretton Woods agreements had not anticipated totally free movement of capital and currencies. Until recently, most countries had some national controls over currency and capital flows. Today, absolutely free currency movements as conceptualized in the G7, the IMF and the Maastricht Treaty of the European Union were leading in the wrong direction. National autonomy was sacrificed for "one-size-fits-all" monetary and fiscal policies which were subordinated to the views of financial markets. Desyncronised business cycles across the G7 required a desyncronisation of policies. The same policies could not be applied in the US, Japan and Europe simultaneously.

The Mexican crisis had shown the disaster that the creed of free capital movement could bring about. The 50 billion dollar bail-out was not destined to bring about structural improvement in the Mexican economy but to restore the confidence of the markets, and this despite the fact that Mexico has been considered a sound economy even by conservative economists. High interest rates and drastic budget reductions were the standard IMF prescription which Mexico had to follow. Chile stood in contrast to Mexico. In similar circumstances Chile had introduced a transactions tax on capital inflows at a time when interest rates had to be raised, in a deliberate attempt to discourage short term "hot money" inflows.

The introduction of a "Tobin tax" of 0.5 per cent on spot transaction of currencies would give a strong incentive for long term decision making. It would amount to a 1 per cent tax at an annual rate on a "round-trip"speculation. The wedge was meant to reduce volatility in the market induced by short-term speculation, whereas the longer term costs were trivial, e.g. in the case of a ten year investment in a factory, the levy was negligible, whereas for a week, it would be enormous.

A frequently cited objection to the proposal was the risk of evasion and the movement of activity to tax havens. However banks could be policed more effectively and it seemed unlikely that major banks would in reality shift their activity to Tahiti or the Cayman Islands.

The implementation of the tax would require the IMF to change its role. An amendment to the Bretton Woods Agreement should give the IMF the responsibility of administering the tax and require IMF members to levy it. Countries who did not comply with the rules would be barred from IMF membership.

With one trillion dollar gross transactions every day, a realistic potential revenue of 500 billion dollar per annum could be raised taking account of the fact that the purpose of the tax was to reduce short term transactions. Most transactions were traded between the US and Japan, and the lion's share of the money would be levied in London and the US. The money could serve an international purpose and it was not surprising that the proposal had raised interest amongst the international agencies. The United Nations needed support from other sources of income.

In discussion a wide raging debate took place on Professor Tobin's presentation.

Peter Coldrick (ETUC) felt that European Monetary Union would realistically be established earlier than a Tobin tax. EMU was the lever for trade unions to achieve political and social union in Europe. EMU would act as an effective brake on currency speculation.

James Tobin replied that personally he was very sceptical about the likely harmonisation of fiscal institutions, social security systems and labour markets so as to allow for EMU. There was no automatic equilibrium for the whole continent. EMU would also make it impossible for individual countries to adjust their currencies to national or regional needs.

Luigi Cal (CISL) asked whether a Tobin tax could have inflationary effects through discouraging activity and whether there was a linkage between the tax and the discussion of a social clause and the debt burden of developing countries. The tax revenue could be used for developing countries to cope with their obligations to improve labour standards.

James Tobin replied that the tax was intended primarily to restore economic sovereignty for individual countries. The tax would also only consist in a moderate and neutral interference in short-term transactions and had no impact on longer term decisions.

Etsuya Washio (RENGO) said that for the tax to be effective and to avoid evasion, all countries would have to modify their tax regimes. However the real problem seemed to be a lack of coordination and cooperation. Collective leadership was necessary and a reform of the international financial institutions especially the IMF was urgent.

James Tobin said that governments could enforce the levy provided the political will existed. Having free markets everywhere would not make a perfect world. It was conceivable that in a crisis situation the IMF could increase the rate of the tax temporarily to cope with the situation.

Antonio Lettieri (CGIL) reminded the participants that trade unions were paying a high price for currency speculation and monetary chaos. Countries whose currencies had sharply appreciated were facing slower growth, whereas depreciating countries suffered from higher inflation and restrictive monetary policies. The result in both cases was lower employment. In Italy, an increase in interest rates of only half a percentage point would raise debt service payments by ten billion dollars, the exact equivalent of savings which had been achieved in pension fund disbursements in Italy during long and painful negotiations between the unions, employers and the government. This was a clear example for how efforts of structural reform could be wiped out by speculation over night. Europe needed EMU to overcome the domination of one currency and the entailing deflationary policies in countries who followed Germany's monetary policy which itself was fixed for purely national reasons.

James Tobin stated that a return to fixed exchange rates at global level with currencies pegged to the dollar and gold was not feasible any more. The resources which were available to Central Banks through the IMF were tiny compared to private funds available in international markets. He also warned that with EMU there would be no possibility any more to devalue a national currency in Europe.

James Clancy (NUPGE) asked whether a 1 per cent tax rate was sufficiently large to act as an effective deterrent to currency speculators.

James Tobin replied that the tax was a potentially strong lever given the fact that arbitrage in the markets was based on very small day-to-day differences of currencies.

Bill Jordan (ICFTU) posed the question as to when nations would have the political will to intervene in international financial markets.

James Tobin pointed to the major research effort which was currently being undertaken on the issue by the United Nations Development Programme. The UNDP's interest was not to administer the tax itself nor to receive a considerable amount of the revenue from it, but to analyze whether and how the tax receipts could be used for development purposes at a time of growing needs and declining ODA budgets. The tax would act in a similar way to petrol or tobacco taxes, i.e. it would discourage a certain type of behaviour by market agents, nevertheless it would still generate significant revenue.

Carlos Custer (WCL) commented that speculation was damaging productive investment and increasing the debt burden of developing countries.

James Tobin responded that the Tobin tax was not intended to influence distributive policies at national level. On the other hand, it could be envisaged that a combination of the tax with an increase in the IMF's Special Drawing Rights (SDR's) would counter-balance any inflationary effects of the SDR increase.

Basil Hargrove (CAW) remarked that financial markets were acting almost like an un-elected world government. If a Tobin tax was to be introduced, what would be its effects on real interest rates and on foreign direct investment which was essential for virtually all countries?

James Tobin responded that it was the deregulated markets and the wedge between interest rates of different countries that had pushed real interest rates up. Secondly, the tax was too small to deter a ten or twenty year long-term productive foreign investment, but had a large effect on short-term transactions of one week.

Dieter Schulte (DGB) said that volatility in currency markets was not a new phenomenon but had existed since the end of the Bretton Woods system of fixed exchange rates. In principle, the long-term relationship between currencies would correspond to economic competitiveness. An appreciation of a currency was therefore an expression of competitive strength of a national economy. In Europe, changes in parities had largely corresponded to this pattern over the longer term. However the current flux of parities did not correspond to a rationale, but was exaggerated by short-term speculative currency movements. This led to effects on the real economy. International trade and capital flows and economic policy measures were destabilised. The crisis in Mexico had shown that the gains from long-term and often very painful structural adjustment could be wiped out over night. For Germany which was hit by sharp appreciation of the Deutsche Mark this meant strong incentives to invest abroad and shift production to foreign countries. Governments therefore had to find solutions for the increasingly divergent interests between the financial sector ("Wall Street") and the real economy ("Main Street").

Cooperation was needed to reduce the impact of currency speculation on exchange rates with the aim to harmonise interest rates in the three major currency zones of the world. This should, however, not be done through an increase in interest rates in the depreciation countries of the United States and Western Europe. It would have to start with a reduction of interest rates in Germany. Secondly, trade unions were demanding an internationally coordinated exchange rate policy and a new international regulatory framework. Thirdly, more direct control measures were needed. Minimum capital requirements as they existed in Germany for new financial instruments such as derivatives could reduce speculative movements. Further measures such as strict requirements for disclosure and a mandatory reporting of windfall profits from currency transactions were also needed. A Tobin tax on short-term speculative transactions could also act as a disincentive. Professor Tobin's proposal had also been taken up recently by the former French president François Mitterrand at the UN Social Summit in Copenhagen. Even though the implementation of these measures appeared difficult, the trade unions felt the necessity to continue the debate.

James Tobin replied that nobody should expect the G3 to harmonize or even fix exchange rates. The G7, in turn, was the place to discuss more expansionary fiscal and monetary policies in Japan.

John Evans (TUAC) said the question had been raised as to why trade unions appeared more concerned by financial market volatility than business. The reason was that the restriction of sovereignty over economic policy was leading governments to deregulate labour markets and therefore of crucial concern to unions. Some commentators were arguing that a conflict existed between "efficient" financial markets and "inefficient" labour markets. He raised six questions which had not yet been raised in the discussion: -

-In attacking "bad" speculation might a transactions tax also reduce legitimate hedging and so unwillingly increase exchange rate volatility?

-Did the growth of derivative markets increase the possibilities for evasion of the tax?

-Could a range of national level instruments be envisaged as outlined in the TUAC statement if international agreement on the tax was not forthcoming?

-Might a Tobin tax be more effective if introduced as part of a package of measures to build a new international financial order as called for in the TUAC statement?

-For employment, what was more important to push for coordinated growth policies or a Tobin tax?

In his response, James Tobin said that he presented his arguments to many business groups as well trade union audiences such as this one. Although the tax would hit both "good" and "bad" speculators, the effect would be that the "bad" short-termists would be discouraged more than the "good" long-termists. As far as the efficiency argument of markets was concerned, one had to look at the enormous costs of unpredictable movements. Individual hedging could reduce individual risks but logically could not reduce systematic volatility. The tax should be treated as an item in its own right. It would be impossible to tax derivatives markets but taxes on spot foreign exchange transactions would also ultimately hamper derivative trading where this involved currencies. And finally, the G7 meeting in Halifax could move on two "tracks", i.e. take decision to reform the IMF as he proposed and at the same time agree economic policies for growth in each of the seven countries.

Bob White (CLC) thanked Professor Tobin for his presentation. He emphasised the relevance of the discussion to the trade union movement and said that the notion of a transactions tax was one that the trade union delegation would be raising in their meeting with the host of the Halifax Summit that afternoon.

ANNEX I

A CURRENCY TRANSACTIONS TAX, WHY AND HOW[1]

JAMES TOBIN

I proposed a uniform worldwide tax on spot transactions across currencies in 1978 in my presidential address to the Eastern Economic Association. I have written and spoken on the proposal several times since, but I'm not the type to wage ardent crusades for my crackpot ideas -- unlike my great predecessor at Yale, Irving Fisher. I warned the organizers of this conference that I don't have anything significant new to say on the subject.

When foreign exchanges seem to be messing up monetary and economic affairs in the ways that seemed to me in 1978 to be inevitable, my proposal gets discovered or rediscovered. Recently it has been discovered by a non-economics constituency, those looking for ways to finance the United Nations and other international agencies when the demands upon them are exploding and the member nations are stingy in supporting them.

Flexible or adjustable currency exchanges rates plus free movement of funds across currencies are a compound hazardous to the economic health of nations. So say both logic and experience. One way out, of course, is to make exchange rates inflexible and unadjustable -- irrevocably fixed, as is true within the United States or Canada or the United Kingdom or other federations, and as may eventually be true within the European Union. However, as the slow and rocky road to Maastricht repeatedly shows, permanent currency unification requires economic,

[1] This paper was that presented to a conference on Globalization of Markets at CIDEI Universita La Sapienza, Rome, October 27-28, 1994. Revised on 1/11/95 it uses in part materials in "Two Arguments for Sand in the Wheels of International Finance", by Barry Eichengreen, James Tobin, and Charles Wyplosz, published in the Economic Journal, January 1995.

political, and social convergence well beyond those achieved in the decades since the Treaty of Rome. Extensions of currency unification to all Europe, to the whole Group of Seven, to the emerging industrial economies of Asia, to the whole world, are many decades more distant.

For a long time ahead, we are stuck with national currencies, trying to find the best way to live with them. Yet vast funds are prepared to arbitrage away differences in national interest rates and to speculate on exchange rates. Here, as in many other dimensions of life on this globe, technologies have outrun economic, political, and social institutions. It is important to make distinct national currencies tolerable and to make international money and capital markets compatible with modest national autonomy in monetary and macroeconomic policy. That is the economic motivation for proposals to throw some "sand in the wheels" of the over-efficient international financial vehicles.

This is, in a sense, a move backward, towards the exchange and capital controls that made past international regimes workable. But it is important not to restore the hodge-podge of nationalistic and bureaucratic controls of those days. Instead, let us seek an internationally agreed, symmetrical, and neutral way to slow down international financial flows, and one with minimal deterrence of trade in goods and services and minimal interference with efficient allocation of real capital among nations.

The traditional controversy between "fixed" and "floating" exchange rate regimes is obsolete. Both regimes are vulnerable to capital movements across currencies. Both involve changeable exchange rates and invite transactions to profit from interest differentials and exchange rate movements. In a floating rate regime, those movements occur in markets, overwhelmingly as a result of private transactions, though sometimes with official currency interventions as well. In a fixed rate regime, changes in the parities which national governments and central banks are committed to maintain involve deliberate official decisions, usually forced by a government's inability to fulfil earlier solemn commitments.

Speculation on currencies occurs in both regimes. Nostalgia for the pre-1971 Bretton Woods system or for a full-fledged gold standard reflects a "grass is greener" syndrome rather than thoughtful analysis. In those fixed-rate regimes, currency parities could be changed and were changed. In their best years regimes benefitted from circumstances that do not now obtain. First, they were managed by a dominant country with sufficient international financial clout to make its own currency invulnerable, the pre-1914 gold standard by Great Britain, the 1946-1966 Bretton Woods system by the United States. Second, the other national members of the system could and did protect their currencies by exchange regulations and capital controls. Anyway, private funds ready to speculate on currencies were much less formidable threats than they have become now that they greatly exceed central banks' reserves. Third, voters were more tolerant of the economic costs of maintaining over-valued exchange rates. Nowadays governments are held much more responsible for macroeconomic outcomes than before the Second World War or even in the early postwar years.

The crises and defections that afflicted the European Monetary System in 1992-93 are convincing recent demonstrations that adjustable pegs are not viable. Consequently, serious advocates of official parities have been moving towards market flexibility by widening substantially the bands of permissible deviations from parities, and by smoothing-formulas for automatic adjustment of the central parities themselves towards market experience. Even so, these parameters of the system, the central parities and the limits of the bands, remain vulnerable to speculative attack whenever it appears that the risks of official change in them are predominantly in one direction. Wide bands did not prevent exchange crises in Europe in recent years, or in Mexico in winter 1994-95.

At the same time, experience since 1971 has not fulfilled the more extreme claims of the advocates of floating rates. They thought that exchange rates could be left wholly to private markets, that official neglect of them would be unambiguously benign, indeed optimal. Governments, it turned out, could not be indifferent to currency markets. Volatility in exchange rates and interest rates induced by speculation and capital flows could have real economic consequences devastating for particular sectors and whole economies. For example, the surprise appreciation of the U.S. dollar against the Japanese yen in the early 1980s nearly destroyed the American automotive industry.

Advocates of floating rates had argued that they would free national monetary policies from constraints imposed by commitments to defend official parities. But the same interest arbitrage that limits the autonomy of a central bank in a fixed-exchange-rate restricts its powers in a floating-regime. If similar financial assets denominated in two different currencies are perfect substitutes in private portfolios, they cannot bear different interest returns in their domestic currencies unless those differences are offset by expected exchange rate movements. Central banks and governments cannot create exchange rate expectations consistent with the domestic interest rates they desire. It is true that exchange market volatility itself should make assets in different currencies imperfect substitutes and create a bit of room for independent monetary policies. But the swings in pervasive market sentiment that generate much of the volatility are not helpful.

Globalization of financial markets has been a much heralded achievement. Innovations in technologies of computation and communications, new markets and institutions, and tides of deregulation have released a flood of domestic and international financial transactions. Vast resources of human intelligence are engaged. Evidently gross foreign exchange transactions alone amount to a trillion dollars daily. Economies of scale are enormous. transaction costs are small and virtually independent of the amount transacted. Arbitrage or speculative transactions in foreign exchange are so large that minuscule percentages of price spell enormous gains or losses on the capital at stake. The outcomes of financial markets impinge on real economies, local, national, and international, where adjustments are sluggish, transactions are costly, transportation is slow and expensive, substitutions are imperfect and time-consuming, and expectations are fuzzy.

Transactions taxes are one way, a quite innocuous way, to throw some sand in the wheels of super-efficient financial vehicles. A half percent tax translates into an annual rate of four percent on a three months' round trip into a foreign money market, more for shorter round trips. It is this effect that creates room for differences in domestic interest rates, allowing national monetary policies to respond to domestic macroeconomic needs. The same tax would be a smaller deterrent to slower round trips. It would be a negligible consideration in long-term portfolio or direct investments in other economies. It would be too small, relative to ordinary commercial and transportation costs, to have much effect on commodity trade.

J.M. Keynes pointed out in 1936 that a transactions tax could strengthen the weight of long-range fundamentals in stock-market pricing, as against speculators' guesses of the short-range behaviours of other speculators. The same applies to bond markets and to foreign exchange markets. Recently speculators in all these financial markets have focused on particular items of news, especially on macroeconomic events, statistics, and policies. Keynes' beauty contest applies: speculators concentrate on how "the markets" will respond to news, not on basic economic meanings and portents.

The hope that transactions taxes would diminish excess volatility depends on the likelihood that Keynes's speculators have shorter horizons and holding periods than market participants oriented to long-range fundamentals. If so, it is speculators who are the more deterred by the tax. But it is true that some stabilizing transactions might also be discouraged; fundamentalists alert to long-run opportunities created by speculative vagaries would have to pay the tax too. The judgment that those benign influences are not now dominant in short runs is based on a presumption that the markets would not be so volatile if they were.

In any case, the principal purpose of the proposed tax is to expand the autonomy of national monetary policies. That does not depend on the success of the tax in reducing volatility. The tax would not, of course, permit national macro-economic authorities to ignore the international repercussions of their policies. In particular, the tax could not protect patent miscalculations in exchange parities; speculators' gains from betting on inevitable near-term realignments would far exceed the tax costs. Nor would the tax make macro-economic policy coordination among major governments unnecessary or undesirable. The G-7 ought to concern itself, more than it does now, with the world-wide average level and trend of interest rates, from which individual nations should deviate in accordance up and down with their circumstances.

Vast resources of intelligence and enterprise are wasted in financial speculation, largely in playing zero-sum games. Transactions taxes might reallocate some of these resources. To extent that they do not, they would at least collect needed public revenues for under-supported international purposes, without the bad side effects of conventional taxes. (I have no estimate of the potential revenues. The yield of a 0.5% tax on a base of a trillion dollars a day is 1.75 trillion a year. But I assume that the trillion per day is mostly derivative transactions, while the tax applies to spot exchanges.)

In my original article proposing the tax, I advocated channelling the monies collected by the tax to international purposes. I mentioned in particular the World Bank, thinking of subsidizing loans to poor developing countries. Now, however, there is a growing constituency of advocates of the tax for its revenue-raising potential, not its incentive effects. There is always a trade-off between these two goals. The more the tax succeeds in the economic objectives that primarily motivated me, and the handful of economists who agree with me, the less revenues it collects for worldwide good works. In this case, however, there's plenty for both. Certainly the needs for resources for international purposes have exploded, as multilateral peacemaking and peacekeeping forces are in great demand, and refugees are suffering all over the world.

A foreign exchange transactions tax would apply to all spot exchanges of currencies. Although collected by the jurisdictions where exchanges occur, the tax would have to be internationally uniform, universal enough to render infeasible any important tax-saving relocations of exchange markets. Enforcement would depend principally on the major banks of the world and on the jurisdictions that regulate them. Exchanges between closely related currencies could be exempted on application from the governments involved to the international administrator of the system.

To begin with, an international conference, a mini Bretton Woods, would have to negotiate an agreement establishing the system. The international administrator might logically be the International Monetary Fund. Or a new international financial agency responsible to the member nations might be set up for the purpose, assisted by the IMF and possibly also the Bank for International Settlements. The administrator might be given discretion to set the size of the tax within limits. The administrator would assure the uniformity of the tax among jurisdictions and would handle the transfers of the agreed shares of revenues to the designated international institutions. Exemptions from the tax for linked currencies would have to be adjudicated. The rate of tax might need to be changed from time to time. The IMF, bereft of its original central functions by the demise of the Bretton Woods monetary system and superseded by regional regimes in Europe, should welcome these new responsibilities.

Critics of the "Tobin tax" are sure that transactions would be moved from financial centres to "off-shore" tax-free locations. I suspect that this danger is exaggerated. There are considerable costs, both fixed and operating, involved in such relocations. Otherwise low wages and rent already have offered opportunities for saving brokerage costs and existing taxes and attracted many more financial activities, markets, and institutions than they have.

Nevertheless, it is certainly desirable to assure that all jurisdictions cooperate. Therefore, I propose that collection of the tax be required of every member of the IMF, as a condition of eligibility for credit from the Fund. As a result, "outlaws" not cooperating with the international tax would probably have difficulties getting credit or assistance anywhere.

Most, but not all, of the aggregate revenues collected by the national jurisdictions would be dedicated to international purposes and turned over to international institutions. But the formula for splitting revenues would be progressive. Poor and small countries would keep for themselves most or all of the revenues they collect. The purpose of requiring their adherence is to prevent them from undermining the system by not participating, not to collect major revenues when they do participate. The big financial powers would be the big sources of revenues for international purposes.

Other criticisms of the currency transactions tax are variations on the theme that markets generate optimal results, so that this interference in them is bound to be bad. There's no arguing with true believers in the faith. Given the myriad other hurdles to real commercial and capital transactions in the world, it's hard to see how this modest tax can result in noticeable distortions. Indeed if it yields exchange rates that better reflect long-run fundamentals, it will enhance welfare.

Some critics do not sympathize with my objective of preserving a modicum of autonomy for national monetary policies. They regard any discipline that currency arbitrage and speculation imposes on any country as justified. Let all countries avoid demand-management policies, both monetary and fiscal, and we will all converge to our natural rates of unemployment. I think the experience of Europe over the last fifteen years refutes that Panglossian view. The theory on which it is based is mostly a product of American economists, but fortunately neither our government nor (at least to date) our central bank has taken it as seriously as European policy-makers. I cannot expect those who diverge so basically from my macroeconomic premises to see any good in my proposal.

Finally, of course, I cannot expect bankers and others who would pay the tax, or suffer any reduction it might cause in the transactions from which they profit, to approve. They, of course, have considerable influence on central bankers and on international monetary and financial officials.

ANNEX II

ANNEX III

EXTRACTS FROM TRADE UNION STATEMENT
TO THE OECD MINISTERIAL COUNCIL
AND HALIFAX SUMMIT
May - June 1995

Dampening Speculation and Reharnessing Financial Markets

A fundamental dichotomy exists between the interests of the real economy with its need for low cost and stable finance for investment and employment creation, and the global financial community with its endemic instability, speculative focus and short-term profit taking. The reforms in financial markets have brought about some benefits. But their current functioning now has serious economic and social costs. On the one hand long-term real interest rates are unsustainably high. On the other unwarranted currency fluctuations can wipe-out in a day efforts of a decade to manage structural change in the real economy. Moreover the growing speculation in derivatives markets highlights the existence of systemic risk and the need for prudential rules for financial market operators in both OECD and emerging economies. Deregulation and almost total capital mobility has in the current climate rendered impotent central bank intervention in currency markets. The reserves of the IMF are inadequate in the face of global capital flows. Financial markets are outside national regulation and a return to past national capital controls would be impractical.

Governments must now restore the balance between the real and financial economies. The current financial "order" has unacceptable economic costs and represents a fundamental challenge to international economic governance. A New International Financial Order must be established by governments working together in the IMF, the Bank of International Settlements, the OECD and the European Institutions. This should include the following national and international initiatives:-

National Level Initiatives:

-the establishment of effective minimum reserve requirements for the banking system;

-the introduction of capital standards for other types of financial activity, particularly securities dealing;

-the introduction of more extensive disclosure requirements by financial institutions, so as to increase the transparency of their risk exposure;

-the introduction of minimum deposit periods for short-term financial flows;

-increasing the transparency and accountability of the operations of the large institutional investors and notably the reduction of speculative international exposure of pension funds.

International Initiatives:

-the progressive removal of structural surpluses and deficits on both trade and capital account, most significantly between the two largest contributors, the United States and Japan together with the lowering of real interest rates through concerted action by monetary authorities;

-the introduction of an international tax on foreign exchange transactions;

-the certification of financial markets with acceptable risk and prudential controls;

-the introduction of more stable parities between the currencies of the European Union, the Yen and the Dollar;

-the development in the longer term of an international reserve currency;

-the implementation of international agreements on capital taxation as recommended in the OECD Jobs Study;

-increased cooperation between taxation and banking regulatory authorities to eliminate money laundering resulting from illicit activities;

-increased international prudential monitoring of financial markets.

A combination of national and international initiatives as set out above would replace the monetary chaos of the present situation with order. Designed to reduce speculation, while allowing legitimate financial trading for insurance purposes, the benefits of these initiatives would far outweigh the massive costs of policy inertia. Financial markets would still operate autonomously, but financial flows would be directed towards beneficial long-term investment and not short-term speculation; currency market volatility would be reduced, thus allowing traders in goods to plan ahead and obviate the need for hedging; and the degree of autonomy for government policy making would be expanded.

ANNEX IV

LIST OF PARTICIPANTS

Speaker:

James Tobin Professor, Yale University United States

Chair:

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Canadian Labour Congress (CLC)

International participants:

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Jean-Claude Parrot Executive Vice-President

Nancy Riche Executive Vice-President

Daryl Bean	Public Alliance of Canada
James Clancy	National Union of Public Employees
Judy Darcy	Canadian Union of Public Employees
Susan Giampietri	Public Service Alliance of Canada
Basil Hargrove	National Automobile Aerospace Transportation & General Workers Union of Canada
Donald Holder	Communications, Energy and Paperworkers Union of Canada
Thomas Kukovica	United Food and Commercial Workers' International Union
Louis Lacroix	Teamsters Canada
Lawrence Mcbrearty	United Steelworkers of America
Peggy Nash	National Automobile Aerospace Transportation & General Workers Union of Canada
S.E. Roscoe	Service Employees International Union
Gerry A. Stoney	IWA-Canada Industrial Wood and Allied Workers of Canada
Hassan Yussuff	National Automobile Aerospace Transportation & General Workers Union of Canada

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