¥€$ to H£ALTH – The Currency Transaction Levy

Funding the Health Millennium Development Goals

Introduction

In this briefing, the International HIV/AIDS Alliance and Stamp Out Poverty make the case for the introduction of a **Currency Transaction Levy (CTL)**, a proposal to harness some of the vast wealth of the foreign exchange market through a very small levy on currency transactions.

Such a move would provide urgent, additional funding which would revitalize the **Health Millennium Development Goals**, reducing child mortality, improving maternal health and combating AIDS, TB and malaria, at a time when they are perilously off-track and in desperate need of further resources given the global financial crisis.

1. The Health Millennium Development Goals

- **Millennium Development Goal 4: Reduce child mortality**

  Target:
  - Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.
- **Millennium Development Goal 5: Improve maternal health**

  Targets:
  - Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.
  - Achieve, by 2015, universal access to reproductive health.
- **Millennium Development Goal 6: Combat HIV/AIDS, malaria and other diseases**

  Targets:
  - Have halted by 2015 and begun to reverse the spread of HIV/AIDS.
  - Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it.
  - Have halted by 2015 and begin to reverse the incidence of malaria and other diseases.

2. The right to health

To achieve the health Millennium Development Goals (MDGs) and make a difference to the lives of people in the poorest parts of the world, all aid processes, policies and modalities must promote and put into practice the following:

The right to health

- The right to health is enshrined in international commitments such as the Universal Declaration of Human Rights (1948) and the Declaration of Alma-Ata (1978).

- Health is a fundamental right of all people. This obliges states to protect physical and mental health and well-being. It requires legal and policy frameworks that support non-discrimination and equality, and promote universal access to resources and services. It also necessitates the participation of civil society in the design and implementation of policies and programmes and in holding governments to account.

Gender equality

- Gender equality is enshrined in international commitments such as the Convention on the Elimination of All Forms of Discrimination Against Women (1979) and the Programme of Action of the International Conference on Population and Development (ICPD) (1994).

- Gender equality involves full equity for women, girls, men and boys, including sexual minorities, in relation to all aspects of social, political and economic life, including health. It requires legal and policy frameworks, complemented by targeted investment in the systematic involvement of gender groups in policy and/or programme decision-making and development. Gender equality is fundamental to realising the right to health.

3. The global financial crisis – a threat to achieving the health Millennium Development Goals

We are facing the worst economic crisis for decades. Even the most prosperous nations are struggling to cope with an economic downturn that is predicted to become significantly deeper and last longer than previous downturns.

Responsibility for the global financial crisis rests with the financial sector in the richest countries. However, it is the poorest and most vulnerable in the least-developed countries who are experiencing the impact most dramatically. The health MDGs are already perilously off track. For example, maternal mortality rates have decreased by less than 1% per year from 1990 to 2005, and in 2009 a woman still dies in childbirth almost every minute.[1] A child born in a developing country is over 13 times more likely to die within their first five years than a child born in an industrial country.[2] Gender also continues to fuel inequalities within health. For example, in sub-Saharan Africa almost 75% of HIV infections in 15–24 year-olds are among young women.[3] The global financial crisis threatens to undermine the health MDGs still further, by reducing much needed aid flows.

4. Global health resource needs

There have been many cries of alarm and even outrage over inadequate global resources for health. Many caveats exist about the potential overlap in funding estimates and about inaccuracies in both resource needs calculations and in projections of future domestic and donor spending. Despite this ambiguity, it is clear that a significant financing gap exists to meet the health MDGs.

According to the World Health Organization (WHO), an additional US$251 billion is needed between 2009 and 2015 to strengthen health systems in 49 low-income countries. By doing so, 23 million deaths would be averted between 2009 and 2015, including up to four million child deaths per year[4]. Furthermore, 39 of 49 low-income countries would achieve MDG 4, 22 of 49 low-income countries would achieve MDG 5 and global targets to reduce malaria mortality would be achieved. To achieve the health MDGs it is critical that more funding becomes available.

Donor and recipient countries must meet their existing financial commitments. However, this would still leave a US$100 billion funding gap in the US$251 billion target identified by the WHO and that further funding still is required to comprehensively achieve the health MDGS, innovative financing mechanisms are urgently required to raise critically needed resources for health.

One of the most prominent ideas in this field is the Currency Transaction Levy (CTL), a proposal to harness some of the vast wealth of the foreign exchange market through a very small levy on currency transactions.

5. The foreign exchange market

The foreign exchange (FX) market is the largest in the world by volume. According to official 2007 figures, US$3.2 trillion[6] of FX transactions occur every day. Over 2007 this equated to US$800 trillion. Unlike most other areas of the financial market, the FX market has continued to grow, even during the economic downturn. For example, in 2009 approximately US$4 trillion of FX transactions occur every day. This will equate to US$1,000 trillion over the course of the year – more than 50 times greater than the total value of all goods and services traded throughout the world each year. The FX market is therefore a very robust income base.

6. The Currency Transaction Levy

The proposed CTL would subject all wholesale or interbank FX transactions of a particular currency globally to a levy of 0.005%. Countries can apply unilaterally a levy on transactions of their own. The tax can be captured wherever the trade takes place in the world. It does not require a global or regional consensus.

Crucially, this levy would only apply to all transactions of particular currencies, not the transactions of all currencies in one particular country. Also this levy would not apply to the retail market used by people to change money when they go abroad, to buy goods or to invest. As a result, the levy would not affect the retail economy directly. In particular, the levy would have no impact on existing trading in goods and services; it would not increase the costs of buying goods and services; it would not change the risks of trading in particular currency-denominated assets; and it would have no effect on the functions performed by a currency (for example, as a medium of exchange, store of value or unit of account). The levy would not affect migrant remittances.

7. Financial transaction levies are commonplace

The FX market is an anomaly in that it remains untaxed. Levies on other types of financial transactions, such as taxes on share and bond trading or bank debits, have a long history. Most have operated successfully for many years and have raised substantial amounts of revenue with no apparent negative impact on the market. For example, in the UK a 0.5% stamp duty on share transactions generated approximately £4 billion in one financial year and had little impact on the London Stock Exchange.[7]

As identified by the All Party Parliamentary Group for Debt, Aid & Trade, all of the G10 countries except Canada have levied financial transaction taxes (FTTs) at some time. Of these, the United States, UK, France, Belgium and Switzerland have existing FTT regimes. The other G10 members have recently dismantled their FTTs, including Japan in 1999, Italy in 1998, Sweden and Germany in 1991 and the Netherlands in 1990. This movement towards the removal or reduction of FTTs has been counterbalanced by recently imposed FTT regimes in India (2004), Peru (2003), Argentina and Colombia (2000), Ecuador (1999), Greece (1998), Finland (1997) and Brazil (1997). In fact, Greece doubled its FTT on share trading in 1999.[8]

The Peruvian FTT involved a 0.1% general FTT that sought to raise finance for the education sector. The International Monetary Fund and others predicted severe negative consequences for the Peruvian economy. However, the Peruvian economy benefited from the FTT. For example, bank deposits and access to credit increased after the introduction of the FTT.[9]

An FTT is similar to a CLT. However, there are some important differences. For example, a CLT can easily be applied unilaterally and would not cause trading activities to move offshore (see below). Whereas, a FTT would apply to the retail market and, as a result, would apply to migrant remittances and individual currency exchanges, although at such a low rate that an individual spending money overseas would not notice the difference.

8. Collection

The last two decades have seen significant changes in the way FX transactions are settled nationally, using Real Time Gross Settlement systems (RTGS), and internationally, using the Continuous Linked Settlement (CLS) Bank. The FX market is now fully electronic and operates through an interconnected and interdependent global network of central banks and national payment systems that cooperate in the oversight of cross-border payment systems, such as the CLS Bank.[10]

A CTL would therefore be feasible, efficient and inexpensive to implement. Indeed, according to Professor Rodney Schmidt, ‘the technology and institutions now in place to support [the FX market] make it possible to identify and tax gross foreign exchange payments, whichever financial instrument is used to define the trade, wherever the parties to the trade are located, and wherever the ensuing payments are made.’[11]

Furthermore, the global standardisation of financial transactions messaging using SWIFT (Society for Worldwide Interbank Financial Telecommunications) would make the payment and collection of the levy automatic, no matter where the transaction occurred; be it on Wall Street or in the Cayman Islands. As a result, the levy would not impact negatively on one or more financial centres or cause more trading to be conducted offshore.

There is also little scope for avoidance. Since the attacks on the World Trade Centre on 11 September 2001, financial controls to combat money laundering and the financing of terrorism have tightened considerably. Evasion in this climate is very difficult, especially as all electronic transactions leave an electronic trail. Indeed, experts have commented that if a CTL were introduced at as low a rate as 0.005%, avoidance would be more costly than compliance.

City firm pilots currency transaction levy

In May 2007, INTL Global Currencies, a City of London firm specialising in foreign exchange with developing countries, ran a week-long trial of a CTL. In the process, it raised £4,000 for the charity, Widows and Orphans International. In his evidence to the All Party Parliamentary Group for Debt, Aid and Trade Inquiry, Philip Smith of INTL Global Currencies explained: 'It's not a huge amount but we felt it was illustrative of a week's turnover for us across all our countries. And we're not an enormous entity which would have raised a lot more.' He said it took a 'press of a button' to add the levy into its system. He said INTL had informed its clients about what was happening and said the feedback was very positive. Nobody had commented on any problems and he added that rolling the levy out on a larger basis would be very simple: 'It's just an extra feature in our dealing system and I would imagine every financial institution would have a similar set-up'.

Source: Report of the All Party Parliamentary Group for Debt, Aid & Trade, Meeting the Millennium Promise (2007).

Ethical Currency launches a CTL

In August 2009, Ethical Currency became the first FX broker in the world to voluntarily levy 0.005% on all of its transactions. Ethical Currency's founder, Alastair Constance, recognised that 'as funding for international development becomes more scarce, we need to be creative about finding new and sustainable sources of income'. The money raised will be donated to the Global Fund to Fight AIDS, Tuberculosis and Malaria.

Alastair Constance believes a similar levy would be easy for traders to replicate as FX transactions are all electronic and that, over time, the tax would be barely noticed.

Source: Report The Guardian, The time is ripe for a Tobin Tax, Thursday 27 August, 2009

9. Market distortion

A CTL rate of 0.005% (half of one-hundredth of 1%) is too small to alter decision-making in the market and yet high enough to yield a substantial revenue stream (see below).

Indeed, Professor Joseph Stiglitz, who heads the UN President's taskforce on the financial crisis, has said: 'I cannot believe a sterling stamp duty at the rate of 0.005% would result in the diversion of financial transactions from the UK to other countries.'[12]

Similarly, in work for the UN University in 2007, Professor Rodney Schmidt undertook the most detailed econometric modelling to date, confirming that at a rate of 0.005% the levy is too low to affect decisions to trade.

Furthermore, a CTL could not be avoided by moving activities into the derivative market, particularly as derivative contracts are also ultimately settled in the traditional FX market. Similarly, moving activities to 'contracts for difference' (CFDs) and 'non-deliverable forwards' (NDFs), where only the difference between the contracts is settled - as opposed to the gross value of the transactions - would not avoid a CTL in the majority of cases. Financial institutions usually seek to hedge the risk associated with CFDs and NDFs through the FX market. The CLS Bank now also settles derivatives contracts, offering a 'complete end-to-end' service for the settlement of cash positions for NDF contracts – further simplifying the CTL collection process.[13]

10. Incidence

Large international banks dominate the global FX market. In the first instance, the economic footprint of the CTL would therefore fall upon the large financial institutions that are members of the CLS Bank and the RTGS.

A CTL rate of 0.005% may cause FX trading activity in the wholesale market to fall by 14%.[14] However, this would not affect the normal operation of the market. For example, between 1998 and 2001 the US dollar interbank market fell by 11% without any effect on the normal operation of the FX market. Furthermore, a CTL rate of 0.005% would not prevent further growth in the FX market. For example, if a CTL rate of 0.005% had been levied on the pound in 2004, by 2007 the sterling market would still have increased in trading volume by 26%.

A CTL on a specific currency would also be dispersed widely throughout the global financial system. Given that banks will, as far as possible, pass on any costs to their wide range of clients, a CTL would not impact one institution or financial centre more than another. Importantly, a CTL rate of 0.005% would also have minimal impact upon any bank's clients. For example, the CTL would account for approximately US$117 per US$2 million transaction or £500 charge per £10 million transaction. The impact on UK exporters, for example, would be approximately just 0.3% of their annual profits, which is very small when set against the many other factors that influence company profitability.[15]

11. Precedent

UNITAID, which is financed principally through aviation levies and has helped drive down drug prices and develop new treatments for HIV, TB and malaria, exemplifies the use of nationally collected tax revenue, pooled internationally and spent on a global public good. Importantly, it has not required universal participation to work. Countries that wish to participate work together to harness the income stream. A CTL would operate according to the same principle.

The Currency Transaction Levy is not the Tobin tax but a solidarity levy

It is important to clarify that the CTL is not the same as the Tobin tax. It differs fundamentally from the Tobin tax in that it is born of a different time, proposed at a different rate and designed for a different purpose.

James Tobin's original idea in the 1970s sought to alter motivation in the foreign exchange market, to impede daily currency trading and to discourage speculative activity. It proposed a rate of 1% – 200 times the 0.005% rate set out here – and the income was not designated for a specific purpose, such as development. The Tobin tax actively sought to alter the structure of the market.

The CTL is entirely different. Its raison d'être is as a financing instrument for development. Its rate is designed specifically not to hamper normal market operations but to take a relatively small amount from the volume traded. The two proposals have only one element in common: they are both associated with currency.

Source: David Hillman, Sony Kapoor and, Stephen Spratt, Taking the Next Step, Implementing a Currency Transaction Development Levy (2006)

12. Projected revenue

Based on 2007 Bank of International Settlement figures, a CTL rate of 0.005% levied only on the US dollar would yield an annual revenue of US$28.38 billion. In comparison, it would yield US$12.29 billion annually if levied solely on the euro, US$5.59 billion annually if levied solely on the yen and US$4.98 billion annually if levied solely on the pound.[16]

A CTL rate of 0.005% levied on all major currencies would yield an annual revenue of US$33.41 billion – just US$5.03 billion more than a levy on the US dollar alone. This is because most foreign exchange transactions occur among the major currencies and most involve the US dollar. In comparison, a CTL rate of 0.005% on all the major currencies except the US dollar would annually yield a revenue of US$21.24 billion. A coordinated CTL on just the euro and pound together would annually yield US$16.52 billion.[17]

13. Window of opportunity

The global financial crisis, and the role the financial sector has played in this, has led to a demand to re-examine the rules, regulations, boundaries and 'social usefulness' [18] of the financial sector. In the past year governments have had to step in to bail out major banks in Europe and the United States. The effective nationalisation of major banks needed to keep the financial industry afloat means that governments have greater ability to introduce regulation to curb risk. Increased demand for a more equitable global financial system has led to calls for the implementation of the CTL. The Chair of the UK's Financial Services Authority, Lord Turner, has called for discussions on the CTL. G20 leaders, led by French President Nicolas Sarkozy and German Chancellor Angela Merkel, have expressed an interest in taking forward the implementation of a FTT and a CTL.

While- implementing greater financial oversight and restrictions on the kinds of products that have caused the financial crisis, it is possible to review the one area of the financial industry that historically has remained exempt from taxation: foreign exchange transactions. As an additional source of revenue, a CTL would go a long way towards filling the funding gap faced by the Health MDGs and enabling developing countries to achieve these targets and, in turn, provide effective healthcare to those who need it most.

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[16] *Rodney Schmidt, The Currency Transaction Tax: Rate and Revenue Estimates, October 2007.*

[17] *Rodney Schmidt, The Currency Transaction Tax: Rate and Revenue Estimates, October 2007.*

[18] *Lord Adair Turners, Times Online: http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article6811548.ece*

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