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H. CON. RES. 301

Expressing the sense of the Congress that the United States, in concert with the international community, should enact transaction taxes on short-term, cross-border foreign exchange transactions to deter speculation.

IN THE HOUSE OF REPRESENTATIVES

APRIL 11, 2000

Mr. DEFAZIO (for himself, Mr. SANDERS, Mr. JACKSON of Illinois, and Ms. KAPTUR) submitted the following concurrent resolution; which was referred to the Committee on Banking and Financial Services, and in addition to the Committees on Ways and Means, and International Relations, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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CONCURRENT RESOLUTION

Expressing the sense of the Congress that the United States, in concert with the international community, should enact transaction taxes on short-term, cross-border foreign exchange transactions to deter speculation.

Whereas every day over $1.8 trillion in currency exchanges moves across national borders, a volume far greater than in the last decade;

Whereas such rapid movement of foreign currency has created some additional opportunities for legitimate productive investment, but also has created the potential of triggering national currency collapses and resulting financial crises;

Whereas daily trading in currency markets increased from \$0.2 trillion to over \$1.8 trillion in just over a decade, from 1986 to 1998; by comparison, the trade in goods and services for all countries for an entire year is only \$4.3 trillion; and, therefore, in less than a week, foreign exchange transactions exceed the entire annual volume of world trade in goods and services;

Whereas over 85 percent of these transactions are of a purely speculative nature where investors bet on whether currency values and interest rates will move up or down, and thus bear little or no relationship to the production and trade in goods or services;

Whereas more than 40 percent of all these transactions involve round trips of fewer than 3 days, and over 80 percent of global foreign exchange transactions involve round trips of less than a week;

Whereas the vast majority of transactions take place in relatively few financial centers, particularly the United Kingdom (32 percent), the United States (18 percent), Japan (8 percent), Singapore (7 percent), Germany (5 percent), Switzerland (4 percent), Hong Kong (4 percent), and France (4 percent);

Whereas these speculative transactions themselves often cause short-term fluctuations of exchange rates, thus provoking more speculation;

Whereas such volume and volatility of liberalized capital flows not only threatens national currency devaluation and financial crises, but disrupts the ability of nations to establish equitable and just economic policies; to intervene to protect their own currencies; and to provide support for needed social and environmental programs;

Whereas in the past, central bank reserves were sufficient to combat any speculation on their country's currency; now, however, financial speculators have created a daily market volume which dwarfs all of the world's central banks combined; and therefore, when a country cannot defend its currency, it effectively loses control of its monetary policy;

Whereas such speculative pressure on a currency results in higher interest rates than is warranted by internal monetary conditions, leading to a lowering of economic growth and an increase in domestic unemployment with the related social problems;

Whereas there is overwhelming evidence that the lack of stability helps to cause financial crises with increasing frequency (1992/93 Europe, 1994 Mexico, 1997 Southeast Asia, 1998 Russia, 1999 Brazil), even in countries where basic economic fundamentals are sound, and the market reacts irrationally to rumors (''herd behavior''), causing ''speculative bubbles'' to burst when speculators flee a particular currency;

Whereas such financial crises can have enormous impact worldwide; for example, the Asian currency crisis lowered the world growth projection for 1998 by one percent and increased worldwide unemployment by 10 million; and unpredictable exchange rate fluctuations create additional uncertainties for entrepreneurs, making rational planning more difficult;

Whereas such crises have not only economic impact, including exacerbation of global economic inequality, but also social impact including increased unemployment, price increases and disruptions, plant closures, poverty, human rights violations, diversion of resources from sustainable development, and social upheaval, which burden poor, indigenous, and middle-income populations most heavily;

Whereas such impacts in other nations have a spillover effect in the United States and elsewhere by contributing to increased trade imbalances, dumping of low-price products on overburdened markets, and contributing to increased unemployment, volatility in agriculture markets, and stagnant or falling wages;

Whereas de facto support by governments and international institutions of excessive financial speculation may undermine desired macroeconomic policies and contribute to moral hazard and irresponsible market behavior;

Whereas excessive speculation could be curbed by a very small tax of between 0.1 percent and 0.25 percent on each cross-border currency transaction (now commonly called ''Tobin-style taxes'', as proposed in 1978 by Nobel prize winning economist James Tobin), or an alternate 2-tiered version (proposed in 1996 by German economist and International Monetary Fund consultant Paul Bernd Spahn);

Whereas such a tax reduces incentives for short-term speculation while remaining small enough to leave longer-term investments intact, with the resulting increased stability of exchange rates serving as a stimulus for productive trade;

Whereas the senior economist of the Federal Reserve Bank of San Francisco has written, ''. . . if your goal is to limit short-term speculation, it is hard to beat the Tobin tax'';

Whereas the revenues from such a tax, projected to be between $50 billion and $300 billion a year, would provide urgently needed resources to combat global and local crises;

Whereas concerns voiced about tax havens and the collection and enforcement of such taxes have been researched by economists, and plans proposed to answer these concerns, such as collection at settlement sites to ensure universality and to track derivative instruments, as proposed by Schmidt; and

Whereas there is already an international movement in support of a transactions tax, including passage of a resolution in the Canadian Parliament, introduction of resolutions in the European Parliament, the French Parliament, and British House of Commons, substantive discussion of the issue in the European Parliament and the parliaments of Switzerland and Germany, plus a chapter in the current Finnish Government rules: Now, therefore, be it

Resolved by the House of Representatives (the Senate concurring), That it is the sense of the Congress that:

(1) the United States should show leadership by enacting, in concert with the international community, transaction taxes on short-term, cross-border foreign exchange transactions to deter speculation and that the adoption of such Tobin-style taxes should be done in coordination with a large number

of nations, in a fully transparent and accountable manner, with the revenue dedicated to urgent global needs;

(2) the United States should build support for and advocate this position at the World Bank and the International Monetary Fund, as well as within other regional and international organizations, including the Organization for Economic Cooperation and Development, the G–8, and the newly established G–20; and

(3) this should not be done in isolation of other initiatives for reform of global finance. Instead, the United States should continue to explore other options together with the international community. These options include, but are not limited to tougher transparency rules, tighter reserve requirements, creation of exchange rate ''target zones'' national currency controls, cash requirements for mutual funds, and stronger source-country measures such as disincentives for short-term lending.

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