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Disarming the markets

The storm that has hit the money markets in Asia and affected the rest of the world is part of a wider danger. That is financial globalisation, which has become a law unto itself with its own powers, embodied by institutions such as the IMF, the World Bank, the OECD and the World Trade Organisation. Together, they threaten the power base of real states in the real world.

by Ignacio Ramonet

The hurricane that has hit the money markets in Asia poses a threat to the rest of the world. The globalisation of investment capital is causing universal insecurity. It makes a mockery of national boundaries and diminishes the power of states to uphold democracy and guarantee the wealth and prosperity of their peoples.

Financial globalisation is a law unto itself and it has established a separate supranational state with its own administrative apparatus, its own spheres of influence, its own means of action. That is to say the International Monetary Fund (IMF), the World Bank, the Organization for Economic Cooperation and Development (OECD) and the World Trade Organization (WTO). These four powerful institutions are unanimous in singing the praises of "market values", a view faithfully echoed by most of the major organs of the media.

This artificial world state is a power with no base in society. It is answerable instead to the financial markets and the mammoth business undertakings that are its masters. The result is that the real states in the real world are becoming societies with no power base (1). And it is getting worse all the time.

The WTO, which took over from GATT in 1995, is now an institution with supranational powers, subject to none of the checks and balances of parliamentary democracy. If a case is referred to it, it has the power to declare national legislation on employment, public health or environmental matters "contrary to the interests of free trade" and insist that it be repealed (2). And, in

OECD, beyond the reach of public opinion, a very important agreement called the Multilateral Investment Agreement (MIA) has been under negotiation since 1995 and is likely to be signed in 1998, giving investors full powers vis-à-vis governments.

The task of disarming this financial power must be given top priority if the law of the jungle is not to take over completely in the next century.

Some $1,500 billion change hands on the world's money markets many times every day in speculation on exchange rate variations. This instability is one of the main causes of the rise in real interest, which acts as a brake on consumer spending and industrial investment. It increases national debt and encourages pension funds handling hundreds of billions of dollars to insist that firms pay ever higher dividends. The first victims of this quest for profit are of course the employees. They are laid off in shoals to improve their erstwhile employers' ratings on the stock exchange, which go up by leaps and bounds. How long can society continue to put up with this intolerable situation? The time has surely come to put a stop to these destructive movements of capital. There are three ways to tackle the problem: close down the "tax havens", increase tax on unearned income, and levy a tax on financial transactions.

Tax havens are enclaves where the banks' code of confidentiality reigns supreme, providing a convenient cloak for embezzlement and other criminal activities. Hundreds of billions of dollars are stashed away out of reach of the tax authorities for the benefit of powerful individuals and financial institutions. All the major banks in the world have branches in tax havens and make a tidy profit out of their activities. Why not, for example, declare a financial embargo on Gibraltar, the Cayman Islands or Liechtenstein by prohibiting banks that do business with the public authorities from opening branches there?

The power to levy taxes on unearned income is a sine qua non of democracy. Such income should be taxed at exactly the same rate as earned income. But this is not the case anywhere, least of all in the European Union.

Absolute freedom of movement for capital undermines democracy and we need to introduce machinery to counter its effects. One such mechanism is the Tobin tax, named after the Nobel prize-winning American economist who suggested it back in 1972. The idea was to impose a modest tax on all exchange transactions, to stabilise the markets and generate revenue for the international community. At 0.1%, the Tobin tax would bring in some $166 billion a year, twice the annual amount needed to abolish the worst poverty by the end of the century (3).

Many experts have said there would be no particular technical difficulty about introducing this tax (4). It would spell the end of the liberal dogma subscribed to by all those people who love to tell us that there is no alternative to the present system.

Why not set up a new worldwide non-governmental organisation, Action for a Tobin Tax to Assist the Citizen (ATTAC)? With the trade unions and the many social, cultural and ecological organisations, it could exert formidable pressure on governments to introduce this tax at last, in the name of universal solidarity.