Funding the Future

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This is one of a series of posts that will ask what the most pertinent question raised by a prominent influencer of political economy might have been, and what the relevance of that question might be today. There is a list of all posts in the series at the end of each entry. The origin of this series is noted here.

After the first two posts in this series, the topics have been chosen by me, and this is one of those. This series has been produced using what I describe as directed AI searches to establish positions with which I agree, followed by final editing before publication.

James Tobin, a Nobel laureate in economics, is best known for his suggestion of a tax on foreign exchange transactions, now known as the "Tobin tax." This was designed to reduce speculation in the international currency markets, which he saw as dangerous and unproductive. In the context of the discussion on this blog of the need for capital controls to transfer control of capital markets back to democratic control, Tobin's work is more than. worthy of inclusion in this series on economic thinkers whose work has, or will, influence change in our society.

James Tobin, a Nobel laureate, advisor to presidents, and one of the most respected economists of the twentieth century, proposed a simple idea with extraordinary implications: a tiny tax on foreign exchange transactions, representing just a fraction of a per cent, and so small that long-term investors would barely notice, but significant enough to discourage the rapid-fire speculation that destabilises economies and enriches speculators while creating nothing of social value.

Tobin’s proposal emerged in the early 1970s, just as financial markets were supposedly being liberated from the Bretton Woods constraints and global capital mobility was exploding. He saw what others refused to confront: that unconstrained finance was becoming an international casino, and society would end up paying the bill when the bets turned bad.

His logic was straightforward: if finance is going to extract wealth from society, society has a right, and even a responsibility, to reclaim a portion of it for public purpose.

Hence the James Tobin Question: ***If a small tax on financial speculation could curb destructive short-termism and fund the public good, why have governments allowed the financial sector to veto it for half a century?***

Finance without friction

Tobin understood that markets become dangerous when transactions are too cheap to think twice about. When speculation costs almost nothing, financial actors can gamble with trillions, moving capital across borders at the speed of light, destabilising currencies, pricing fundamentals out of existence, and triggering crises that governments must clean up.

As a result, he proposed introducing minimal friction into the system via taxation, not to halt finance, but to civilise it. This very small tax would force speculation to bear part of its social cost. Finance would be nudged away from destructive churn and toward investment grounded in the real economy.

It was a modest proposal for a world facing an immodest problem.

Wall Street declared war

From the moment Tobin proposed the tax, the financial industry recognised the existential threat that it created of accountability. The response was fierce:

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The tax was dismissed as naïve.

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It was attacked as being anti-market.

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It was branded a threat to liquidity, and

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Condemned as a brake on so-called efficiency.

Behind the rhetoric was fear, not of economic harm, but of losing political dominance. The idea that finance should pay its way challenged the doctrine of market infallibility that underpinned deregulation and rent extraction. So the industry killed the idea, softly, relentlessly, globally.

The 2008 crisis proved Tobin right

When the financial system imploded in 2008, the public paid with bailouts, unemployment, austerity, lost pensions, and shattered lives, a fate shared with many smaller businesses.

The crisis revealed that finance had grown too large, too leveraged, too unregulated and too unaccountable. It was a system that privatised gains and socialised losses, exactly as Tobin had warned.

And yet, after the dust settled, the system was rebuilt with the same architecture, the same incentives, the same political protection and still with no Tobin Tax.

The revenue could transform society

A small levy on high-frequency transactions could raise tens of billions annually in a single country like the UK, and hundreds of billions worldwide. That revenue could shift the demands for taxation to control inflation from work onto finance, and in the process would reprice finance so that it would bear the costs of its own economic externalities. A Tobin Tax would shift power from unproductive speculation to public purpose. It is no wonder that the finance industry opposed it.

The myth of liquidity exposed

Critics insist that taxing speculation would reduce liquidity, which they consider essential to the survival of their chosen economic system of speculation. However, much of today’s liquidity is high-frequency noise, driven not by allocating resources efficiently but by harvesting fleeting arbitrage profits. They miss the point that liquidity that destabilises is not liquidity at all. It is systemic risk, rebranded.

What answering the James Tobin Question would require

To finally adopt the Tobin Tax, in both spirit and function, would require:

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Reasserting democratic control over finance, acknowledging that markets exist by public permission, and not divine right.

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Exposing the myth that finance is always productive, recognising that speculation is often a form of rent extraction.

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Building international cooperation, refusing to allow capital flight to blackmail governments.

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Confronting concentrated power because finance will not give up privileges without resistance.

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Reframing taxation as civic responsibility, especially for those who profit most from globalisation while contributing least to the societies that enable it.

This is not a technical challenge but a political one.

Inference

The James Tobin Question reveals a stark truth: the obstacle to a fairer financial system is not complexity, but power.

A tax so small most citizens would never notice it could reduce volatility, raise significant public funds, and push finance toward serving the real economy. For half a century, we have known this, and for half a century, we have allowed the financial sector to say "no".

To answer Tobin's question is to ask a more fundamental one: who governs our economy? Is it public institutions accountable to citizens, or private interests accountable only to themselves?

If democracy means anything in economics, the Tobin Tax should already exist.

Its absence is the measure of how much democracy we have left to win.

Previous posts in this series:

* ***The economic questions***
* ***Economic questions: The Henry Ford Question***
* ***Economic questions: The Mark Carney Question***
* ***Economics questions: The Keynes question***
* ***Economics questions: The Karl Marx question***
* ***Economics questions: the Milton Friedman question***
* ***Economic questions: The Hayek question***
* ***Economic questions: The James Buchanan question***
* ***Economic questions: The J K Galbraith question***
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* ***Economic questions: the Joseph Schumpeter question***
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* ***Economics questions: the John Rawls question***
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* ***Economic question: the Tony Judt question***
* ***Economic questions: The Nancy MacLean question***
* ***Economic questions: The David Graeber question***
* ***The economic questions: the Amartya Sen question***

* ***Economic questions: the Jesus of Nazareth question***
* ***Economic questions: the Adam Smith question***
* ***Economic questions: (one of) the Steve Keen question(s)***
* ***Economic questions: the Stephanie Kelton question***
* ***Economic questions: the Thomas Paine question***
* ***Economic questions: the John Christensen question***
* ***Economic questions: the Eugene Fama question***
* ***Economic questions: the Thomas Hobbes Question***

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