Of all the concepts I noted in my post on making capital controls work this morning, the one likely to be most unfamiliar is Spahn taxation, so I have added a glossary entry on this subject, as follows:

Spahn taxation

The Spahn tax is a proposed system for taxing foreign exchange transactions in order to reduce harmful financial speculation. It was developed by German economist Paul Bernd Spahn as an alternative to the Tobin tax, or an addition to it.

Spahn argued that a flat-rate transaction tax, as James Tobin proposed, risked penalising routine, low-risk currency trades that facilitate international trade and long-term investment. Instead, he suggested a two-tier system:

*
A very low basic tax rate

This would apply to all foreign exchange transactions. Its purpose is not to stop trade or long-term investment, but to provide a small friction that slightly slows down high-frequency speculative activity and raises some revenue.

*
A high, variable surcharge

This would only apply in periods of excessive exchange-rate volatility, when speculation becomes predatory and destabilising. The surcharge acts as a circuit-breaker, helping central banks prevent destabilising capital flows without banning foreign exchange activity.

The key innovation is that the surcharge only triggers under specific market conditions, which are identified and enforced by regulation or automated systems.

Spahn taxation sits within a wider set of tools, including capital controls, aimed at protecting countries from speculative attacks that can destroy economic stability. From my politics of care perspective that underpins Funding the Future, Spahn taxation recognises that financial markets serve society, not the other way around. Markets should not be allowed to impose crises on democratic economies in the pursuit of private profit.

The broader implication is that currencies are public goods. Their stability is essential to everyday life, wages, savings, pensions and investment. Spahn taxation helps ensure that those who try to profit from volatility bear a cost while those engaged in genuine trade and investment are largely unaffected.

Comments

When commenting, please take note of this blog's comment policy, ***which is available here. Contravening this policy will result in comments being deleted before or after initial publication at the editor's sole discretion and without explanation being required or offered.***