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## Plan B: Agree financial transaction tax

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A protester from the 'Robin Hood Tax Campaign' in Westminster. Photograph Getty Images

Dear Chancellor,

As you know, I supported your government's call for getting the deficit under control and I like it that this coalition government is taking a five-year perspective and laying out a medium-term expenditure framework.

It was and is important to get deficits under control. But in this deficit-cutting process, both the US and the UK need greater investment as well, notably in human capital, infrastructure and science and technology.

As these are key, I would urge budgetary adjustment that emphasises cuts in wasteful spending (for instance, I am urging the US to end its costly and ineffective military operations in Afghanistan and Iraq) but raises spending meaningfully on investment in primary, secondary and higher education,

skills development, modernised infrastructure, low-carbon energy systems and other high priorities, backed by higher tax revenues collected efficiently and equitably, especially from the top tier of income and wealth distribution.

This is especially urgent in the United States. The top 1 per cent of income earners in the US has enjoyed soaring real incomes even as the incomes of most Americans have languished. At the same time, the top 1 per cent has also benefited from fiscally unaffordable de facto cuts in federal tax rates.

For this reason, I am strongly supporting the call for a financial transaction tax, or FTT, which I believe would add efficiency to the global financial system by reducing destabilising speculation (as argued by James Tobin 40 years ago) and by raising revenues fairly from the undertaxed, high-income financial sector. As you know, we have a race to the bottom in the world tax system as the UK, US and others jostle to attract mobile capital. This race to the bottom in taxation and regulation was one reason that the financial system became dangerously deregulated in the lead-up to 2008. It is also why US corporate tax revenues as a share of GDP are plummeting. US multinational companies are increasingly hiding their profits in the Cayman Islands and other tax havens.

All countries have a shared interest in ending these tax havens. The FTT will collect on some of this hidden income. We can and should go beyond the FTT by clamping down directly on tax havens through a globally co-ordinated effort, starting within the G20.

I understand that the UK position is that it will adopt the FTT if the US does so. The US urgently needs the

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revenues, the fairness and the efficiency of an FTT. May I kindly urge that you use your global influence within the G20 and bilaterally to ensure that the US signs up to the FTT, and so that the US, the UK, the EU as a whole and other regions avail themselves of this opportunity both to improve efficiency in the world financial markets and to raise revenues in an equitable manner.

Even if the US does not, I would hope that the UK and all other members of the EU would agree to such a tax. It would be in your shared interest and would set a powerful standard for other countries, including my own, to follow.

*Professor Jeffrey Sachs is director of the Earth Institute at Columbia University, a special adviser to the UN secretary general, Ban Ki-moon, and a «personal adviser» to George Osborne on development*

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