address dealers who trade currencies (and other assets) speculatively through a series of very short term transactions, where profit is made in the form of small percentages on large volumes. However even a small tax on each transaction (the idea is often associated with a 0.5% tax) [but more recently as low as 0.003% - the Walker tax proposal] could be sufficient to **reduce** liquidity in financial markets and actually lead to an **increase** in volatility, because less liquid markets are considered more volatile since large gaps can open between bid and ask prices resulting in potentially large price movements. In addition, since it would be impossible for tax administrators to target speculators specifically, all market participants would be subject to the tax, including those trying to hedge legitimate business exposures. It is conceivable that the tax, no matter how small, could price hedging instruments beyond the reach of some businesses, and ultimately reduce economic activity. Further, the Tobin tax would need to be introduced globally and at the same rate, or transactions would move offshore to tax-free or lower tax jurisdictions. From a practical perspective, the coordination and cooperation required for the introduction of a global tax would present innumerable, likely insuperable difficulties".[5]

Yet the tax continues to have its supporters. Most recently, the Office of Development Studies of the UNDP sponsored a conference on "New and Innovative Financing for Development Cooperation" in New York in October 1995. The conclusions of the Conference were that <u>if</u> major trading centres applied it, the tax would be feasible and could be implemented by each national government. Finally, the Conference Report argued that depending on the optimal rate at which the tax would be levied, and depending on which foreign transactions would be targeted, "a consequent revenue estimate of 55 to 220 billion dollars a year (allowing for tax exemptions, tax evasion, and the reduction of the tax base as a result of its imposition)"[6] was possible. While considerably more upbeat than previous studies, the Conference Report fails to address the question of accountability (of both the UN and member states) as well as glossing over the free-rider problem of "rogue states". Without the adherence of almost all states to an international convention, and without an adequate penalty system to deal with non-signatories, the transfer of funds to international tax havens (or legitimate financial centres which are not part of the system) would occur. The report also does not adequately refute McCormack's arguments on liquidity and volatility in financial markets. The UNDP Office will publish a position paper in the spring of 1996 which will address the issues raised above. Consultations with member states about the viability of such a proposal could occur

[5] James McCormack, "Traders in Tennis Shoes: Derivatives, Volatility, Risk and Supervisory Issues", Policy Staff Commentary No. 11, May 1995, p.4.

[6] Conference Report on "New and Innovative Financing for Development Cooperation", Office of Development Studies, UNDP, New York, 10 October 1995.