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Taxing the rich to help the poor

IN 1978, Nobel prize-winning American economist James Tobin proposed a worldwide tax on all foreign exchange transactions. Tobin argued that such a tax would reduce exchange rate volatility and bring in a lot of revenue to support international development efforts. In his McDougall Memorial Lecture in Rome on Saturday, Tun Dr Mahathir Mohamad proposed a world corporate tax to provide the funds needed by poor nations to develop their economies. The Tobin tax focused on the money market because it is bigger than all the other economic markets combined, and even a tiny tax would release billions to help the world's poorest.

In similar vein, Dr Mahathir has suggested a tax on the profits of the multinationals because of the wealth they generate in the world economy. According to the Institute for Policy Studies in Washington, 51 of the world's largest economic entities are corporations, and the combined sales of the top 200 multinationals are 18 times the combined incomes of 1.2 billion people in the poorest countries.

Although the Tobin tax has its advocates, it has not been implemented, and despite the five-minute applause he received, Dr Mahathir recognises that his proposal will not be welcomed by some. If it sounds "too idealistic if not downright absurd", then the same can be said of the development goals set out at the UN Millennium Summit in 2000, which include universal primary education, halving world poverty, and reducing child deaths by two-thirds by 2015.

According to the recent annual UN Human Development Report, 54 countries are poorer now than 10 years ago, and some will not meet the goals for 50 years. In 31 top priority countries, progress towards the goals has stalled or begun to reverse itself. This has not prevented member countries from subscribing to them, because these are desirable goals. The world has the wealth and means to end poverty. However, if poverty is to be reduced, this wealth has to be redistributed. This is the essence of Dr Mahathir's global tax plan, and it merits serious discussion because it offers a way to free much of the world from the shackles of poverty and the dangers of injustice and inequality.