Good Taxes: The Case for Taxing Foreign Currency Exchange and Other Financial Transactions

by Alex C. Michalos

Toronto: Dundurn Press, Science for Peace Series, 1997, Pp. viii, 87.

This book is called *Good Taxes* because the author Alex C. Michalos strongly believes that financial taxes in general and the Tobin tax in particular are good taxes. By this he means: they generate enough revenue to pay for public goods including the social safety net; they are levied in proportion to ability to pay; and they are administratively manageable and cost effective. The author claims to construct a reasonable sort of benefit-cost analysis of financial transaction taxes, but his analysis is literary not quantitative.

The meat of this book is contained in two chapters: the first presents 19 arguments in favour of financial transactions taxes made by proponents; and the second offers rebuttals for 20 arguments against financial transactions taxes by opponents. While the underlying literature review is thorough, the point of view is not surprisingly relatively one-sided. The book does, however, present a handy survey of the estimates of the amount of revenue that might be raised by a Tobin tax.

A drawback of the book is very academic in style and is filled with many long quotes that make for choppy reading.

Strangely, the book does not systematically offer the author's own argument in favour of a Tobin tax. Instead, the reader is left to infer this from the views the author expresses about the arguments of others. Consequently, the reader looking for a strong coherent case for a Tobin tax is likely to be disappointed. Rather all she will find is a smorgasbord of supporting arguments.

The author never clearly reveals if he prefers a Tobin tax or would settle for any kind of financial transaction tax. The answer to this question of course depends on what you want the tax to do. The author is not very clear on this. His fondness for financial transaction taxes appears to stem from his belief that any type of financial transaction tax is good because it takes money from the rich to spend on the poor. In other words, he believes that financial transactions constitute a good proxy for ability to pay. Unfortunately, no empirical analysis is presented in the book to demonstrate that this is indeed the case. The reader is left with nothing more than the author's assertion.

The author also never really satisfactorily addresses the efficiency arguments against the taxation of financial transactions. The theory of optimal taxation suggests that from the point of view of allocative efficiency it is best to tax transactions where supply and/or demand are most inelastic, thereby approximating the impact of a lump sum tax and minimizing distortions. On this criterion, financial transactions are not the obvious candidates for excise taxation.

If you are already familiar with the pros and cons of financial transaction taxes and want a convenient list of all the arguments on both sides or alternatively if you wish to see how one knowledgeable supporter of the concept deals with the arguments, this book might be for you. On the other hand, if you are not already familiar with the issue and want a coherent primer on financial transaction taxes, you might not find this book to be very enlightening.

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