Analytical Report on the Stakeholders' Meeting/ Validation Workshop of the Case Study on the Philippine Movement on Global Taxation Initiative

RONALD C. MOLMISA[1]

(A stakeholders' meeting was held on March 21, 2006, at the Third World Studies Center, University of the Philippines, Diliman, Quezon City, to validate the preliminary findings of the initial written research report and to provide respondents-movement participants a venue to further discuss the issues on the Tobin tax implementation in the Philippines. Thirteen individuals from the Philippine Research Team, government, and civil-society organizations attended the activity.)

INTRODUCTION

The study on the involvement of Philippine civil society in the Tobin Tax agenda has three objectives: (1) to serve as an exploratory research on the involvement of local civil-society organizations and personalities in the Tobin tax campaign, (2) to ascertain the current level of discourse on the subject, and (3) to determine the linkages between local social movements and global civil society groups tackling the issue.

The draft paper is divided into four sections. The introductory part presents the issues and concerns surrounding the tax proposal. The next chapter provides a background on the liberalization of the Philippine financial sector which led to the emergence of discourse on capital controls during the 1997 financial crisis. This is followed by a survey of major civil-society organizations and personalities that publicly took the issue. The last section synthesizes the findings of the research.

Overall, the research concludes that the Tobin tax movement in the country did not prosper because there is not much public interest in the issue as manifested in the hibernation of the discourse after the financial crisis. It has not been an urgent and priority issue in the Philippine context because of the government's neoliberal economic policies. Furthermore, the technical nature of the tax proposal likewise makes it difficult for

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[1]Ronald C. Molmisa is a fellow and formerly university research associate of the Third World Studies Center, University of the Philippines Diliman.

policymakers and civil society actors to formulate a coherent agenda.

The major points of discussion during the meeting-workshop were the following:

PHILIPPINE CIVIL SOCIETY INVOLVEMENT

The Focus on the Global South (FOCUS), Action for Economic Reforms (AER), and Freedom from Debt Coalition (FDC) were first exposed to the issue of capital controls at the onset of the 1997 Asian financial crisis. FOCUS aimed to explain the causes of the crisis and how to prevent it in the future. It supported the idea of Tobin tax along the lines of support for other measures of capital controls (e.g., Malaysian and Chilean strategy). However, the organization's interest in the issue was overtaken by its major research on trade issues. AER released papers on capital controls which were submitted to the executives of the Bangko Sentral ng Pilipinas (Central Bank of the Philippines [BSP]) and other policymakers.

Filomeno Sta Ana III, coordinator of AER, explained that capital controls hibernated after the financial crisis. This scenario further dampened any interest in the Tobin tax among policymakers. Economic managers think that there are more feasible measures that can address financial market problems. They can apply pre-established capital controls and regulations (e.g., hard and soft types of regulation). Jessica Reyes-Cantos, vice president of AER, admitted that AER has been confined to policy advocacy because the organization does not have the critical mass of supporters that can lobby in Congress. She cited the bill drafted by former Quezon Representative Wigberto Tañada in the Twelfth Congress. It supports University of the Philippines Professor of Economics Raul Fabella's proposal on "time-graduated capital gains tax." Unfortunately, the bill was not filed because Tañada lost in the 2001 elections. Reyes-Cantos advised that social movements must lobby and convince economists and legislators to advocate for bills supporting short-term capital controls.

On the other hand, Ana Maria Nemenzo, president of the Freedom from Debt Coalition, first learned of the Tobin tax issue in 1997 through a forum on the Asia-Pacific Economic Cooperation in Canada. During that time, she was not yet an active member of the FDC and the organization was still not informed of the global campaign. Like FOCUS, FDC's priorities in recent years have made it difficult for the organization to involve itself deeper in the campaign. FDC is currently preoccupied with privatization issues of public utilities (e.g., water and power). Although it veered away from tax reforms agenda, FDC still supports the issue tangentially.

Aurora Seraspi, economics branch chief of the National Tax Research Center (NTRC) under the Department of Finance, was invited to share insights on the current policies and undertakings of the government pertaining to regulation of short-term capitals and currency transactions. Seraspi revealed that the Marcos administration used to implement a one-percent foreign-exchange tax for a relatively short period. Recently, the NTRC revisited the Tobin tax proposal after the Congressional Planning and Budget Office (CPBO), the research arm of the House of Representatives. The CPBO released a policy proposal on the imposition of a debit tax for withdrawals, savings, current and term accounts. This debit tax is akin to a Tobin tax because it provides financial barring for speculative capitals. It will be imposed for a relatively short period (e.g., six months) if the deficit to the gross domestic product (GDP) is 3.5 percent. It will be removed if the GDP becomes lower than the 3.5 percent.

TOBIN TAX'S TECHNICAL AND POLICY ISSUES

Participants agree that the Tobin tax, if implemented in the Philippines, must not be made as a permanent policy. Its main goal is to prevent speculative capitals. Hence, it must only be applied if there is a surge of portfolio investments just like what happened during the 1995-1997 period among Southeast Asian economies. The Chilean soft tax on capital inflows and Malaysian tax on capital outflows were implemented during the time of excessive speculation. They were later pulled out when the financial threat has passed.

Capital controls must be imposed during normal times or before the crisis so that the government can effectively monitor them. Implementation of the policy during or after the financial disaster will only send wrong signals to financial market players. It is suggested that the Chilean capital control strategy be implemented because it does not only combat speculative capital but also cuts down the short-term foreign exchange liabilities of the country.

For Sta. Ana, the Tobin tax will be most effective if applied at the global level. Hence, a campaign on the Tobin tax would not be effective if confined to the national level. The tax proposal would not be a central concern even for a movement on capital regulations, unless it is situated within a global movement. Even if a civil-society organization lobbies in Congress, the Tobin tax would not be its main advocacy agenda because it would be beyond the knowledge and control of local policymakers.

The Tobin tax would be more relevant to countries where major financial centers are located. There are other ways to regulate the inflow of foreign capital but not necessarily through currency transactions tax. A Tobin tax on the conversion of currency would penalize everyone. For instance, when the Philippine government imposes ad currency transactions tax, all Overseas Filipino Workers who send their foreign remittances to their relatives in the country will be severely affected. This becomes a double burden if the value of peso decreases against the dollar. This brings the question of what transactions must be taxed.

On the issue of who will collect the revenues from the Tobin tax, Reyes-Cantos argued that national governments must be the ones which should collect the tax proceeds. It does not need to be centralized through an international organization lest the revenue-generating aspect of the proposal be undermined.

NEOLIBERALISM VS. TOBIN TAX

It is essential to situate the Tobin tax agenda within the strength of an ideological paradigm. The strength of the neoliberal paradigm that extends to all areas of analysis of economics and policy has made campaigning for Tobin tax a tall order. The doctrine of minimum state intervention is being lauded by policymakers who do not want to interfere with the inflows and outflows of capital. It has been proven that as far as capital controls are concerned less state intervention is detrimental to the country's economy. But since there have really been no credible alternatives, neoliberalism continues to be the dominant paradigm by default.

Bello argued that two components could revive the discourse on the Tobin tax: an ideological break of neoliberalism and another financial crisis. The agenda could prosper in a different context where the two elements exist. There are indications that there could be movement in the future, not so much in the Philippines but in Latin America, where the crisis of neoliberalism and failure of the World Bank-International Monetary Fund make government interventionism a respectable policy.

CONCLUSION AND RECOMMENDATIONS

For the Tobin tax agenda to be popularized in the country, several recommendations were put forth by the participants. First, it must be contextualized within the current concerns of the civil society. At present, social movements are more preoccupied with ousting President Gloria Macapagal Arroyo from office. Given the context, social movements currently do not talk of tax collection but of a tax revolt. Furthering a Tobin tax, which attempts to gain revenues, would contradict the current visions of the civil society.

Second, cooperation between international and local civil-society organizations including the academe must be strengthened. The need to situate that campaign within a global movement or international solidarity is important for the campaign to gain political momentum and receive responses from concerned sectors of the country, especially policymakers.

Finally, the strength of Tobin tax campaigners in Northern countries determines the trajectory of the Tobin tax movement in developing countries. For instance, the concerns of Association pour la Taxation des Transactions pour l'Aide aux Citoyens (Association for the Taxation of Financial Transactions for the Aid of Citizens [ATTAC]) in France have branched into other areas of interests including anti-trust and trade issues. This shows that at present, the activities of Tobin tax campaigners in Northern countries are hardly felt in the Philippines.

PARTICIPANTS

A. Nongovernment organizations

1. Jessica Reyes-Cantos
   Action for Economic Reforms (AER)
2. Filomeno Sta. Ana III
   AER
3. Walden Bello
   Focus on the Global South
4. Ana Maria Nemenzo
   Freedom from Debt Coalition

B. Government agency

1. Aurora Serapsi
   Economics Bureau, National Tax Research Center, Department of Finance

C. Philippine Research Team

1. Teresa S. Encarnacion Tadem
2. Sharon M. Quinsaat
3. Zuraida Mae D. Cabilo
4. Joel F. Ariate Jr.
5. Annabel Bonje
6. Jewellord Nem Singh
7. Karen Domingo

D. Third World Studies Center

1. Jean-Philippe Busson

PHOTO DOCUMENTATION

Ronald C. Molmisa (left), member of the UNRISD-Philippine Research Team, and some of those who attended the national stakeholders' meeting on global taxation initiative in the Philippines.

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Filomeno Sta. Ana III (left), coordinator, and Jessica Reyes-Cantos (right), vice president, Action for Economic Reforms.

Ana Maria Nemenzo, president, Freedom from Debt Coalition.

Walden Bello, executive director, Focus on the Global South.