Editorial

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The Tobin tax is back on the menu both for underlyings and derivatives. It may well be the case that one could write an academic paper, which would allow one to predict when the Tobin tax is going to be discussed. Tobin's original proposal is a most thoughtful and modest piece, which focuses only on foreign currency transactions and is based on Keynesian notions that speculation is bad but investment is good. Although readers of *JDHF* may or may not agree with this sentiment, it is worth looking at some of the likely implications of such a tax will be.

Much discussion often centres around the likely funds raised and where they should be spent, but one of the interesting aspects of such a tax is that one really needs to know the 'transaction cost elasticity' to compute this. What I mean by this is the fact that many trades will become unattractive if the tax imposed is of a sufficient size. As an example one needs only to consider the Tobin tax enacted in the United Kingdom, this represents a 0.5 per cent tax. As many of you know when you buy UK shares you pay a tax on the transaction. I believe market makers are exempt. This tax is called the Stamp Duty Reserve Tax for 'paperless transactions' and Stamp Duty for transactions that involve a stock transfer form.

This tax has led to a flourishing decline in share trading and an increased market in contracts for differences, which are derivatives that essentially do exactly the same thing as a share purchase but for which there is no stamp duty. We can anticipate similar outcomes if a European Tobin tax is imposed.

There are many different Tobin taxes that might be considered. The plain Vanilla version seems to be a percentage tax on buys or sales or both, this is absolute and although exceptions may be made for certain market participants it does not distinguish between transactions of different kinds. One feels that regulators, riddled with animus for high frequency trading, might wish to tax limit orders before any transaction taking place. Other possibilities might be, if one was a Keynesian, a temporal Tobin tax so that transactions that had been in the market for some fixed period of time, say 10 min, might have their tax reduced, possibly down to 0. It may well be the case that none of these versions can be implemented as they may be easy to avoid or even gamed.

In conclusion, this topic is clearly central to the future health of derivative markets and the potential profitability of many hedge funds. As such, the *JDHF* would welcome papers that address these issues.

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