

## Tobin Tax as Seen by the Industry

Pasquale Pistorio, Chairman & CEO of STMicroelectronics Testimonial to the Foreign Affairs and Finance Committees of the Italian Parliament Rome, 18 march 2004

During the last few decades, the market economy and globalization have created levels of economic development which have never been experienced before in the history of mankind. However while growing masses of the world's population are gaining access to goods and services which they could not have access to until only a few years ago, conditions are getting even more dramatic - if that is possible - for millions of other people. The facts are well known: it is enough to think that eight million people in the world die of starvation or malnutrition every year, more than a billion people live on less than one dollar a day, and over a billion people do not have access to clean water and basic health services. Besides these already serious conditions, there are phenomena like the HIV/AIDS epidemic, the exploitation of millions of people who are virtually reduced to slavery and, the most reprehensible of all, the exploitation of millions of child-labourers, condemned to a future of misery due to lack of training and education. Unfortunately, despite the improvements seen in some countries and among certain segments of the population, the gap between rich and poor countries is still widening, while the divide between the extremely rich and less fortunate is growing in developed countries too. Some gaps are therefore closing while others are opening.

On the other hand, neither the market economy nor globalization are the direct cause of these phenomena. The cause is the lack of a central control of world economy, able to redistribute earnings in order to mitigate excessive imbalances both inside each country and above all between the developed countries and the poorest countries in the world.

I do not think there can be any doubt about the deep immorality of this situation and I do not believe this is the best place to deal with this aspect, even though it is of the utmost importance. I would prefer to comment on the effects that these imbalances may have on world economic development – and therefore on the development of individual businesses – and on our future perspectives. I think it is safe to say that the tensions which stem from frustrated development expectations, the unavoidable comparison between one's living conditions and the opulence of others, and the divides created by disorderly development on cultural models which are thousands of years old may become the cause of deep

instability. A further loss of control in these processes would inevitably lead to a period of social turmoil, with repercussions on economic activities that would cast doubts even on the positive aspects of what the current development model has offered and can still offer.

Despite this impending danger, it seems very little is being done politically to manage economic phenomena and smoothen inequalities. On the contrary, the cause of some of the poverty in poor countries is directly connected to the economic policies of the richest countries. It is enough to consider the agricultural subsidies in rich countries which de facto prevent poor countries from gaining advantage from their own agricultural resources. It is enough to consider the oligopolistic exploitation of many raw materials, both foodstuffs (cocoa, coffee, bananas, etc.) and minerals (oil, copper, etc.). We should also consider the many financial crises generated or boosted by international speculation which is beyond all political control.

#### Tobin Tax and businesses

Within this framework, the Tobin Tax could be a valid instrument for helping mitigate some of these phenomena.

As everybody knows, the three aims of Tobin Tax are:

1. to discourage currency speculation
2. to give back power of intervention to governments, during the most dramatic speculative phenomena by applying a variable tax rate
3. to use the proceeds of this tax to finance developments, above all in the poorest countries.

From the viewpoint of a multinational company like STMicroelectronics, which has chosen social responsibility as one of the basic factors of its business culture, such a tax can only be welcomed. In fact a 0.1% tax on financial transactions - the tax rate most widely agreed on by the experts – has a relatively modest impact on the profitability of an industrial company, when applied to all the financial transactions needed to run its business. An industrial company normally transfers currency to finance its operating business and not for currency speculation. The tax would also have a very minor effect on the competitiveness of a company, if it is applied to all the companies which operate in a given sector.

Lastly, by discouraging excessive financial speculation and giving governments a tool to intervene (i.e. the possibility of increasing the tax in circumstances of strong speculation), a tax of this type would also contribute towards improving

international financial stability and therefore indirectly create the conditions for more uniform and sustainable development.

To this beneficial effect, perhaps too technical to be seen favourably by public opinion, we would add the undoubted positive impact of a foreseeable doubling of the present transfer of resources for world development. Contributing towards progressively re-balancing the enormous inequality could consequently lead to attenuation of the tensions and potential instability which the current system is building up. Bearing in mind all the factors mentioned, it is therefore clear that the costs of a tax on financial transactions - although limited - would be widely recompensed by the direct benefits the stability of the system would bring to the international social fabric and therefore to the industry.

#### The proceeds of Tobin Tax

As regards the use of the proceeds from Tobin Tax for development, above all in poor countries, I agree with those who would like to create an international organization within the UN, with mechanisms of transparency and auditing that could guarantee appropriate use of the funds. The Millennium Declaration already defines the priority intervention areas and establishes the aim of halving extreme poverty in the world by 2015. All countries have adhered to this solemn declaration, but very little is happening. Moreover, the richest countries already committed themselves back in 1970 to contributing 0.7% of their GDPs towards development in poor countries, but the real figure is around 0.2% of their GDPs. Yet once more, the selfish behaviour of rich countries - without entering into ethical considerations - can only have damaging consequences on those countries themselves, whereas a modest economic effort for a developed economy could alleviate the tensions that today - as we have seen - threaten economic development.

I am deeply convinced that the market economy is still the best economic theory ever tried out by man for the production of abundance in goods and services and therefore prosperity. I also believe that globalization, with the opening of markets and the fall of barriers and anachronistic privileges, has the potential to offer all countries a new great moment of universal well-being. This potential however will not automatically become a reality. In my opinion it is essential for politicians to take the control of economic phenomena firmly back into their hands, put mankind at the centre of the economic process, and at the same time put the economy at the service of mankind.

Today, unfortunately, an extreme form of an economic laissez-faire seems to prevail which leads to forms of strong oligopoly and tends to put mankind at the service of economy and of the highly restricted circles who tend to control it. A

major cultural change is needed. Wealth redistribution instruments exist and they are largely sufficient to achieve the aims of the Millennium Declaration. Basically, in my opinion, they are the following:

1. The actual implementation of the commitment undertaken by the rich countries to contribute 0.7% of their GDPs towards the development of poor countries (a contribution made by the countries and therefore by the general tax system of each state)
2. The Tobin Tax, normally at the rate of 0.1% on all international financial transactions (a contribution made by the financial institutions, companies and individual investors who carry out international financial transactions, obviously excluding the central banks)
3. The war on pollution and global warming which cause catastrophic atmospheric phenomena, such as floods or hurricanes, and irreparable environmental disasters, such as deforestation and desertification. These devastations have more dramatic consequences on poor countries which, as such, have less possibility to defend themselves. Pollution, which is mainly caused by rich countries, becomes an extremely high "tax" on poor countries. (all governments must contribute towards this aim with stricter regulations, as well as the whole industry with sustainable development policies, and all citizens with new environmental awareness).
4. Cancellation of the national debts of poor countries towards rich countries (which should not be done simply by writing off the debt, but by using the debt repayments for investments in essential infrastructures in the poor countries themselves, under the supervision of their creditors and/or international organizations).

As previously mentioned, in whatever way economic resources are destined towards development, it is essential to implement allocation, monitoring and auditing mechanisms which ensure the correct use of the funds, thus avoiding the risk that they may feed corruption, favouritism or even only red tape and heavy bureaucratic systems.

I am convinced that these four instruments could change the world in just ten years, by creating a society where everyone can be proud to live, and proud to bring up their children and their children's children.

Clearly it is a process of global dimensions, which must involve all the active

forces of the planet, and which requires everyone - as we have seen - to contribute to a greater or lesser extent. In connection with this, I would like to add that ever since its creation STMicroelectronics – the company I am proud to manage - has adopted a business culture which is strongly characterized by social responsibility. It has also implemented plans and behaviours which I believe I can define as exemplary within its field of action. At the same time we have acquired experience which confirms the positive returns of a policy of social responsibility.

#### STMicroelectronics' social commitment

Our philosophy is based on the firm belief that all modern companies should put social responsibility among their basic priorities not simply as a moral duty, but also for sound economic reasons. For many years now I have publicly stated that there is no intrinsic contradiction between the interests of shareholders and those of stakeholders, by which I mean all the individuals and organizations which interact with the company and which affect its success, such as the employees, the customers, the suppliers, the government and other administrative bodies, the community in which the company operates and, more broadly speaking, all civil society. Our direct experience, our industrial successes worldwide, the analysis of the results of other businesses, the orientation of many financial analysts and market research experts... everything leads to the same conclusions: companies which pay particular attention to their social role and their conduct as good members of the community in which they operate not only respond to ethical obligations, but also increase their profits to the benefit of their shareholders. In the end, being a good citizen also has positive effects on the corporate profit and loss account.

In the case of STMicroelectronics, social action follows three basic lines:

1. Globalization with a human face. In whatever part of the world we operate, Italy, France, the United States, Morocco, Malaysia, India or China, we bring the same social commitments - technological contribution, continuous staff training, and creation of ever more qualified local added value -, the same respect towards the environment, and the same variety of initiatives to promote the social development of the social environments in which we work.

2. Ecological commitment. It is precisely in the field of ecological commitment that it is easiest to demonstrate the truth of our argument, i.e. that sustainable development is not in conflict with good economic results. Our environmental commitment in all the countries we work in has shown that we can improve environmental aspects and, in the process, significantly increase our profits, and we can prove it. Just two examples are enough: in 2003 alone, our almost ten

year old campaign to reduce energy consumption led to a saving of 80 million dollars in electricity costs, and overall we have experienced that our ecological investments pay themselves back in only 30 months.

Spurred on by this direct experience, we have decided to launch ourselves in an even more aggressive reduction campaign regarding atmospheric emissions. We in fact believe that the Kyoto protocol is an important step, but it is absolutely inadequate in order to save the planet. We have set ourselves an extremely ambitious objective. We would like to achieve zero carbon dioxide emissions for our company throughout the world by 2010 and at the same time increase our sales at our usual historical rate. As far as we know, we are the only manufacturing company in the world which already undertook such a major commitment five years ago. Up to now we are perfectly in line with our implementation schedule and not only have we not suffered any negative consequences to our bottom line, but we have in fact created additional profits – as was already seen in the case of electricity.

It would take too long to describe our entire environmental program here, but we will be happy to provide more complete information to anyone who asks for it. This information is in any case available on the Internet: [www.st.com](http://www.st.com).

3. Reduction of the "Digital Divide". ST is committed to contributing towards reducing the world digital divide. Our proposal aims at mobilizing all the medium/large companies in the world and asking them to donate - on a voluntary basis - up to 0.1% of their annual sales and up to 0.1% of their total annual working hours in order to set up a world computer literacy campaign in the communities which are today excluded from this possibility. We have proposed this idea to the UN ICT Task Force, which I took part in upon invitation from the Secretary General Kofi Annan. This Task Force is looking into solutions to the issue of Digital Divide. It is a proving ground for new forms of intervention against world poverty which not only involve governments and international agencies, but also multinational companies.

ST has already set up its own scheme, with the support of the STMicroelectronics Foundation, and has developed a computer literacy course - obviously free – which is aimed at people who have never used a computer before. It sets out to teach the basic skills needed to use a PC, right up to browsing the Internet. Up to now the course has been translated into English, Italian, French and Hindi, and has already been deployed in Morocco, Malta, India and Malaysia, and shortly in China. Every ST site in these countries is in charge of spreading the course locally and taking into account the different social, cultural and economic needs. In order

to maximize the potential of computer literacy, ST offers its experience and the course to voluntary organizations, public bodies, associations, and others who wish to get involved in pyramid-spreading the course and contributing towards computer literacy. In the short term, the next stages involve remote on-line training and setting up Internet kiosks for free access to the web and its services. The aim is to reach at least one million people in the next ten years, without taking into account the multiplication factor which could be obtained if, as we hope, other companies decide to adhere to our proposal.

Why involve companies? Not just for ethical motives and the reasons expressed before, but also because encouraging employees to spread their basic knowledge of personal computers means allowing them to contribute towards the development of the community in which they live.

Yet once more, initiatives of this kind increase the motivation of employees and lead them to share the corporate mission, with clear benefits for the company itself.

A handwritten signature in black ink, appearing to read 'Pasquale Pistorio', written in a cursive style.

Pasquale Pistorio