AMERICANS FOR FINANCIAL REFORM

Moving Toward a Wall Street Tax

A Capitol Hill briefing on the current state of play in Europe and the U.S.

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- **ANDREW HANAUER**, Campaigns Director, Jubilee USA Network
- **HEATHER SLAVKIN-CORZO**, Director of the AFL-CIO Office of Investment
- **ROBERT WEISSMAN**, President of Public Citizen, moderated

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SARAH ANDERSON: The idea of a Wall Street tax, sometimes known as a financial transaction tax, is both transformative and winnable. It's transformative because it would help return our financial system to its proper role of serving the real economy, and because it would discourage the high-frequency trading that now dominates our markets. This kind of trading has little to no real social value, is sucking profits from traditional investors, and can contribute to instability. John Fullerton, a former Managing Director of JP Morgan and a big supporter of this tax, likes to say that "high frequency trading did not cause the last financial crash, but it could cause the next one."

For the ordinary investor, the cost of the tax would be negligible—it's like a small insurance fee against future financial crises. But an FTT could also raise significant revenue.

It's winnable because there is a passionate base of support.

DAVID HILLMAN: The financial sector has been making excessive profits and paying itself excessive remuneration compared with other sectors for a considerable time.

This tax can raise substantial revenue and put sand in the wheels of undesirable activity such as high-frequency trading. And it has a long history, which is often forgotten. In the UK, we have a financial transactions tax (FTT) on shares – it's called the Stamp Duty. This type of tax predates income tax; it started in the 1790s.

The stamp duty on share transactions in the UK is applied at a rate of 0.5% raising £3 billion a year [equivalent to $5 billion]; the most successful example of an FTT is probably Brazil, which raises around $15 billion a year. Even in the US, there is a small FTT which pays for the SEC. It brings in about $1 billion a year. Indeed, about 15 of the G20 countries already have some kind of FTT.

In May of this year, 10 European countries - representing 88% of Eurozone GDP – committed themselves to introducing FTTs ‘in stages’ starting with ‘shares and some derivatives.’ Nowhere is this sentiment stronger than in Germany where Angela Merkel’s conservative CDU party has formed an alliance with the centre-left SPD; and a pillar of their coalition agreement is the introduction of FTTs. In Europe, the FTT is not an issue of left and right. Rajoy, Spain’s right-wing prime minister is in favor, alongside France’s left-wing president, Hollande.

A strong myth is that all countries need to apply the FTT or it will simply be avoided by relocating trades. This is clearly nonsense – 40 FTTs have been introduced around the world in the last few decades either on a permanent or temporary basis; all have been introduced unilaterally. The key is design, a basic principle being “ownership.” If you don’t pay the tax, you won’t own the asset you bought.

JARED BERNSTEIN: The key barriers are not economic; there really are not a set of compelling, dispositive, strong empirical economic arguments against an FTT of the magnitude we are discussing. The key barrier is a political one, not an economic one.

The idea that we can’t do it until Europe does it is a strong one. So the progress that David reported is extremely important… By taking that rug out from under the opposition, whether it’s substantive or not, that’s a very big deal.

Now why would you want to do something like this in the first place? Obviously, we need revenues, so our public goods could very much benefit from the $350 billion 10-year Joint Tax Committee score of the 3-basis point FTT.

My analysis suggests that an FTT of even less than 3 basis points would make a majority of high-frequency trading unprofitable; that’s how tiny and narrow their margins are. Another argument for an FTT is that it incentivizes more patient capital. The productivity of the U.S. economy is not helped – and in fact is hurt – when capital markets fail to do what I was taught they do when I was in grad school, which is the efficient and most productive allocation of excess savings…

In closing, I think there’s always a question to ask when you’re in these tax debates, which is what would happen if you actually did this. Well, if you listen to the FTT debate, you would think that no one has ever done this before, and it’s just the tax idea from outer space… There is no coherent or cogent economic argument that would lead you to believe that an FTT of a few basis points would have anything like the catastrophic effects that opponents describe. But, of course, it’s very typical in a U.S. tax debate to hear exactly that when anybody proposes any tax.

HEATHER SLAVKIN CORZO: One of the biggest problems facing the U.S. economy involves allocation of capital. Capital markets are supposed to allocate capital to businesses that are investing in research and development and producing products and services that make our lives better – that allow the businesses to grow and create jobs. What we’ve seen in recent decades is that investment is moving away from that ideal, and moving more toward gamesmanship and sometimes downright predatory activity. Wall Street has been looking for ways to make money through gamesmanship and predatory practices instead of investing in the real economy.

We support the financial transaction tax because we believe it is an important tool in addressing these problems. We've heard how it could help mitigate high-frequency trading. We think it would also help to align money managers' interests better with long-term investors like pension funds. It could raise a huge amount of revenue.

I think the main reason people are opposed is that Wall Street has a huge number of lobbyists in Washington, and if you're a Wall Street trader and you make a lot of money off of a strategy that relies on a tremendous amount of portfolio turnover, then a financial transaction tax could eat into your profits.

This is a highly progressive tax. It's a way to raise a tremendous amount of revenue while having a minimal impact on average working people.

I want to take a moment to talk about an issue that comes up a lot – the impact on pension plans and retirement plans. It's our view at the AFL-CIO that a financial transaction tax is an investment in a long-term economy that will benefit pension funds. It's important to take a step back and think about what a retirement fund does. A retirement fund is a pool of money that is invested in a diverse array of assets for the long term. In order for a retirement plan to provide the benefits that are needed, it needs to be investing in an economy that can grow. And that's really the bottom line. There may be investment strategies that are trendy and may perform well day to day; you may be able to make a lot of money in high-frequency trading if you put your money in there now and pull it out. But the problem is, if you're a pension fund, a small uptick in one part of your portfolio, if you're creating downward pressure on the rest of the assets you hold, is not useful in the long term.

ANDREW HANAUER: We represent a broad spectrum of faith groups working to end global poverty. Congressional Quarterly called us one of the last remaining bipartisan coalitions in Washington. We support common-sense, responsible reforms that protect people living in poverty, and we feel this is one of them. Our entry point for involvement in this issue is global poverty. The faith traditions we represent share a lot of values, but one value they share very prominently is to care for the poor.

Poor countries are losing billions of dollars due to corporate tax avoidance… Poor countries need more revenues to fund the most important services to the world's poorest people. Today the countries most impacted by Ebola are spending nearly $200 million a year on debt service. Guinea, where the outbreak began, spends more on debt than on public health.

We believe a financial transaction tax can potentially translate into increased revenue for debt relief and begin to address some of these issues. But we are also greatly concerned about the role economic instability plays in perpetuating poverty. The last financial crisis pushed tens of millions of men, women and children into poverty – and these are people who had absolutely no role in causing the crisis in the first place. We believe an FTT can help prevent the type of instability that leads to crises. High-frequency trading poses an enormous risk to stability. Whereas 50 years ago the average stock was held for 8 years, in 2013 that figure had dropped to 5 days.

<u>Q-and-A Session</u>

JARED BERNSTEIN: A large factor holding [U.S. officials back] is the idea that once you put an FTT in our financial markets, investors will just trade elsewhere. It will just be a whole new type of tax avoidance. I think that argument is significantly undercut when you've got the EU moving in this direction.

I think it would be useful is this idea were part of the platforms in the 2016 national election.. And it's not 100% obvious to me that it has to be a partisan issue. There are people on both sides of the aisle who are justifiably angry at the way financial market volatility has hurt people, and how the financial markets get to recover, while the [country] hasn't.

ROBERT WEISSMAN (moderator): It's a confluence of all the things you'd want in a tax. It's a really small tax, hyper-progressive, aimed at activities we don't like, with the ability to raise enormous amounts of money.

We are going to win this. It's too good an idea not to win. The barrier is just overcoming the first-level resistance. It's not the technical arguments, which aren't serious. It's overcoming the Wall Street power, the Wall Street deference, and the idea that you can't take them on. Once we do that, we're going to have a critical mass and it's going to happen really fast.

For members of Congress, it's a great issue. Any member of Congress who speaks about this – you want more votes, you want more Twitter followers, more Facebook fans, more attention in the New York Times, you're going to get it, because this is a winning issue.

Additional Resources:

- **How to Avoid Another Wall Street Tsunami** (Jeff Furman, Fortune Magazine, 8/4/14)
- **Speeding Out of Control** (Lisa Gilbert & Susan Harley, The Hill, 6/20/14)
- **Derailing the High-Speed Trading Bullet Train Before It Crashes Our Economy** (Sarah Anderson, Huffington Post, 5/5/14)
- **How Wall Street Avoids Paying Its Fair Share in Taxes** (Marcus Stanley, US News, Apr. 16, 2014)
- **A Wall Street Trading Tax Could Actually Save Grandma Money** (Nicole Woo, CEPR, Nov. 7, 2013)
- **Really Small Wall Street Tax Could Make a Really Big Difference** (Jim Lardner, US News, Aug 23, 2013)