Financial transaction tax

US financial transaction tax would put unfair burden on savers

Democrats’ latest proposal is misguided and should be scrapped

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As Democrats start positioning themselves for the 2020 US presidential campaign, it is clear that Wall Street is firmly in their sights.

Along with touting proposals for wealth and income taxes aimed at the affluent, some Democrats on Capitol Hill last week unveiled a bill to impose a financial transaction tax. This particular revenue raiser, beloved by leftists in Europe, would levy a 0.1 per cent tax every time a share, bond or derivative changes hands.

Supporters ranging from senators Bernie Sanders and Brian Schatz to congresswoman Alexandria Ocasio-Cortez argue that the tax would raise much-needed revenue and force brokers, highfrequency traders and asset managers to pay their “fair share” after a decade-long bull market. Unfortunately, the average investor could end up being collateral damage.

Claims that the tax will only affect the wealthiest Americans and financial institutions are misguided. The FTT is also a tax on retirement. While those that trade frequently appear to be hit hardest, studies show the tax would also significantly depress returns in the average investment portfolio and harm many ordinary people.

More than half of Americans invest in the equities market, a 2017 Gallup poll found. And roughly 20 per cent of the investors polled belong to households with less than $30,000 in annual income.

The 300 largest pension funds collectively manage more than $18tn in assets, for workers, according to Willis Towers Watson. But that doesn’t mean they should be a cash register for policymakers to stick their hands in for pet projects. We must not forget that pension capital is invested in the markets to meet the needs of current and future retirees, who will need to pay for basic life necessities.

If the US imposed an FTT — which is also known as a Tobin tax after the economist who first proposed a version — it would hit every transaction made by pension funds, mutual funds and other financial products favoured by ordinary people.

The additional cost would almost certainly be passed on through market intermediaries and reduce returns for individual investors. It is no different to the way an import tax on fruits and vegetables would be passed on by wholesalers and supermarkets to the average grocery shopper.

My organisation, Modern Markets Initiative, has studied how an FTT could affect some of the biggest US pension funds. We used the varied tax rates from an earlier proposal, rather than the flat 0.1 per cent levy now being put forward, so the predictions are not exact. But the results underscore the potential damage. We concluded that the combined New York City employee pension funds and Calpers, the California state fund, would have to pay more than $1bn and $500m, respectively, every year.

Investors in mutual funds and exchange traded funds would also incur the taxes. MMI analysts concluded that the taxes would deter at least some trading, leading to higher fees and more volatile markets as a result of reduced liquidity.

Previous experiments with the FTT have failed badly elsewhere. India enacted a 0.01 per cent commodity transaction tax in 2013. By the end of 2014, the cost of futures transactions increased by 300 per cent and trading volume dropped by more than 40 per cent, according to the CME Group. Sweden also suffered volume drops when it imposed financial transaction taxes in the 1980s, so it phased them out.

These experiences explain why EU leaders have considered an FTT several times in recent years and then shied away. They realised that the costs would ricochet back on citizens investing for retirement. Hard-working Americans deserve the same consideration.

The writer is chief executive of Modern Markets Initiative, an advocacy group sponsored by high-frequency traders.