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Conference Call Briefing

Financial Industry Support for Financial Speculation Taxes

Lisa Donner - Executive Director of Americans for Financial Reform

There is growing support for taxes on Wall Street transactions both because they are a fair and sensible way to raise substantial amounts of revenue, and also because they can help curb the damaging extreme short term focus of too many players in the financial markets. As one indicator of that growing support, today we are joining international allies in releasing a letter signed by more than 52 leaders from inside the world of finance in support of Wall Street transaction taxes.

Congressman Peter DeFazio

Senator Harkin and I worked with a number of economists, consultants and people who have vast experience with the financial services industry, to establish a financial transaction tax proposal. We expect this tax to have substantial impact on those who are engaged in highly speculative algorithmic, supercomputer trading who are creating dangerous volatility in the market. It will not have a dramatic, depressive impact on legitimate trading. It will not affect the more traditional functions on Wall Street or legitimate long term investments for raising capital. And it will not affect people's retirement funds, except that a more stable market place means that retirement investments are more secure.

Sarah Anderson - Director of the Institute for Policy Studies Global Economy Project

There are many experienced financial professionals who are very concerned about the casino-like nature of today's markets and want to restore them to their proper role of helping companies raise capital to innovate and create jobs. And many of them see financial transaction taxes as an important tool for achieving that goal.

We're releasing this letter on the eve of two big meetings tomorrow where financial transaction taxes are on the agenda -- the EU finance ministers meeting and the summit of the leaders of Germany, France, Italy, and Spain. If it comes up for a vote of all 27 finance ministers, it won't get unanimous support, but that would open the door for this coalition of the willing approach. And I want to stress how important this is for the US context. If European governments start raising substantial revenues of these taxes, it will do a lot to boost momentum here. Plus, it will undercut the common argument that we can't have such taxes in this country because trading would shift to Europe.

Wally Turbeville – Senior Fellow, Demos

The whole purpose of the speculation tax is to charge a very very small amount on a huge – $125 to 150 trillion per year – volume of activity. It is not the kind of additional cost that is going to materially affect any firm's behavior in terms of where they locate their business.
But the tax will curb some behaviors in ways that could be very helpful for the entire economy, including spurring job creation and limiting income disparity.
The real effect is going to be on banks that make trades in millisecond time periods that are only on the books for a short period of time. These kinds of transactions are not designed in any way to help businesses and governments raise money for pension funds and endowments. They are not sources of capital that can fund new projects that contribute to the productivity of the economy. They are designed merely to generate profits from the process of the capital markets. A tax on these types of trades will curb the extraction value from the markets while making them more stable in the process.

Lynn Stout – Distinguished Professor of Corporate and Business Law, Cornell Law School

As the director of a mutual fund, I actually think we have to recognize that liquidity may be damaging if we have too much of it. In the 1940s and 1950s, we had a financial transaction tax and a private "tax" in the form of fixed brokerage fees and prices measured only in 1/8 of one dollar on each trade. It had a wonderful effect. It slowed down trading and increased holding periods. The average holding period then was eight years. Today the average holding period for shares of corporate equity is down to four months. If we impose a financial transaction tax, it would actually help shareholders make money. They may pay a transaction tax but it will encourage longer holding periods for stock which is going to allow companies to make longer term plans and investments, which shows every sign of actually increasing returns to shareholders.

A very narrow school of economic thought will tell you don't want to discourage secondary market trading because it adds liquidity to the market and helps produce more accurate prices. Liquidity and the increased price accuracy actually do not offer a significant social benefit, because you would have some level of trading anyway. You would have some price discovery. We don't need to have a share of stock traded every three seconds to have a general idea of what a share of IBM is worth. We have ten to a hundred times more "price discovery" than we need. As for liquidity, it may be socially damaging when you have too much of it. This liquidity has had a terrible effect on American business and has contributed to a chronic problem of "short-termism." Companies can't make long term investments because if the share prices languish even for a quarter, it will be too easy for investors to sell in a way that will punish the company and make it hard to make long term investments.

Leo Hindery –Managing Partner of InterMedia Partners, a New York-based media industry private equity fund

The current evolving environment cannot be handled and addressed in any traditional regulatory sense. Congressman DeFazio and Senator Harkin have cleverly crafted this narrow initiative that dampens volatility and high-frequency trading while thoughtfully raising revenues from a different source than the middle class and the upper middle class. It will raise something on the order of $350 billion over the next 10 years during a very challenging budget environment. There is simply no evidence that the suggested tax is excessive and capable of driving appropriate business from our shores to other trading venues. This is something that is past due. It is extremely thoughtful and well conceived. No one should look at it as punitive to Wall Street.

Additional Materials Related to the Call:

Click here to read the briefing advisory.

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MSN Money Coverage of the Briefing: European Tax on Financial Transactions Gains Support