Unmitigated Financial Scaregoat Tactics

By Kenneth Rogoff

However November's presidential election in the United States is an issue of immediate consequence, the introduction of a financial transaction tax (FTT). While by no means a cure-all, an FTT is hardly the panacea that its hard-liners advocate. In fact, it is a fairly modest proposal, a cure-all of a cure-all for deeper fiscal reform aimed at making the system simple, more transparent, and fairer. As American society ages and domestic inequality worsens, and assuming that taxes are simply the price we pay for the pursuit of happiness, taxes will need to go up; urgently on the wealthy but some day on the middle class. There is no magic bullet, it is a difficult dilemma, and an expedient idea of a "Robo Tax" on trading is being badly tilted to the US economy. True, a number of advanced countries already use FTTs of one sort or another, and they have shown themselves to be a "staple tax" in the land of stock sales for centuries, and the US had one from 1914 to 1916. The European Union has a controversial plan on the drawing boards that would be a much broader array of transactions. The presidential campaign of US Senator Bernie Sanders, which dominates the intellectual defense in the Democratic Party, has advocated for a broad-based tax covering stocks, bonds, and derivatives (which include a vast array of more complex instruments such as options and swaps). The claim is that such a tax will help reinforce the forces that led to the financial crisis, raise a substantial amount of revenue to pay for pro-growth purposes, and greatly limit the power of the financial sector. However, the Sanders campaign has been criticized for its lack of detail, its lack of recognition of the complexity of financial markets, and its lack of understanding of the potential impact on the real economy. A far better idea is to force financial firms to issue much more equity (stock), as Stanford University’s Anat Admati has proposed. 

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