Taxcast Extra, Jim Henry on the Hong Kong stock transfer tax raise, April 2021

Naomi: "Hello and welcome to this Taxcast Extra from the Tax Justice Network. I'm your host Naomi Fowler and I'm talking today with Jim Henry, economist, lawyer, investigative journalist and Tax Justice Network senior advisor. For more Taxcasts go to www.thetaxcast.com We're on most podcast apps. To subscribe you can email me on naomi@taxjustice.net So, I'm going to talk to Jim in a moment, you'll hear Jim's mic is a little scratchy for the first few minutes but we resolved it after that, sorry about that!

Ok Jim, so we know that one of the critically important tax justice policies we must implement are financial transaction taxes. Jim, you're in New York state. New York State is broke. You and others managed to get lots of support for reinstating an existing stock transfer tax in what is one of the world's largest trading centres. This latest push has sadly failed, for now anyway. What's interesting is that it's failed just as *Hong Kong* decided to *raise its* stock transfer tax. Before we get to the Hong Kong example, let's talk first about the New York stock transfer tax – and let's always bear in mind that for all of us when *we* go into a shop and buy a product, or we buy online, sales taxes have always been way higher than anything that's being proposed here! So, Jim, tell us about the New York Stock Transfer tax."

Jim: "New York state, since 1905 has had on its books what's called the stock transfer tax, which is a kind of miniature version of what we call the Robin Hood tax or the financial transactions tax. And the tax was originally introduced by a Republican governor. The tax was successfully collected at the grand rate of one nickel per share from 1905 until 1982, when they started rebating the tax to Wall Street. And since stock market volumes are mainly on the two dominant New York stock exchanges, the NASDAQ and the NYSE, which account for about 50% of world stock market volumes, this thing started to raise a lot of money except that since 1982, they have rebated $350 billion, in current dollars to Wall Street. The last time they had accurate numbers is 2017, but the rebate that year was $13.8 billion, which is roughly equal to what the New York state deficit is right now.

So we introduced a bill, I put together a group, Tax Justice Network's experts, we also had Francis Kaguru, a policy analyst in Kenya who weighed in on how the stock transfer tax in Kenya has been working. And over time we put together this really extraordinary group of unions, civic leaders, 58 legislators ended up supporting this bill in the assembly, and 13, 14 in the Senate, it really gathered a head of steam. Wall Street always says, well, if you put this tax on, we're going to move. You know, that's the same argument they made in 1905, it's been an argument that they always threaten to move. The truth is that Wall Street is really afraid that this tax, once it's adopted at a place like New York, will proliferate. And indeed there are bills that have been introduced in Washington, three bills in the House and Senate to have a national financial transactions tax in the US.

In the internet age it doesn't depend on where the computers that handle the transactions are taxed, it depends on where the relationships with investors are, basically it amounts to a nickel per share paid by the investors in New York, so if you looked at last years transactions on the NASDAQ exchange in New York there was a total of more then $30 trillion, the average transaction was about $8400, 176 shares x 50 bucks, and this nickel would have been $8 and 80 cents out of the $8400, that's about almost exactly .1% which is exactly the rate that the EU has proposed and it's the same rate that the national legislation in the US has proposed for the financial transactions tax so anyway, because of the sheer volume, that would have raised in New York at least $15 to 20 billion. So it looked like this was winning the hearts and minds and getting a lot of support, not only at the international level and the national level, but also in New York state."

Naomi: “OK, right, so tell us now about what’s happened in Hong Kong:”

Jim: “Hong Kong decided they would raise their financial transactions tax on their stock exchange, which was a direct refutation of everything the Wall Street interests had been saying about this tax. Nobody left Hong Kong, their financial transactions tax is now 0.2 per 6%, which is more than double the New York rate or the European rate, and it's paid by both sellers and investors so it's, you know, 0.1,3% on both, and that's a 30% increase in Hong Kong. So we saw, we saw a live experiment of what happens when you raise a financial transactions tax in Hong Kong, which is a very lively Asian exchange. And the exchange did not go to Laos! So, what you have is this kind of weird moment in time when all of these various interest groups got together, and plus the federal government basically undermined the prospects for a stock transfer tax in New York at least temporarily. Um, so that's my sad tale of having assembled this wonderful coalition, got the thing back on the agenda, and came close to having, you know, a real victory for progressive tax reform at the level of taxing the finance curse.”

Naomi: “Well, it would have set an incredible precedent, not just for the rest of the United States, but for, for other financial markets around the world. I mean, in the way that in Hong Kong, they've taken that step. And it's weird because Biden's not against financial transactions taxes, but it's not a priority in his administration. I mean, we've seen some positive signs which seem really promising in terms of talk of a global minimum tax rate, but not any movement from his administration on financial transactions taxes.“

Jim: “We've had some sympathisers. One of the supporters, a guy named Bernstein is an economic advisor and he supports the idea but the bill is actually not dead yet, it depends very much on these two bills that Biden’s just introduced in the last two weeks. So stay tuned, I'm continuing to meet with my colleagues on the issue. And it's been a great experience in terms of organising.”

Naomi: “What do you think motivated the Hong Kong example and you call it tax competition in reverse, you know, they've boosted their stock transfer tax, why did they do that?”

Jim: “Well, I think they just needed the revenue and they realised that in practice, it's very costly for these firms and these exchanges to relocate, you know, there's just no chance that they would be able to attract the same investment community, the same sort of knowledge base, the infrastructure, you know, all of those investments have long been made, and it would be hard to you know, imagine just picking up and going to, I don't know, Bangkok. You know, the other thing is that in so far as there is a success, that we have can have a success in organising a global movement for the financial transactions taxes, you know, they are relatively easy taxes to collect, to enforce. Um, they dampen speculation, which has been rampant in the last two years, especially the highest volume stock markets in world history. Uh, they are progressive sales taxes in which they get right at most investors who are, you know, the vast majority of shares are either high-frequency traders, you know, account for extraordinary proportion of stock market volumes around the world. They have the advantage of transparency. They add a lot of transparency to the countries that enact them. Our friend Francis Kaguru in Kenya said that one of the side benefits of their stock transfer tax is that they found out, you know, who was actually behind a lot of the investments that were being made through the Kenyan stock exchange. But the bottom line is that they actually raise a lot of revenue. And so this whole idea of having transactions taxes is a relatively old idea. It goes back in the economics profession to Keynes and then James Tobin picked it up and tried to apply it to currencies in the 1970s and Stiglitz was advocating it as a way of curbing casino behaviour on stock markets in the 80s, and I think now it’s been revived for the original reason behind the tax, which was not for all of these other noble objectives but fundamentally just because it can help during a budget crisis.”

Naomi: “Do we have any estimates on how much they expect to raise through this tax in Hong Kong, do you know?”

Jim: “I don't have an estimate on Hong Kong, I mean, I can tell you that in New York we've been talking about, uh, simply on the basis of the size of the rebates at least 15 to 20 billion a year. Um, and, uh, you know, it wouldn't be hard to do better if we extended it to derivatives and bonds, uh, like the federal proposals do and like the EU's Portuguese proposals to extend it to other, uh, securities, uh, but, uh, you know, worldwide, we're talking, you know, I hesitate to say we haven't really done a detailed analysis, and I think that's the next step here is to revive and update some of the estimates that have been made in the past. But when people were making estimates around 2010, 11, the figure they were coming up with globally was north of a hundred billion dollars a year. And market volumes have expanded by a factor of five since then. So we're talking, uh, a tax that can be of great relevance to a lot of the problems that we're fighting around the world in, uh, uh, in rich and poor countries right now. So I'm sort of objective observer here of the situation, but I'm also a big advocate of this particular progressive tax. You know, if we look at the billionaire’s tax, a lot of people have backed that as an alternative sourcing mechanism in the US Senate, I think maybe right now you would have at most 20 senators who would be in favour of a wealth tax. It's a pretty complicated thing to administer a tax on a full portfolio of wealth involving evaluation questions and it's an interesting question, what is the most important strategy for the global tax justice movement to support, you know, which of these various approaches, income taxes, you know, wealth taxes or transactions taxes? And I basically come down on, you know, hey, all of the above, let's try them all and see what works.”

Naomi: “You were saying that New York got pretty worried when Hong Kong raised their stock transfer tax. How do you know that they got concerned? I mean, I would imagine they would get concerned!”

Jim: “Ah! One measure was, you know, we were trying to get the New York Times to cover this thing. And we actually got in touch with the New York Times reporter who said that he'd talked to his editors four times about having a story about the New York state stock transfer tax. And just like they did in 1905, you know, New York Times is supposedly a liberal institution, but on when it comes to defending Wall Street's prerogatives they have a very mixed track record on this issue, they just could not be bothered to write about it, even though the stock transfer tax had just been increased in Hong Kong. And, and it was up before the legislature with an unprecedented number, uh, you know, of supporters. The problem in New York state though, is that what you really discover, politics in New York, there there's a very autocratic state government system and the governor has an enormous amount of power to set the budget. Legislators are only allowed to reduce the budget that he proposes, so there's a lot of the power is concentrated in the hands of the speaker of the assembly and the majority leader in the Senate of the New York assembly and the governor and the governor who was just not disposed to, to tax Wall Street at all. Even though the interesting thing is that this tax would be paid mainly by to a large extent it would be paid by foreigners, because people who are trading on the New York exchange, but are coming from the rest of the world so that’s one of the ironies of the solution they’ve chosen.”

Naomi: “And there's consumers and as consumers as well, if you look at value added tax or sales taxes, what are they in the States? What do ordinary people pay when they buy things in shops?”

Jim: “Yeah, you know, compared to the 0.1% of stock trades that this tax would amount to they're paying in New York city, you're paying 8.8% sales tax on retail goods. So, you know, the ordinary

Americans are paying in general much higher sales taxes than this tax on Wall Street investors would, would pay."

Naomi: "Yes, yes, just 0.1% - and you get such strong opposition and all these dire warnings – even in a pandemic when New York State is broke! Ok, so my thanks to Jim Henry for talking us through this, we'll return to follow this again on the Taxcast, so stay tuned for that. You can hear more about Kenya's experience of implementing a stock transfer tax and how transformative financial transactions taxes really could be in edition #107 of the Taxcast. Thanks for joining us on the Tax Justice Network podcast. Listen to more Taxcasts on www.thetaxcast.com and we're on most podcast apps. To subscribe you can email me on naomi@taxjustice.net That's it for now, thanks for listening."