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HUFF POST BUSINESS

Edward Snowden and Financial Speculation Taxes

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In the last few weeks Edward Snowden has been holed in Moscow's airport trying to negotiate terms of asylum with various countries around the world. Thus far it doesn't seem that Snowden has been able to find any acceptable offers.

Part of the reason is that the United States government has been openly threatening governments that are considering offering asylum, warning of dire consequences. Governments throughout the world take these threats seriously.

In fact, governments take threats from the United States very seriously. France and Portugal both broke with international conventions a few weeks back and refused to allow Bolivia President Evo Morales to use their airspace because the Obama administration had heard rumors that Snowden was on board his plane.

Clearly when something matters to the United States government, it is willing to go to extraordinary lengths to get what it wants. And even relatively powerful countries like France quickly bow to its wishes, even when it means breaking with well-established international protocols.

This is important background for understanding the effort in Washington to block financial speculation taxes. The basic argument for such taxes is that we have a vast amount of high-speed trading that serves no productive purpose. Much of this trading uses sophisticated computers to get ahead of major orders and siphon off much of the profits for themselves. It's a high-tech version of insider trading.

The point of a financial speculation tax is to discourage this sort of rapid trading. Since this trading involves buying and selling stock or derivatives in a fraction of second, even a very modest tax would provide a large disincentive. Such a tax would have almost no impact on normal investors.

And it could raise lots of money. Iowa Senator Tom Harkin and Oregon Representative Peter DeFazio proposed a bill with a tax rate of just 0.03 percent (3 cents on a hundred dollars). The Joint Tax Committee of Congress estimated this tax would raise close to $40 billion a year in revenue. Virtually all of this money would come at the expense of the financial industry. The impact on individuals with 401(k)s and other long-term investors would be almost invisible.

In fact, research shows that trading volume is likely to fall roughly in proportion to the increase in trading costs. For example, if this tax raised trading costs by 20 percent, then the turnover of stock in a typical 401(k) would fall by roughly 20 percent, leaving total trading costs virtually unchanged.

In short, this tax seems like a win-win proposition. It raises lots of money for the government, while making the financial markets more efficient and possibly less volatile. Everyone comes out ahead except Wall Street.

This tax would be a huge deal for the big Wall Street banks, which is why they are using everything in their arsenal to try to stop it. At the moment much of their attention has been devoted to sinking a speculation tax that seems likely to go into effect in the European Union (EU). The Wall Street banks have enlisted the Treasury Department to throw up every obstacle imaginable to prevent the EU from adopting the tax.

However they also concerned about growing support for a speculation tax in the United States. Since the financial crisis this idea has very much entered the mainstream, with many prominent economists, columnists and politicians endorsing it. Even the International Monetary Fund now supports increasing taxes on the financial sector.

The financial industry has used its lobbyists to develop a number of arguments against a financial speculation tax. Most of their arguments don't pass the laugh test. After all there has been a huge decline in trading costs over the last three decades. How can anyone say that we would cause the financial markets to grind to a halt with a tax that raised trading costs back to their 2000 level, or maybe their 1990 level if the rate is set higher.

There are people old enough to remember that the United States had huge vibrant capital markets even with the trading costs we faced in the 1980s. It doesn't make sense to claim that raising trading costs part of the way back to this level would shut the markets down.

This brings us to their ace in the hole. The argument is that if the United States adopted a financial speculation tax, all the big traders would just take their trades to India (which has a tax), China (which has a tax), the Cayman Islands, or some other tax haven beyond the reach of the U.S. government.

If this happened it would just be bad news for the supporters of the tax, because hey, what can we do? These are sovereign countries; we can't keep them from setting themselves up as tax havens.

Now let's get back to Edward Snowden's efforts to get asylum. Apparently there is a lot that the United States can and will do to prevent sovereign countries from granting him asylum. Does anyone really believe that if the United States used just a fraction of the same power to persuade the Cayman Islands or some other country not to set itself up as a tax haven, that it would be met with a stonewall?

This is absurd. If countries are allowed to act as tax havens against a financial speculation tax or any other measure it is because the administration in Washington is content to let them act as tax havens. When it actually wants something to happen, the Obama administration, like its predecessors, is prepared to do a full Snowden. And in nearly every case, it will get what it wants.

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