A little note for our Robin Hood Tax friends and the World Development Movement [1]

Written by **Tim Worstall** [2] | Sunday 5 January 2014

You will recall one of the arguments put forward by the Robin Hood Tax crowd: that lots of speculators in futures and options markets drives up prices. This has also been put forward by the World Development Movement, another group of teenage trots only lately out of their mothers' basements. The problem with this idea, as has been endlessly pointed out, is that future prices can only affect current, spot ones, if there is a rise in inventories. And that's not something we've seen in recent price booms.

And here is Craig Pirrong, fresh from the mendacious hit job the NYT did on him, to explain why in more detail [3]:

Back in the 1990s and early 00s, gold prices were low. Very low. $300 and below. Back then, the hue and cry was that prices were artificially low because . . . wait for it . . . producers were massively short because of hedging programs.

Well, if producers were massively short that means that speculators were massively long. So if speculators drive prices, why weren?t gold prices stratospherically high in the late-90s early-00s? After all, supposedly in 2008, and the last couple of years, the massive long speculative positions were inflating prices. Why didn?t the massive long speculative gold positions a decade ago inflate gold prices?

Flipping things: If short commercial positions were depressing gold prices a decade ago, why didn?t they depress oil prices in 2007-2008, and over the last couple of years? Hence the danger of superficially examining net positions and claiming that one side of the market is inflating (or depressing) prices: an equally legitimate argument is that the other side of the argument is depressing (or inflating) prices.

But the point is that neither argument is legitimate: both are equally illegitimate. Derivatives positions net out to zero. Derivatives are in zero net supply. Looking at one side of the market, and ignoring the other, makes no sense.

In the absence of changes in physical stocks driven by those future prices, futures speculation simply will not change current, spot, prices.

Worth adding I think my favourite mistake by the WDM on this point. They looked at grain prices in 2008. Wheat and corn (maize) moved a bit. Rice moved massively. OK: but they used this as proof that futures and options speculation really does change spot prices. Failing to note that the futures market for rice is very thin and small while those for wheat and corn are vast and deep. Thus the grains with more speculation in them had lower price rises: not exactly a confirmation of their thesis.

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