That high frequency trading we need the financial transactions tax to save us from [1]

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One of the arguments put forward by hte Robin Hood, or financial transactions, tax people is that high frequency trading is the work of the very Devil and it needs to be curbed by that tax. HFT is that algorithmic trading that takes place in nanoseconds as computers and algobots play with each other.

And I will admit that there's not a huge deal of use to the activity. It provides liquidity, this is true, it makes the players a profit, this is also true. Those against it state that it doesn't serve any public purpose: which is of course entirely the wrong question to be asking. We're all allowed to do whatever it is that we wish as long as that doesn't create some public disservice: that's what those old standbys freedom and liberty mean. The test of whether you're allowed to do something is not that you need permission: it's whether there's any good reason why you should not.

But logic aside there's not really anything much to worry about as Craig Pirrong points out [3]:

> HFT has been a bugbear for several years now. The monster that would eat the equity markets, and then move onto derivatives for dessert. But HFT has apparently fallen on (relatively hard times). HFT volumes are down. HFT market shares are down. And most interestingly, HFT profits are down, by about 50 percent on a per share basis, more on a gross basis because volumes are down.

Pirrong points out that Schumpeter told us all about this. But it's there in Smith too. When a new method of making excess profits is found (excess being above the normal rate in this instance) then the opther capitalists will observe that excess profit being made. They will then direct their own capital into this new method: the competition from their doing so wearing away at the ability to make the excess profit. given that markets often overshoot there'll often be a period of less than normal profits in the field but over time we'll end up in a reasonably stable equilibrium where this new field, such an exciting opportunity only a few years ago, is now returning normal profits just like the rest of the economy. And everyone goes off to hunt for the next excess profits opportunity.

Which leads us to two observations: the first being that markets here are doing their thing about providing information. In this instance that capital should flow into this field with the excess profits. Then when there aren't such excess profits no more should enter this field.

The second is that markets have, clearly and obviously, moved much faster than the regulators or the taxmen. We don't need to tax the activity as it's already contracting having exploited that excess profits possibility. As so often, even if it really is a problem, a market left alone to get on with things has sorted out said problem.

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