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Why we shouldn't have a Robin Hood Tax ourselves [1]

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You will no doubt have seen the news that a number of the eurozone countries have decided that they will have a Robin Hood, or financial transactions, tax. Given that the continentals are getting one we've obviously got the cries from the campaigners that obviously we must too. Sure, they've been saying all along that we should: and I've been saying all along that we shouldn't. And I'm now using the introduction of the tax to insist that we still shouldn't have one.

But I am even more correct than usual at this point. The very fact that they are getting this tax means that we really shouldn't have one now.

The basic case for the tax is that it will shrink finance, reduce price volatility and also at the same time raise a huge sum of tax money. The basic case against it is that it will shrink finance, raise price volatility and won't raise a bean: indeed, it will shrink the economy so much that total tax revenues will fall. You can read the detailed arguments here [3].

Of course, you could just say, well they would say that, wouldn't they? Those in favour are still in favour, those against are against.

But let us all be properly honest here. None of us actually knows what the effects of this tax are going to be. Oh, we can predict, we can work from theory, look at the effects of other such taxes. But no one has actually tried this particular experiment as yet. So there's uncertainty about everyone's predictions. And what is it that we do when we're uncertain? Well, if we can, we conduct an experiment.

And very fortunately, we have this experiment being conducted for us. All we have to do is observe it. Those eurozone nations will be in the tax and we and others will not. We should therefore be able to test and see whose predictions are in fact correct.

Most of the effects will be very difficult to measure. Will it shrink GDP? Well, what would it be without the tax? What would revenues be with a larger GDP but without the direct ones from the tax? We're well into Bastiat territory and trying to measure the unseen. But there is one that should be easily measurable: price volatility.

Those in favour of the tax say that "excessive" trading increases price volatility. The tax will reduce the amount of trading and thus volatility. Those against the tax say that reducing liquidity will increase price volatility. Thus the tax will increase volatility. And since we will have some markets which have the tax, others which do not, we should be able to see which holds: an increase or decrease in price volatility? Do, please, recall that this was the original argument in favour of the tax, to reduce said volatility.

We obviously need time to do this study, we need a few years' data. Which is why we really don't want to have such a tax ourselves as yet. We need to remain the control. So that we can actually find out whether the tax is a good idea or not.

In essence, that the continentals are going to have an FTT is exactly the reason why we shouldn't have one, not yet at least.

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