OVERVIEWS

<u>Infinite Debt</u>

First, there is no limit to the amount of debt the US government can have. Coppola 18 at Forbes writes that for advanced economies in good standing, the government's debt capacity appears to be infinite. This is because foreign creditors will always need to buy US debt for a few reasons.

a. **A, because US debt is just about the safest investment. Amadeo 18 at The Balance writes that purchasers of Treasury bills are confident that America has the economic power to pay them back.**
b. **B, the dollar is the reserve currency. Zoffer 12 at Harvard writes that the use of the US Treasury securities in currency reserves has created an almost unlimited demand for US debt. This artificially high demand means that the United States can issue debt at extremely low interest rates, especially relative to its national debt. No nation wants to call in its debt for fear that it would devalue the rest of its dollar holdings.**

The United States has an unlimited capacity to accrue debt and pay for entitlements.

Zoffer 12 Josh Zoffer, 7-7-2012, "Future of Dollar Hegemony," Harvard International Review, http://hir.harvard.edu/article/?a=2951 //DF

The second benefit of this system is its effect on the market for US government debt. **<u>The largest market in the world for a single financial asset is the multi-trillion dollar market for American bonds. This market, considered by many to be the most liquid in the world, allows any nation or large investor to park massive amounts of cash into a stable asset with a relatively desirable rate of return</u>**. While the depth and stability of US financial markets as a whole were part of the original reason nations gravitated toward the dollar as a reserve currency, **<u>the explosive growth of US government debt has made US Treasury bonds the center of the foreign exchange market and the most widely held form of dollar reserves.</u>** **<u>The use of the US Treasury securities in currency reserves has created an almost unlimited demand for US debt; if the federal government wishes to issue debt, someone will buy it if only as a way to acquire dollar holdings</u>**. This artificially high demand means that the United States can issue debt at extremely low interest rates, especially relative to its national debt and overall economic profile. And while the United States has had to pay off its existing debt by issuing new securities, no nation wants to call in its debt for fear that it would devalue the rest of its dollar holdings. While precarious and arguably dangerous in the long term, the reality is that **<u>as long as the dollar is the international reserve currency, the United States will have a blank check that no one wants to cash</u>**. Whether or not you agree with US fiscal policy, it is indisputable that the ability to finance its debt has allowed the United States to provide its citizens with a high standard of living and fund its enormous military programs. Essentially, **<u>dollar hegemony has served as the backbone of US primacy. Domestically, the ability to run effectively unlimited budget deficits has</u>**

allowed the United States to fund its massive entitlement programs and, more recently, **afford sweeping bailouts at the height of the recession. The United States has used its unlimited allowance, afforded by dollar hegemony, to finance its high standard of living and maintain the prosperity required of a hegemon**. More importantly, the United States has used the demand for American debt to fund its military apparatus. Each year, the United States spends over US $600 billion on its military, excluding spending on the wars in Iraq and Afghanistan, constituting over forty percent of global military spending. Since the establishment of the post-World War II international order, the United States and its allies have relied on US military might to enforce their wishes upon the world and maintain the Western-dominated order. The ability to intervene militarily in any conflict that threatens US interests and maintain US geopolitical influence and hegemony is a direct result of dollar hegemony. For the past sixty-five years, the United States has relied on its excessive spending to fund its position of privilege and relied on the dollar's position as the international reserve currency to fund this spending.

BLOCKS

R/T Recessions

R/T Fiscal Capacity

Schwartz 18 Nelson D. Schwartz, 9-25-2018, "As Debt Rises, the Government Will Soon Spend More on Interest Than on the Military," NYT, https://www.nytimes.com/2018/09/25/business/economy/us-government-debt-interest.html //DF

No, the United States isn't at risk of becoming the next Greece Deficit hawks have warned for years that a day of reckoning is coming, exposing the United States to the kind of economic crisis that overtook profligate borrowers in the past like Greece or Argentina. But most experts say that isn't likely because the dollar is the world's reserve currency. As a result, the United States still has plenty of borrowing capacity left because the Fed can print money with fewer consequences than other central banks. And interest rates plunged over the last decade, even as the government turned to the market for trillions each year after the recession. That's because Treasury bonds are still the favored port of international investors in any economic storm. "We exported a financial crisis a decade ago, and the world responded by sending us money," said William G. Gale, a senior fellow at the Brookings Institution. But that privileged position has allowed politicians in both parties to avoid politically painful steps like cutting spending or raising taxes.

R/T Political Pressure

No one cares about debt

Strain 19 Michael R. Strain, 1-17-2019, "'Modern Monetary Theory' Is a Joke That's Not Funny," Bloomberg, https://www.bloomberg.com/opinion/articles/2019-01-17/modern-monetary-theory-would-sink-u-s-in-debt //DF

In a short review of MMT, the economist Stan Veuger (my colleague at the American Enterprise Institute) notes that on its face this is not all that different from current policies that deliver benefits today and costs tomorrow, including the deficit-financed 2017 tax cuts. But that's more of a criticism of this approach to legislating than a justification for MMT. Political progressives like Ocasio-Cortez who are showing sympathy for MMT are also being short-sighted. If we further loosen the shackles tax revenue has placed on federal spending, then Democrats may get

Medicare for All the next time they control the government. But, in turn, when the GOP is next in the White House, what might it do with its newfound fiscal freedom? **Both parties claim to care about the deficit, but once in power they often act as if they care more about putting their preferred policies in place, whether these are tax cuts in the case of conservatives or new spending programs in the case of liberals.** Further loosening political constraints on deficits is reckless, no matter which party is doing it.

But it is in its ideas about macroeconomic policy that MMT fully earns its place on the fringe.

R/T Europe Example

The problem with the EU debt crisis was that those countries didn't control their own debt supplies, but the US does

Walsh 18 Ben Walsh, 9-13-2018, "Stephanie Kelton Wants You to Rethink the Deficit," Barron's, https://www.barrons.com/articles/stephanie-kelton-wantsyou-to-rethink-the-deficit-1536853788 //DF

What about Greece, Portugal, Spain, Italy, Argentina, and their debt crises? They exist. Why don't those things worry you? Well, the debt crises in those countries are worrying to me. But it's not a lesson for America. You know, back in 2010, at the height of the European debt crisis, I can remember standing in my kitchen with the TV on, and turning on the news, cooking dinner, and seeing the opening to the nightly news. And it goes, dah, dah, dah, the debt crisis in America. And I go, what debt crisis in America? But that is really what the narrative started to become: This is a warning for America. We need to get our fiscal house in order. What's different? Look, **Italy in 1995 had a debt-to-GDP ratio of around 120%.** Spain in 1995 had a debt ratio of 62%. **Greek debt-to-GDP over 100% before joining the euro. These countries were borrowing and spending in a currency that they created. Who remembers the debt crisis in Europe in '95? There was no debt crisis in '95, because Italy could always meet every obligation that came due, on time, in full, because it was paying in lira. Where and how else is the lira going to come from but the Italian government?** Do you think openness to MMT and view of deficits and government debt is generational? Do old people just not get it? I think so. For a certain demographic, the '70s are still kind of a fresh memory, and you know, waiting in long lines to put gas in the car, high inflation. And so that's a live memory for some demographic. But young people—I mean, Obama's slogan was "Yes we can." And then all hell breaks loose, and he's on TV right after the inauguration saying, we ran out of money, so no, we can't. And then you get Hillary Clinton's message, which was pretty much, "Yes, we can a little bit." And millennials see their future, they see climate change, and they take it seriously. They see the cost of college education. They see problems with health care. They can't get out of the home and start a life. They're open to a big, ambitious agenda. The threats are real for them.

R/T Overheating

There's high joblessness

Wolfe 19 Julia Wolfe, 1-4-2019, "A Better Way To Think About This Month's Jobs Numbers," FiveThirtyEight, https://projects.fivethirtyeight.com/jobs-report-growth-unemployment/ //DF

As with job growth, the BLS report contains more about employment than just the headline figure. The number of people who aren't in the labor force is tracked, for instance, and broken down into those who want a job and those who don't. The BLS also differentiates between full-time and part-time workers. In December, this was the employment status of every 500 people included in the report: The BLS has a broader measure of unemployment — the U-6 — which includes people counted in the official jobless rate, those who've tried to find a job in the past year but haven't looked in the past four weeks, and part-time workers who want a full-time job. December's unadjusted U-6 was 7.5 percent. That's 3.8 percentage points higher than the unadjusted unemployment rate. So when the next jobs report comes out on Feb. 1, there are a couple of things to keep in mind. That unemployment rate in the headlines? It doesn't really take into account your cousin or anyone else who has quit job-hunting for a while or is working less than they want to. And that job growth number? Take it with +/- 120,000 grains of salt.

R/T Higher interest rates

Japan has a 230% debt to GDP ratio, and has the worlds lowest interest rates. This is because like the US they have their own currency and central bank meaning they can print money to escape default. The US is even less likely to default, as the dollar is the worlds reserve currency (Graham - Investors Business Daily)

Graham, 12/1/18, "US National Debt Spiral Has Begun: How The Era Of Ever-Higher Budget Deficit Spending Will End," Investor's Business Daily, https://www.investors.com/news/us-national-debt-spirals-washington-budget-deficit-spending/ (NK)

Fears of spiraling national debt have been put through a real-world test i**n Japan. Results there don't look all that scary. After decades of trying to recover from its own debt bubble, Japan's debt-to-GDP ratio stands over 230%**. The country has relied on the Bank of Japan to take on nearly half that sum of government debt. **Still, inflation barely has a pulse, and the interest rate on Japanese government bonds is about the lowest in the world, with the 10-year yield at 0.09%.** That's not always the case. Greece went through a depression as it defaulted and required a national debt restructuring. Italy's fiscal mess keeps getting worse as its economy underperforms. Yet neither Greece nor Italy has its own currency and central bank. They're hostage to the euro and the monetary union's rules. **The U.S., like Japan, has its own floating currency and a central bank that can always run the printing press to avert default. The U.S. has another big advantage with the dollar as the de facto world currency. Dollar-denominated U.S. debt is the least likely to see a buyers' strike.**

R/T Treasury sell-off

1. Not related to debt

Steil 18 Benn Steil, 6-25-2018, "Is the Fall in Foreign Treasury Holdings a Trump Dump?," Council on Foreign Relations, https://www.cfr.org/blog/fall-foreign-treasury-holdings-trump-dump //df

To be sure, foreign demand for Treasury debt has stalled: since 2013, foreign ownership has fallen from 50 to 43 percent of publicly-held marketable Treasury securities. But is U.S. government action behind this decline? More on: United States Sovereign Debt Budget, Debt, and Deficits China Japan A dive into the data shows not. The figures indicate, first, that the decline in Treasury holdings abroad has not been broad-based. Two countries explain the entirety of it. As the left-hand figure above shows, the collective ownership of Treasury debt by all countries save China and Japan has been steady since 2013. To the extent that U.S. fiscal policy has spooked bond investors, then, it is, curiously, only Chinese and Japanese ones. But the figures also show that China and Japan each have discernable reasons for halting Treasury purchases that have nothing to do with U.S. behavior. In China, nearly all U.S. Treasury ownership is accounted for by investment of central bank reserves. And as shown in the top right figure, the People's Bank of China stopped buying Treasuries once it stopped accumulating dollar reserves, in 2014. In the past, China routinely bought dollars (and therefore Treasuries) to keep its currency down, but in recent years it has been more concerned with halting capital flight and keeping its currency up. Movements in China's Treasury holdings, then, reflect China's shifting exchange-rate policy, and not shifts in sentiment about U.S. policy. Japan's Treasury holdings, meanwhile, have dropped about $150 billion since 2015. But two factors account for this fall. First, Japanese investors have replaced more than half this sum with long-term U.S. Agency debt (most prominently, Fannie Mae and Freddie Mac securities). Japan's exposure to U.S. government debt has, therefore, changed much less than movements in its Treasury holdings suggest. Second, the rising cost of holding U.S. assets has tempered Japan's Treasury demand. When investing abroad, most Japanese institutions hedge against the foreign-exchange risk with currency futures contracts, which require them to pay foreign-currency borrowing costs. U.S. Federal Reserve rate hikes have made borrowing dollars more expensive. In fact, dollar-hedging costs have risen so much in Japan that, as our bottom right chart shows, they nearly equal the yield on ten-year Treasury bonds.

2.

Schwartz 18 Nelson D. Schwartz, 9-25-2018, "As Debt Rises, the Government Will Soon Spend More on Interest Than on the Military," NYT, https://www.nytimes.com/2018/09/25/business/economy/us-government-debt-interest.html //DF

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R/T

1. Because of overheating, not interest rates because they already crashed https://www.theguardian.com/world/2018/jan/14/are-we-heading-for-another-developing-world-debt-crisis
2. Question on brink evidence
3. US recession makes this comparatively worse, global depression vs local recessions
4. IMF bailout

R/T Crowdout

TURN: Public investment is better than private

A) Bivens of the EPI writes that public investment into things like infrastructure or education is more widespread than private investment, which is highly concentrated in wealthy areas and businesses. This means that public investment is more likely to help economically disadvantaged people

We need to make sure the resulting job growth is widely shared.

B) Public investment goes directly to creating jobs, which private investment is likely to be hoarded by CEO's. Egan of CNN writes that with additional revenue, only 14% of CEO's in a 2017 poll said they

would make immediate capital investments. They would rather save their money, or spend it on things like stock buy backs which only serve to help the wealthy.

Matt Egan (CNN). "Will companies spend tax savings to create jobs?" December 19, 2017. http://money.cnn.com/2017/12/19/investing/tax-plan-jobs-trump-ceo-yale-survey/index.html

CEOs may like the idea of a big tax cut for businesses, but that doesn't mean they'll use the savings to create American jobs. Just 14% of CEOs surveyed by Yale University said their companies plan to make large, immediate capital investments in the United States if the tax overhaul passes. Capital investments, like building plants and upgrading equipment, can lead to hiring. Only a slim majority of the CEOs, 55%, said the Republican tax package should be signed into law. The Yale CEO Summit surveyed 110 prominent business leaders of Fortune 500 and Fortune 50 companies last week. The findings, along with other surveys, suggest that the tax plan may not have the dramatic impact on jobs that President Trump and Republicans in Congress have promised. Trump tweeted over the weekend that "TAX CUTS" will lead to "higher growth, higher wages, and more JOBS!" The GOP tax overhaul would slash the corporate tax rate from 35% to 21% and offer incentives for companies to bring foreign profits back home. Jeffrey Sonnenfeld, who leads the Yale CEO Summit, said in an interview that it's "astounding" how few companies plan to reinvest their tax savings. **He called the idea of a jobs boom from the tax plan "a lot of smoke and mirrors," especially because the unemployment rate is just 4.1% and companies already have plenty of cash to make investments.** Sonnenfeld declined to name the CEOs who participated in the poll. He said it included "Trump supporters" and former members of the president's now-defunct advisory councils of business leaders.

R/T Chinese weaponization of debt

1. China doesn't hold enough U.S. debt to pose a significant threat

No Author, 10-17-2018, "Would China weaponize its U.S. debt as a trade war tactic?," No Publication, https://www.marketplace.org/2018/10/17/economy/would-china-weaponize-its-us-debt-trade-war-tactic //DF

But Mary Gallagher, director of the Center for Chinese Studies at the University of Michigan, thinks **the notion of China as America's banker is overblown**, "both in terms of how much debt is actually owned and also whether or not there are alternative buyers." While **China's holdings** are significant, they **amount to less than 5 percent of the U.S. total debt.** What's more, the country hasn't been adding much to its reserves in recent years. Selling its current supply would be an aggressive move that China would not undertake unless provoked, said Wing Woo, an economic professor at the University of California-Davis. China wouldn't instigate a sale "unless they are outraged by some American actions which they view as excessive," he said. "A fire sale means that the price of bonds will be lower. The Chinese would suffer big capital losses." In the short term, as U.S. bond prices fell, their yields would increase. Those increases would likely increase interest rates on many of types of loans.

2. Selling off U.S. bonds would be suicidal for China because it would be destabilizing and a sign of weakness

Sorkin 18 Andrew Ross Sorkin, 10-9-2018, "The Unknowable Fallout of China's Trade War Nuclear Option," NYT, https://www.nytimes.com/2018/10/09/business/dealbook/china-trade-war-nuclear-option.html //DF

Even in the gloomiest of doomsday scenarios, there is one weapon that has long been considered unthinkable: the Chinese, the biggest holder of United States foreign debt with more than $1 trillion, publicly taking a step back from buying United States Treasuries — or worse, dumping what they own in the open market. The very idea is typically dismissed as a waste of time to even consider, and the reason is a sort of mutually assured destruction. It would be wildly irrational in economic terms, the thinking goes. China selling Treasuries would send interest rates up and hurt the United States, but it would simultaneously severely damage the value of China's own Treasury holdings. As the industrialist J. Paul Getty famously said, "**If you owe the bank $100, that's your problem; if you owe the bank $100 million, that's the bank's problem." In the United States-China relationship, China is very clearly the bank**.

"It's like holding a gun to your own head and saying I have a hostage."

Borzykowski 18 Bryan Borzykowski, 4-1-2018, "China's $1.2 trillion weapon that could be used in a trade war with the US," CNBC, https://www.cnbc.com/2018/04/05/chinas-1-point-2-trillion-weapon-that-could-be-used-in-a-us-trade-war.html //DF

President Xi Jinping would have to be mighty angry to dump treasuries in droves, because **a sell off would have a negative impact on its own financial affairs. "It's like holding a gun to your own head and saying I have a hostage**," says Reinhart. **If China were to sell its bond holdings, it would likely have to sell it at least some of the treasuries it purchased at a loss. If other countries sold, too, and prices plummet then it could lose billions**. "It will inflict capital losses on itself," says Reinhart. The U.S. dollar would also fall, which would then make this trade-related provocation somewhat moot, adds Mark Zandi, chief economist at Moody's Analytics. A lower greenback would make U.S. exports more attractive, which would then hurt China's own export market. "It would negate some of the impact," he says. "Rates might spike, but the dollar would fall and what's the net impact of that? It doesn't feel like it's a winning strategy."

3. China wouldn't sell their bonds because they know that those are the safest place to park their money

Sorkin 18 Andrew Ross Sorkin, 10-9-2018, "The Unknowable Fallout of China's Trade War Nuclear Option," NYT, https://www.nytimes.com/2018/10/09/business/dealbook/china-trade-war-nuclear-option.html //DF

It is one thing to show up at Sotheby's and not raise your paddle. It would be quite another to send out a news release saying you're never going to Sotheby's again. The problem is that China would have to find something to do with that money — and, in this case, the auction house is always offering the best deals in town. "**Even if it could sell its more than a trillion dollars of Treasurys without pushing the market against it, where would it park the funds**?" Marc Chandler, global head of currency strategy for Brown Brothers Harriman, wrote in a note to investors. "**It will not be able to secure the liquidity, safety and returns that are available in the U.S."** But brinkmanship does not breed rational thought. The escalation of hostilities, even economic ones, raises both stakes and tempers alike, which is a dangerous combination.

4. The sell-off would decrease the value of the dollar, allowing the US to sell goods more cheaply and harming Chinese exports

Borzykowski 18 Bryan Borzykowski, 4-1-2018, "China's $1.2 trillion weapon that could be used in a trade war with the US," CNBC, https://www.cnbc.com/2018/04/05/chinas-1-point-2-trillion-weapon-that-could-be-used-in-a-us-trade-war.html //DF

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5. Selling bonds would also harm China's long-term goals because it would destroy trust with investors and prevent the yuan from becoming the reserve currency

Kruger 19 Daniel Kruger, 1-24-2019, "Why Investors Aren't Worried China Will Weaponize Its Treasurys Hoard ," WSJ, https://www.wsj.com/articles/why-investors-arent-worried-china-will-weaponize-its-treasurys-hoard-1530124335 //DF

Many analysts believe China would prefer to see the value of its currency against the U.S. dollar remain stable. While a weaker currency could help shore up the economy's export sector, it could also raise the risk of capital flight. Between 2014 and 2016, Chinese currency reserves declined as investors moved money offshore. Officials sold roughly $200 billion of Treasurys to help support the value of its currency. During that period, Treasurys rallied and yields fell. <u>There would also be a longer-term risk for China,</u> several analysts said. **<u>The use of the country's bondholdings and currency in a trade fight could hurt China's push to have the yuan adopted by large central banks as a global reserve currency. Such a move could damage whatever trust investors have begun to place in the currency as a long-term store of value,</u>** Mr. McCormick said. "This is something the U.S. understands, which is why they're probably pushing the envelope a little" and making such large threats about tariffs, he added.

6. China would rather increase inspections than sell of bonds in the trade war

Kruger 19 Daniel Kruger, 1-24-2019, "Why Investors Aren't Worried China Will Weaponize Its Treasurys Hoard ," WSJ, https://www.wsj.com/articles/why-investors-arent-worried-china-will-weaponize-its-treasurys-hoard-1530124335 //DF

Some argue that even if China wanted to sell its Treasury portfolio, it might not prove to be that effective a strategy. Mr. Setser, estimates that if China were to sell all of its $1.18 trillion of Treasurys, along with about $100 billion in custodial accounts held abroad, particularly in Belgium, it would raise the yield on the 10-year Treasury note by as little as 0.3 percentage point. **<u>The most likely way for China to retaliate against U.S. tariffs without raising trade levies of its own would be to tighten regulations and increase inspections of U.S. businesses operating in China, making the climate less hospitable</u>**, several analysts said. The Department of Defense assessed the national security risks posed by China's bondholdings in 2012 and found the threat of the country dumping Treasurys not credible. Many analysts believe <u>China would prefer to see the value of its currency against the U.S. dollar remain stable</u>. While a weaker currency could help shore up the economy's export sector, it could also raise the risk of capital flight. Between 2014 and 2016, Chinese currency reserves declined as investors moved money offshore. Officials sold roughly $200 billion of Treasurys to help support the value of its currency. During that period, Treasurys rallied and yields fell.

7. The US could also easily sell bonds to other countries, who have high demand for them

Borzykowski 18 Bryan Borzykowski, 4-1-2018, "China's $1.2 trillion weapon that could be used in a trade war with the US," CNBC, https://www.cnbc.com/2018/04/05/chinas-1-point-2-trillion-weapon-that-could-be-used-in-a-us-trade-war.html //DF

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R/T FTT

1. FTT results in lost revenue

Choundhry 12 Professor Moorad Choudhry, 1-10-2012, "Why a Financial Transactions Tax Is Bad for Everyone," CNBC, https://www.cnbc.com/id/45491124 //DF

Now let's move to the FTT. Absolutely no-one seriously thinks that imposing a transaction tax in one jurisdiction, on an industry that can easily transact electronically anywhere in the world, would not simply drive that business to another location. And the experience of countries that have introduced FTTs – Sweden is a case in point – shows that transaction volumes fall significantly, only to be restored when the FTT is removed. A unilateral FTT in the EU will mean reduced business in the EU financial industry. How would that benefit the taxpayer? **Lower volumes and disappearing business means only lower profits for the industry, which means, critically, lower tax revenue for the government**. Just like the flawed logic that suggests that a freeze in payroll taxes costs the government money, when in fact it results in a rise in income tax and not a loss to the taxpayer, **an FTT will actually produce lower government revenue due to falling profits in the financial industry**. And that benefits precisely no one.

Worstall 17 Tim Worstall, 8-28-2017, "How Many Times Must We Say This? A Financial Transactions Tax Raises No Revenue," Forbes, https://www.forbes.com/sites/timworstall/2017/08/28/how-many-times-must-we-say-this-a-financial-transactions-tax-raises-no-revenue/#466db50a1a7b //DF

Well, that's all quite lovely of course. Except my one and only peer reviewed paper to date is on exactly this subject, the European Union's proposed financial transactions tax (a version is here). And we also have the European Union's own evaluation of the tax, as I describe it: **No net revenue will be raised** by the specific proposals that have been put forward. This will sound strange to those who can see that there will indeed be revenue coming from the tax, but that is because **while there will indeed be revenue from the tax itself there will also be falls in revenue from other taxes.** The net effect of this is that there will be less revenue in total as a result of an FTT. But of course, do not just take our word for it. That of the European Commission should be sufficient: 'With a tax rate of 0.1% the model shows drops in GDP (-1.76%) in the long-run. It should be noted that these strong results are related to the fact that the tax is cumulative and cascading which leads to rather strong economic reactions in the model.' (Vol. 1 (Summary), p. 50) Revenue estimates are as follows: '[A] stylised transaction tax on securities (STT), where it is assumed that all investment in the economy are financed with the help of securities (shares and bonds) at 0.1% is simulated to cause output losses (i.e. deviation of GDP from its longrun baseline level) of up to 1.76% in the long run, while yielding annual revenues of less than 0.1% of GDP.' (Vol. 1 (Summary), p. 33) A reasonable estimate of the marginal rate of taxation for EU countries is 40-50% of any increase in GDP. That is, that from all of the various taxes levied, 40-50% of any increase in GDP ends up as tax revenues to the respective governments. Thus if we have a fall of 1.76% in GDP we have a fall in tax revenues of 0.7-0.9% of GDP. The proposed FTT is a tax which collects 0.1% of GDP while other tax collections fall by 0.7-0.9% of GDP. It is very difficult indeed to describe this as an increase in tax revenue. **The underlying insight here is that the Laffer Curve really is true. There're tax rates which, when we go above them, decrease, not increase, total revenue collected.** A detail which we need to be aware of being that the peak of the curve is different for different forms and styles of taxation. We can load the tax onto cigarettes because demand is relatively inelastic with respect to price. This is not, as the EU has pointed out, true of stock and other financial trading. Even a tax of 0.01% is above the Laffer Curve peak.

2. Pushes investors into more profitable ones with less taxes and more risk

Steven Davidoff Solomon, 2-26-2013, "In Wall St. Tax, a Simple Idea but Unintended Consequences ," DealBook, https://dealbook.nytimes.com/2013/02/26/in-wall-street-tax-a-simple-idea-with-unintended-consequences/ //DF

And even if the trading does not shift to other places, financial people are adept at avoiding it. In Britain, for example, where the financial transaction tax has fluctuated from half a percent to 2 percent, the tax has raised significantly less revenue than one might expect, about £3 billion a year. The reason is that investors who trade regularly in Britain use options to avoid the tax, which applies only to trading in stock. **The result may be that the tax pushes investors into more risky securities in their efforts to avoid it.** And the reduced volume does not just reduce the amount of revenue collected. It may impose the largest costs on people who cannot afford or avoid the tax. The money management firm BlackRock has calculated that if the financial transaction tax were set at 0.1 percent per trade, an investor putting $10,000 in its global equity fund would lose more than $2,300 in expected returns over a 10-year period. This amount would rise to $15,000 if the money were invested in a more actively managed European fund.

2. FTT doesn't work to reduce speculation because it doesn't discriminate between speculation and productive investments, and can raise market volatility

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In the 1970s, the tax began to be phased out. New York State still collects the tax — some $14.5 billion annually — but since 1981, the state has simply returned it to traders instead of keeping it. In other words, the tax is collected and immediately given back, something that can happen only in the strange world of taxes. (Other financial transaction taxes include a federal version, which was put in effect in 1914 to help pay for World War I and eliminated in 1966, and taxes in Massachusetts and Pennsylvania that were also done away with in the 1950s.) A study of New York State's tax from 1932 to 1981 by Anna Pomeranets and Daniel G. Weaver **found that it increased the cost of capital for investors and reduced trading volume**. Most important, they found **the tax actually increased trading volatility by as much as 10 percent. Increasing volatility is exactly what advocates of the tax don't want. They want volatility reduced to prevent market disruptions, but the decline in traders in the markets mean fewer buyers and sellers and more price jumps.** This finding of increased volatility is in general accord with nine other major papers to study this issue, including studies of the tax in 23 countries, among them Britain, Sweden and Japan. Only one of these papers found that a financial transaction tax reduced volatility. The New York State tax experience raises a bigger issue — that of traders just going elsewhere. This problem was mirrored in Sweden.

Leonard E. Burman [Urban-Brookings Tax Policy Center at the Urban Institute], 3-2016, "Financial Transaction Taxes in Theory and Practice," National Tax Journal, https://www.brookings.edu/wp-content/uploads/2016/07/Burman-et-al_-NTJ-Mar-2016-2.pdf //DF

Although price discovery refers to the first-order autocorrelation of stock returns, volatility typically refers to the variance of returns. At first glance, the relationship between FTTs and volatility appears to be straightforward. As noted above, FTTs create higher transaction costs and thus reduce trading volume. The expectation that a FTT would reduce unproductive trading and thus volatility is a key motivation for the FTT proposals by Keynes (1936), Tobin (1978), Stiglitz (1989), and Summers and Summers (1989). However, the theoretical sign of the relationship is unclear, because **FTTs can delay market participants' reaction to new information**, as discussed above. **This delay means prices may swing substantially before it becomes worthwhile for traders to react and realign prices with fundamentals.** In fact, **several studies have found that higher transactions costs and FTTs actually raise volatility**. Umlauf (1993) found that the introduction of, and increases in, the Swedish FTT led to increases in daily market volatility. Jones and Seguin (1997) found that deregulation of commissions on the New York Stock Exchange and American Stock Exchange in 1975, which led to lower transaction costs, reduced the volatility of stock prices. Similar findings were reported by Hau (2006) for transaction costs and stock price volatility in France, by Lanne and Vesala (2010) for the effects of a FTT on volatility in the currency trading market, and by Liu and Zhu (2009) for commission deregulation in the Japanese stock market. Pomeranets and Weaver (2013) found that increases in the New York state FTT raised the volatility of individual stocks.28

But the key question is whether a FTT is the best option relative to other potential taxes in terms of economic costs and benefits, fairness, and costs of administration and compliance. **A FTT at the rates being proposed and adopted elsewhere would discourage all trading, not just speculation and rent seeking**. It appears as likely to increase market volatility as to curb it. It would create new distortions among asset classes and across industries. As a tax on gross rather than net activity, and as an input tax that is not creditable and thus cascades, the FTT clearly can most optimistically be considered a second-best solution. **Over the long term, it appears poorly targeted at the kinds of financial-sector excesses that led to the Great Recession**. If the goal is to have the financial sector pay the costs of its past or future bailouts and compensate the rest of the country for the costs imposed in the financial crisis, a FAT or VAT might be more effective and less distortionary.