More on financial transaction tax incidence and pension…

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There's a debate taking place here on whether stamp duties are a cost on pension funds. It's argued:

The UK is held up as an example here, because we already have a stamp duty of 0.5%, and it apparently has no costs. Not *according to the IFS who found this wrong with it in 2002:*

â€šÃ„¢ it reduces the efficiency of the stock market for UK listed companies;
â€šÃ„¢ it lacks any investment allowances and therefore imposes a disproportionately large burden on marginal investment projects compared with a corporation tax;
â€šÃ„¢ it distorts merger and acquisition activity, producing a bias towards overseas rather than UK ownership.

And others also found that the costs of this tax ***ended up on ordinary pension funds. Read this story.***

The LSE and NAPF say stamp duty, which levies 0.5 per cent of the value of a share trade, costs individuals about twice the sum most people receive as their annual pension payout.

I have replied, addressing Tim Worstall:

Turning to incidence, I have presented my case and you have not engaged with it. It is based on logical argument. All economics was once upon a time, and was much the better for it. Let me explain why using the studies you and Giles note. If it is true that, as they claim, UK stamp duties (as Giles notes above) costs individuals about twice the sum most people receive as their annual pension payout then very obviously two things should have followed. The LSE should have issued immediate warning that UK equities were not suitable pension investments and secondly the NAPF should have told all pension funds to sell all their UK equity holdings. And the NAPF should have also ensured that pension charges — per annum so much more on average than stamp duty charges — should have been slashed as they obviously guaranteed the same logical outcome.

None of those things did happen. Why not? Because the NAPF et al do not actually believe this research, that’s why not. Research done on the basis of the assumptions of perfect markets (and all the other nonsense the IFS etc assumes when looking at this stuff which is all as palpably untrue as your assumption that people have perfect knowledge, implicit in your assertion yesterday) is recognised even by those who commission it for its propaganda value to be meaningless and not worth acting upon.

It seems it’s only you and your libertarian friends who are taken in Tim. In the real world my argument on incidence is compelling — and you have not sought to engage with it. Why not? Could it be that it would be embarrassing to admit that the incidence of bank profits and banker’s bonuses is fairly and squarely on consumers wholly justifying market intervention — not least by way of a financial transaction tax to reduce their market churning activities which produce no proven value — as pension fund returns prove?

Candidly, the theoretical economists can make al the assumptions they like to prove their case — the reality is that the world does not support their argument because in the real world the assumptions they make are simply untrue — and that’s bad economics, bad science and bad argument. It’s also a lousy basis for recommending policy. It’s as if these people have not noticed that we’re in a crisis precisely because they said it could not happen — which they did.