Funding the Future

Gambling your pension

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Re-Define, a think tank run by a one time TJN colleague, Sony Kapoor, has issued a new paper on financial transaction taxes. If I'm honest it makes claims for itself that the return does not quite fulfil. I think Taxing Banks tackles the issues of incidence better, for example, but I acknowledge my bias.

That said Sony adds useful data on volume trading in many financial markets:

¬? High frequency traders now account for 70% of US equity market trading volume and account for between 30%-40% of the trading volume at the London Stock Exchange
¬? High frequency traders reportedly account for 50% of US future market volume, 25% of foreign exchange volume are becoming increasingly important in options markets
¬? Banks account for only 13% of the trading volume at the Chicago Mercantile Exchange one of the largest and most diversified exchanges in the world trading in commodity, equity, energy, forex, interest rate, metals, real estate and weather products. Much of the balance is attributable to hedge funds
¬? Hedge funds represent more than 30% of the volume in high yield debt, 90% in convertible bonds, almost 90% of distressed debt and emerging market debt
¬? Hedge funds are the dominant players in the credit default swap market accounting for more than 60% of market volume.
¬? Hedge funds are responsible for between 55% and 60% of transactions in leveraged loans

Sources are in the paper.

Yes I know pensions funds now invest in hedge funds. But this type of volume trading is pure gambling: that's it. Is that how we want our pensions to be provided? And is the cost of destabilisation of society worth it? My answer is "clearly not".

If, as I predict, at least 25% of activity disappears as a result of a financial transaction taxes that might be considered very good news indeed.