
# Why the Stock Transfer Tax (STT) Does Not Affect Your Pension

STT was in effect from 1905 to 1981. It is currently in effect in many nations throughout the world. It has never hurt pension funds. To understand why, it is important to know how the financial industry makes its money.

Pension funds already pay huge sums of money to financial firms in the form of brokerage fees, asset management fees, financial advisor fees, and legal fees, which directly reduce participants' rates of return. [This is why Wall Streeters bribed a New York State Comptroller — the work for a pension plan with billions in assets is so lucrative].

Let's take the New York State Teachers Retirement System, for example, which has approximately $122 billion in assets under management. Its annual report shows payments far in excess of $300 million per year in fees to the financial industry. In contrast, STT on the trading that this pension plan engages would cost about $13 million per year. Thus there is no appreciable impact on the amount of money pensioners receive in their checks. STT would simply be one of the lowest costs that the plan would absorb prior to paying out money to pensioners.

Furthermore, the amount that a defined benefit plan like NYSTRS pays to beneficiaries is set by law. This is the nature of what is called a defined benefit plan (the same is true of private sector defined benefit plans, like union pension plans, though their defined benefit is set by contract). STT cannot affect what pensioners receive in income. It could put pressure on the plan to save $13 million (or more) by reducing the well in excess of $300 million the plan pays yearly in fees to the financial industry, which could certainly be done. Maybe this is why financial firms dislike the tax but also why pensioners should like it.

Pension plans pay very small amounts in STT precisely because STT is a sales tax on turnover, that is frequent buying and selling of stock to take advantage of small movements of stock prices to make money. Today, 80% of stock trading on Wall Street is algorithmic, that is computer models are constructed to track and take advantage of these small movements in stock prices. Economists like Keynes, Tobin, and Stiglitz have referred to this as gambling. STT is thus an appropriate vice tax that will encourage market rationality and longer-term investing, leading to better economic performance. [It is ironic that we wish to tax gambling by the poor and the middle class in casinos and in sporting events, but not gambling by the wealthy.]

Algorithmic trading, for example, is one reason why volume of trading is at historic highs. STT revenues are highest when volume, the frequency of trading, is highest.

Pension plans do not engage in high frequency trading, and it is a breach of fiduciary duty for them to do so. Pension plans are long-term investors.

Pension plans care about stock market levels, that is increases in the prices of stock, not volume. Stock market levels are what generate return on investment, not volume. There is no evidence that financial transaction taxes anywhere in the world (or when in use in New York State from 1905 to 1981) ever affected stock market levels.

STT stops government layoffs and austerity measures like budget cuts or freezes in salaries to public employees. If you do not have a job, you do not have a pension. Layoffs of government workers hurt the economy (not to mention damaging the quality of public services, such as education) because less money is being spent on goods and services in the economy.

Defined contribution plans, like 401k plans, work differently than defined benefit plans. Defined contribution plans incur the same huge transaction costs as defined benefit plans. However, STT is applied to the individual investor's purchases or sales of securities. If, for example, a person buys or sells $20,000 of stock in a year, the STT on that would be about $20 paid just like a sales tax. The owner of the defined contribution plan's rate of return has already been reduced by the same brokerage fees, asset management fees, financial advisor fees, and legal fees paid by the plan to the financial industry which far exceed that $20 (most likely in a proportion similar to the ratio between STT and the fees in the NYSTRS).

On the whole, STT disproportionately affects the wealthy. Over 50% of stock is owned by the wealthiest 1% of Americans. This proportion has been growing dramatically since 1990 and has accelerated during the pandemic. It is thus important to apply STT to all stock transactions, lest the wealthy park their stocks in pension vehicles to avoid the tax.

STT eliminates the need for government to finance itself by borrowing in a recession (as proposed by the Governor). When governments issue bonds, once again there are transaction fees to the financial industry involved, i.e. direct payments to financial and legal advisors, any trustee, paying agents, auditors, rating agencies and other providers of services to the bond issuer. The underwriter of the bond issue also receives compensation related to selling the bonds to investors and managing elements of the transaction. Finally, of course, government must pay interest to the bondholders, which reduces the capacity of government to spend money on the needs of the public.

As an aside, a claim has been made that STT would have a negative effect on the market because it would discourage stock buy-backs. It is doubtful that the STT would affect stock buy-backs because it is just too small to do so but if it did have that effect, people would cheer. Stock buy-backs increased as a result of the Trump tax cut, and Trump's minor incentives to repatriate revenue that had been parked offshore to avoid taxes. Instead of putting the money into expansion, or saving jobs, corporations inflated their own stock prices by buying up shares of their own stock, meanwhile in many instances cutting jobs. This is very advantageous to CEOs

who own company stock or stock options, enabling them to cash out at higher values. Economists have described this as a very destructive economic practice. See Harvard Business Review, https://hbr.org/2020/01/why-stock-buybacks-are-dangerous-for-the-economy.
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