

The Currency Transactions Tax: Opportunities and Opposition in the Post-Crisis Environment

by

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Abstract

As speculation in foreign exchange (FOREX) markets has been linked to financial crises, a Currency Transactions Tax (CTT) has been proposed. But there is a gap in the literature: given its feasibility, why has one not been adopted? This paper analyzes why the United States, a country that could benefit and could bear a tax, has not adopted one. Though the 2007-08 Crisis was not caused by FOREX, it sparked interest in reforms including a CTT and the Financial Transactions Tax (FTT). This paper uses the garbage can model that assesses policy agenda-setting based on the convergence of problems that justify action, political agendas and turnover, and available policy solutions. Analyzing factors including the 2007-08 Crisis, commitments to other reforms, lobbying by the financial industry, and political turnover, this paper finds the failure of seven CTT/FTT bills mainly results from the lack of political receptivity.

Keywords: Currency Transactions Tax; Financial Crises; Financial Reform; Financial Transactions Tax; Tobin Tax; United States

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List of Acronyms

CLS	Continuous Linked Settlement
CTT	Currency Transactions Tax
FOREX	Foreign Exchange
FTT	Financial Transactions Tax
LVPS	Large-Value Payment System
RTGS	Real-Time Gross Settlement
TARP	Troubled Asset Relief Program

Chapter 1.

Introduction

The operations of the foreign exchange (FOREX) market have sparked considerable debate. Indeed, the sheer amount of money traded is a testament to the market's importance. According to the Bank for International Settlements (BIS), daily turnover for April 2013 was valued at around \$5.3 trillion, compared to \$4 trillion in April 2010.¹ While the market plays a vital role in the global economy, it has not come without its criticisms, the most prominent issue being the excessive volatility present in exchange rates since the ending of Bretton Woods stemming from speculation. The idea of a Currency Transactions Tax (CTT), a small tax on FOREX trades, has been tabled as a possible solution. While not a new idea – the original idea dates back to the original proposal made by James Tobin back in the 1970s – the relevance of it to today's globalized economy means that such an idea warrants reconsideration. In the post-crisis world, the CTT – and its wider-applying counterpart the Financial Transactions Tax (FTT) – has garnered much attention as a viable reform. Though somewhat misguided when the recent crisis was not caused by FOREX, the attractiveness of the proposal in times of opportunity presents an interesting puzzle: if it can work, why has one not been adopted?

The purpose of this paper is to analyze why a feasible CTT has not been adopted at the national level. While the literature has gone to lengths to demonstrate why a CTT is desirable and how one could be unilaterally adopted, little has been done to answer why one has not been adopted. The United States will be used as the case study given

¹ Bank for International Settlements, "Triennial Central Bank Survey: Report on Global Foreign Exchange Market Activity in 2010: Foreign Exchange Turnover in April 2013: Preliminary Global Results," Monetary and Economic Department (September 2013), 3, <http://www.bis.org/publ/rpfx13fx.pdf>.

its importance in the global FOREX market. This paper will use the garbage can model of policymaking to assess why a CTT has not made it onto the agenda, especially given that the political and economic climate after the 2007 Crisis made it easier to propose reforms. The model analyzes whether a proposal can gain a spot on the agenda as a serious option based on the convergence of three factors: Problems, or major events that justify policy change; Policy options that can effectively deal with the problem(s); and Political receptivity on behalf of policymakers. When these three factors, or 'streams,' converge, they create a 'window of opportunity' where experts, or 'entrepreneurs,' can promote their proposals as viable solutions to solving problems. When this occurs, the likelihood of policy change is much higher.

As a CTT has not been considered by policymakers, this paper will make inferences based on analyzing the political and economic conditions surrounding seven bills that sought to introduce an FTT in the US (H.R.1068, H.R.4191, H.R.3313, H.R.880, S.2927, S.1787, and S.410) and why they failed to be considered as viable policy options. The connection to the CTT is based on the fact that four of the FTT bills explicitly mention currency derivatives under their definition of taxable securities. This paper will argue that, despite the fact that the FTT bills could solve problems occurring in the 2007 Crisis' aftermath, such as reducing speculation and generating tax revenue, they failed largely because President Barack Obama's Administration had its own plan for reform that was unreceptive to an FTT. This is further demonstrated by the opposition to an FTT or stronger reforms in general across Congress and parties, the interest group mobilization opposing FTT bills, and the lack of advocates in the relevant committees. These point to an overall failure in the political stream.

The paper will be structured as follows: Section 2 will provide background on the workings of the FOREX market and grounds for policy action. Section 3 will analyze the arguments given by both proponents and opponents of a CTT and argue in favour of a two-tiered tax. Section 4 will assess the CTT's enforceability through modern financial infrastructure. Section 5 will assess the desirability of adopting a CTT through unilateral, rather than international, adoption. The four sections will also act as a literature review since the CTT literature has gone to great lengths to argue how one could work and why

one is needed. Section 6 will provide the project's methodology. Finally, Sections 7-9 will analyze the factors that caused the bills to fail.

Chapter 2.

The FOREX Market: (Ir)Rational Expectations?

The stability of exchange rates is an intrinsically good property. As Davidson notes, “[a] fixed, or at least very stable, exchange rate whose movements are tightly constrained is a necessary condition encouraging entrepreneurs to engage more freely in international production, investment and trading transactions.”² Unfortunately, stability and certainty are not properties that accurately describe the current arrangement. According to economic theory, exchange rates should be determined by so-called ‘economic fundamentals,’ such as a nation’s resource endowment, relative level of productivity, and prospects for growth; these fundamentals are relatively stable and this suggests that exchange rates should be stable as well.³ Under the neoclassical perspective, speculators are seen as having a stabilizing effect on exchange rates under a framework of rational expectations. Speculation is the act of buying or selling for reasons of benefitting from price movements rather than for reasons such as financing international trade.⁴ Under this framework, speculators know that if a currency (or any other asset) is believed to be underpriced, they will buy to push the price up, and if believed to be overpriced, will sell to bring the price down; in both cases the asset moves toward equilibrium. In essence, they work to stabilize prices and expectations.

² Paul Davidson, *Financial Markets, Money, and the Real World* (Northampton: Edward Elgar, 2002), 177.

³ Thomas Palley, “The Economic Case for the Tobin Tax,” in *Debating the Tobin Tax – New Rules for Global Finance*, ed. James Weaver et al. (Washington, DC: New Rules for Global Finance Coalition, 2003), 8, <http://www.new-rules.org/storage/documents/other/debatingthetobintax.pdf>.

⁴ Philip Arestis and Malcom Sawyer, “An Evaluation of the Tobin Transactions Tax,” in *Keynes, Uncertainty, and the Global Economy: Beyond Keynes, Volume Two*, eds. Sheila C. Dow and John Hillard (Northampton: Edward Elgar, 2002), 228.

However, over the past few decades, the clearest feature of the FOREX markets is that they have been subject to swings that result in large departures of the real exchange rate from purchasing power parity⁵ rather than the aforementioned stability. This arises from a problem in determining fundamental values and interpreting information. As Jetin and Brunhoff note, “One must believe that an equilibrium exchange rate exists, that speculators know what it is, and that their actions are always taken in reference to it, thus spurring prices to their one, single equilibrium.”⁶ The neoclassical analysis avoids the possibility of bandwagoning speculation by assuming that all relevant information about economic fundamentals regarding future demand and supplies currently exists and is available to all market participants.⁷ In order for the neoclassical interpretation to be correct, speculators must all have the relevant information to determine a supposed ‘fundamental value,’ whereby the price of an asset reflects the most accurate information.

2.1. Challenges to the Neoclassical Perspective

There are a number of challenges to the notion of stabilizing speculation. First, it cannot be assumed that all speculators have access to perfect information to determine prices, or that they have perfect foresight about future prices for that matter. Indeed, price expectations can be self-fulfilling. All that is needed is for market participants to expect that the future price will be higher and they will buy in the present in anticipation of the future higher price. Market beliefs therefore become the driving force of exchange rates and if speculators share this belief in future prices, whether higher or lower, they can push prices away from the level warranted by true economic conditions.⁸

But price mismatches are not the only area where speculators can have an impact. Speculators can also attack a currency, especially for smaller economies.

⁵ Thomas Palley, “The Economic Case for the Tobin Tax,” 9.

⁶ Bruno Jetin and Suzanne de Brunhoff, “The Tobin Tax and the Regulation of Capital Movements,” in *Global Finance: New Thinking on Regulating Speculative Capital Markets*, eds. Walden Bello et al. (New York: Zed Books, 2000), 203.

⁷ Davidson, *Financial Markets, Money, and the Real World*, 174.

⁸ Palley, “The Economic Case for the Tobin Tax,” 11.

Between January 1960 and April 1999 there were 308 speculative attacks in 75 countries; of these 308 attacks, 105 'succeeded,' resulting in a depreciation of the exchange rate of more than 10% in a month, while 203 'failed.'⁹ In either case, the targeted country must increase its interest rate to stop the depreciation, resulting in an economic slump; this increase in interest rates is largely ineffective since interest rate increases are not always sufficient to dampen speculation and capital flight.¹⁰

The presumed policy response to a speculative attack is to increase the interest rate, inducing capital to flow back in and prevent a depreciation of the currency. However, central bank intervention in times of crisis can encourage speculation by signalling policy distress to market participants.¹¹ An expected weakness in a currency will induce perceptions of greater uncertainty about the ability of that currency to maintain its value relative to others and this sparks a higher probability that those asset holders will carry out a quick exit and abandon the weakened currency.¹² This can be seen when a country wishes to stimulate its economy by decreasing interest rates. The drop in interest rates causes a depreciation of the currency and this signals to holders of that currency that the value of their assets will decrease, potentially leading to a major sell-off of the currency and sparking further depreciation, thereby reversing the policy effectiveness of the nation's central bank. A country's commitment to a fixed exchange rate can also be challenged by speculators, an example of which being Black Wednesday and the attack on the United Kingdom's commitment to the European Monetary System.

It is important to note that these speculative attacks largely occurred before the adoption of floating exchange rates, but the problem of excessive volatility persists. This holds across several regions; for Latin America, the majority of cases show that as

⁹ Bruno Jetin, "How Can a Currency Transaction Tax Stabilize Foreign Exchange Markets?" in *Debating the Tobin Tax – New Rules for Global Finance*, eds. James Weaver et al. (Washington, DC: New Rules for Global Finance Coalition, 2003), 55, <http://www.new-rules.org/storage/documents/other/debatingthetobintax.pdf>.

¹⁰ Ibid.

¹¹ Paul Bernd Spahn, "On the Feasibility of a Tax on Foreign Exchange Transactions," Report to the Federal Ministry of Economic Cooperation and Development (2002), 22, <http://www.wiwi.uni-frankfurt.de/profs/spahn/tobintax/Tobintax.pdf>.

¹² Davidson, *Financial Markets, Money, and the Real World*, 172.

economies have liberalized, the exchange rate has depreciated and become much more volatile.¹³ Similar research by Frankel and Rapetti confirmed this. For example, Chile's adoption of a floating regime resulted in a 65% increase in volatility compared to its time using crawling bands; in a more radical example, Brazil's floating regime is 209% more volatile compared to Chile's crawling bands.¹⁴ Volatility has also increased for major world currencies. A simple measure of the standard deviation of the US dollar (USD) exchange rate expressed in Canadian dollars shows an increase of 0.05 from 1948-1972 to 0.17 from 1973-2014.¹⁵ While not nearly as high as the volatility seen in Latin American currencies using similar calculations,¹⁶ the marked increase of exchange rate volatility in the post-Bretton Woods environment warrants some attention in today's high-speed globalized economy.

2.2. Noise Trading and Herd Behaviour as Price Dynamics

The presence of herd behavior in the FOREX market poses a challenge to rational expectations. Under this framework, each individual acts rationally from his or her standpoint but collectively they end up behaving as a herd; this herd behavior becomes the driving force of economic fundamentals and the actions of speculators can trigger herd-driven exchange rate movements that have little, if any, relation to real economic conditions.¹⁷

A more intricate explanation of the herd mentality is given by Banerjee and Palley. According to Banerjee, it is when choices made by some individuals affect the information that subsequent decision makers have that there exists a potential for a herd

¹³ Anil Hira and Norbert Gaillard, "The Bottom Line: The Fundamental Weaknesses of Latin American Finance," *Bulletin of Latin American Research* 30, no. 2 (2011): 171.

¹⁴ Roberto Frankel and Martin Rapetti, "Exchange Rate Regimes in the Major Latin American Countries since the 1950s: Lessons from History." *Revista de Historia Económica* 30, no. 1 (2012): 170.

¹⁵ Author's calculations from University of British Columbia Sauder School of Business PACIFIC Exchange Rate Service, Foreign Currency Units per 1 U.S. Dollar, 1948-2014, <http://fx.sauder.ubc.ca/etc/USDpages.pdf>.

¹⁶ Hira and Gaillard, "The Bottom Line:" Table 4, 172-173.

¹⁷ Palley, "The Economic Case for the Tobin Tax," 11-12.

mentality since the preceding individuals impose an externality on subsequent ones.¹⁸ He uses the metaphor of a lineup of people in front of two restaurants: the person at the front that picks one over the other may signal to the next person that the particular restaurant may be a 'better choice,' thereby influencing the decisions of subsequent decision-makers. Similar logic applies to FOREX: if speculators start a sell-off, fundamentals investors that invest for the long(er)-run may be induced to sell-off as well based on perceptions of information.

Palley takes a different approach to herd behavior. A decision by two competing managers to increase the allocation of resources to a particular investment prompts the other manager to do so as well; the economic logic is that the initial shift opens the other manager to under-performance if he/she does not do so.¹⁹ The mechanism that drives this is a feedback process; initially, manager 1 changes his allocation on the basis of changed subjective beliefs; manager 2 responds by changing his allocation to not risk exposure to a bad relative performance, and this leads to further changes for manager 1's allocation.²⁰ For the FOREX market, the profitability of selling one currency may induce other speculators to do so as well in order to avoid relative under-performance, thereby increasing the opportunity costs for those that do not sell.

2.3. Conclusion – Grounds for Policy Action

Overall, there is considerable debate, and not much consensus, on the nature of FOREX markets. While the neoclassical school argues that speculation is stabilizing, they can be challenged by the herd behavior literature and the volatility present in current exchange rates. There is ground to believe that speculation can be destabilizing and that the rationale behind stabilizing speculation may not be as strong. It is hard to quantify exactly what the equilibrium value for a currency is, let alone argue that all

¹⁸ Abhijit V. Banerjee, "A Simple Model of Herd Behavior," *The Quarterly Journal of Economics* 107, no. 3 (August 1992): 809.

¹⁹ Thomas Palley, "Safety in Numbers: A Model of Managerial Herd Behavior," *Journal of Economic Behavior & Organization* 28, no. 3 (December 1995): 447.

²⁰ *Ibid.*, 448.

speculators know if it and can push the price towards it. Because of this, there are grounds for policy to prevent *destabilizing* speculation.

Chapter 3.

Why a CTT?

The original proposal for a CTT dates back to the 1970s when James Tobin advocated for a small tax to be applied to spot transactions on the FOREX market. The rationale was simple: national economies and governments are not capable of adjusting to large movements of funds across the FOREX markets; the mobility of financial capital limits the ability for governments to have differentiating interest rates and thus severely limits the ability of central banks and governments to pursue monetary and fiscal policies appropriate for their economies.²¹ As such, under floating exchange rates, monetary policy becomes exchange rate policy since the stimulus of expansionary monetary policy to domestic demand is limited by the competition of foreign interest rates for highly-mobile capital.²²

The purpose of the tax would be to expand the autonomy of national monetary policy for governments although that does not depend on the success of the tax in reducing volatility.²³ While it may not be a necessary condition for his tax, the presence of volatility would make capital flows less predictable and further decrease autonomy and so some volatility reduction would need to be a property for a successful tax. The tax would not permit national authorities to ignore the international consequences of their policies nor would it make policy coordination among major governments unnecessary.²⁴ The CTT needs to be introduced as part of a package of financial reforms as “[n]o

²¹ James Tobin, “A Proposal for International Monetary Reform,” *Easter Economic Journal* 3, no. 3-4 (July/October 1978): 154.

²² *Ibid.*, 156.

²³ James Tobin, “A Currency Transactions Tax, Why and How,” *Open Economies Review* 7, no. 1 (March 1996): 496.

²⁴ Tobin, “A Proposal for International Monetary Reform,” 159.

measure alone can prevent financial crises, and many measures generate synergies so that they work better as a package.”²⁵

A case can be made that the tax can bring positive benefits to trade in real goods and services. A typical argument is that because the tax falls on currency trades to finance trade in goods and services, this could lead to a result in a loss of welfare because of trade reduction.²⁶ Tobin acknowledges that the tax would inevitably hit some stabilizing transactions and that they may be discouraged; fundamentalist traders that invest for the long-run would have to pay the tax as well.²⁷ However, a CTT may actually increase trade because it stands to decrease FOREX uncertainty, thereby making it easier for firms to trade; with reduced currency risk, firms would have to pay less to hedge against FOREX risk exposures and therefore the costs of trade would lower.²⁸ This means a CTT is a means to reduce financialization and rebalance the global economy in favour of real production.

There is also the case that the CTT falls within the framework of optimal taxation theory. If the impact of the tax is small, this implies that the demand for currency transactions is relatively inelastic and the theory of optimal public finance recommends that governments should tax those things which have relatively inelastic demand, while if the impact is large, then speculation will have been reduced, reducing the negative externality imposed by speculators on other investors in accordance with Pigouvian taxation theory.²⁹ Such a tax regime would have a stable revenue base if the impact is small and would achieve its goals on crowding out speculators if the impact is large. CTTs could reasonably be expected to reduce some day trading in FOREX markets; this is because the annualized cost of even a very small tax may be prohibitive for highly

²⁵ Palley, “The Economic Case for the Tobin Tax,” 5.

²⁶ *Ibid.*, 15.

²⁷ Tobin, “A Currency Transactions Tax,” 496.

²⁸ Palley, “The Economic Case for the Tobin Tax,” 15-16.

²⁹ *Ibid.*, 18.

active traders.³⁰ In such a case, CTTs could reduce some volatility introduced by short-term currency trading and the resultant distortions in exchange rates to the extent that churning of investments by some investors is discouraged.³¹

3.1. The Spahn Tax – What Tobin Should Have Proposed

While a CTT seems capable of carrying out its roles, some commentators have noted that a better option is available than a simple Tobin Tax. A Tobin Tax would likely be too high during everyday trading and could adversely affect liquidity trading.³² If the Tobin Tax was set too high, it would destabilize the market, and if set too low it would be unlikely to deter speculation.³³ Of course, this assumes a single tax rate. It is likely that a dual or variable-rate CTT has a greater potential to reduce financial volatility and mitigate the severity of crises than a more traditional CTT.³⁴ Because of this, a two-tiered tax is a better option.

The CTT advocated by Paul Bernd Spahn – originally referred to as the Tobin-cum-Circuit-Breaker Tax (TCCBT) and hereby referred to as the Spahn Tax – differs from Tobin’s in that it uses a two-tiered mechanism rather than a single tax. Because of the mechanism involved in curbing speculation and the permissible lower tax rate for the Spahn Tax, this paper will argue that the Spahn Tax would be more effective at curbing speculation and overcoming the problems and ambiguities associated with the standard Tobin Tax and would be a much more attractive option for policymakers.

The first tier of a Spahn Tax is a standard Tobin Tax; its primary function is to raise revenue but by virtue of being a CTT it can contribute to stabilizing exchange rates

³⁰ Ilene Grabel, “Currency Transaction Taxes: A Brief Assessment of Opportunities and Limitations,” in *Debating the Tobin Tax – New Rules for Global Finance*, eds. James Weaver et al. (Washington, DC: New Rules for Global Finance Coalition, 2003), 95, <http://www.new-rules.org/storage/documents/other/debatingthetobintax.pdf>.

³¹ *Ibid.*

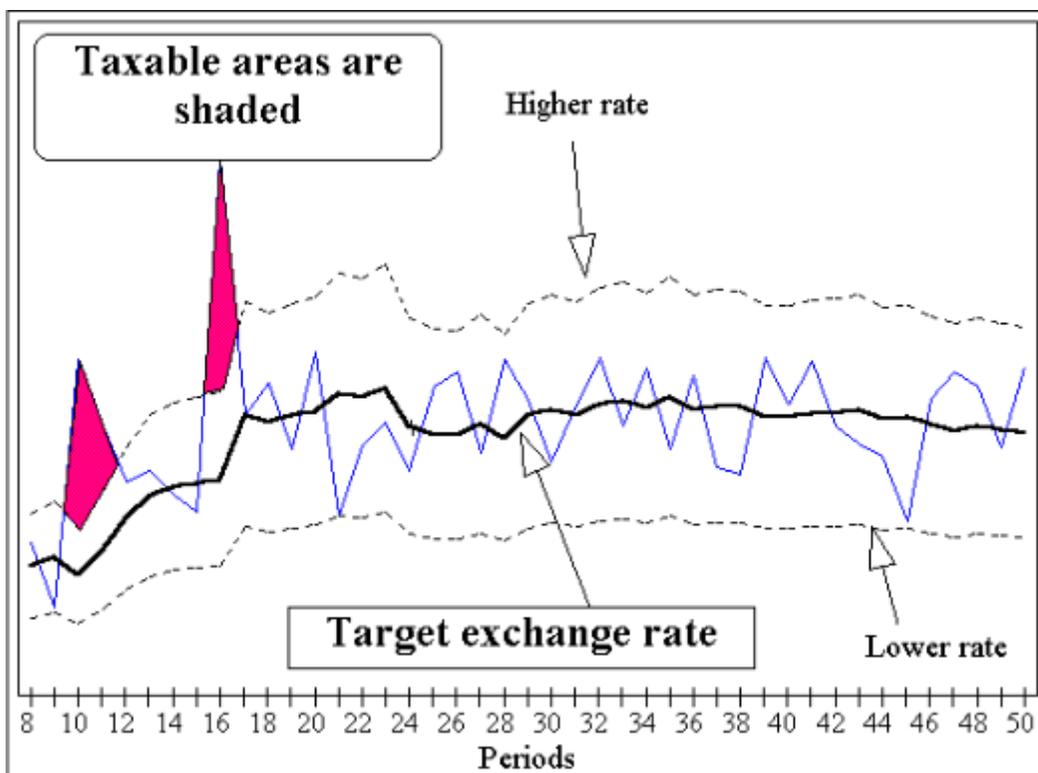
³² Jetin, “How Can a Currency Transaction Tax Stabilize Foreign Exchange Markets?” 59.

³³ Spahn, “On the Feasibility of Taxing Foreign Exchange transactions,” 17.

³⁴ Grabel, “Currency Transaction Taxes,” 96.

by eliminating destabilizing noise trading.³⁵ The second tier, or Exchange Rate Normalization Duty (ERND), is an additional surcharge that is triggered circumstantially. Under normal circumstances the tax is dormant but it is triggered whenever there are major price changes; the tax rate is to be set prohibitively high and has only a regulatory function rather than a revenue function as if it achieves its objectives of holding back speculation, it cannot generate revenue.³⁶ Speculation and price swings are therefore held back by the threat of a prohibitive tax rather than a single Tobin Tax. Figure 1 shows the operations of the tax.

Figure 1: Working of the Spahn Tax



Source: Spahn, "Stabilizing Exchange Rates with a Tobin-cum Circuit-Breaker Tax," 28. Adapted with permission.

As Figure 1 shows, the ERND is triggered only when the exchange rate moves outside of the defined upper and lower rates (or margins) of the target zone. The target

³⁵ Spahn, "On the Feasibility of a Tax on Foreign Exchange Transactions," 18.

³⁶ Ibid.

exchange rate would be announced daily by the central bank and could be determined using data such as the 20-day history of the exchange rate.³⁷ The margins of the corridor would be determined pragmatically using empirical data and a prohibitive tax rate of up to one hundred percent would be applied to the part of the transaction's price that lies outside of the corridor.³⁸ The only investors that would fear the ERND are those with short time horizons betting on speculative rents.³⁹ The use of target rates and margins allows some necessary fluctuations to continue. Because of the ERND and margins, it almost guarantees that the exchange rate will not vary more than the set bandwidth in one day.⁴⁰

By having the ERND act as a deterrent to major price swings, the Spahn Tax would further give regulators some leeway in determining the nominal first-tier tax during its inception. If the initial tax is set too low, speculation will still be kept in check by the ERND and the nominal rate could be raised until the optimal rate is found; the same cannot be done with the standard Tobin Tax. A problem with the Tobin Tax is that it acts as a floor rather than a ceiling; the Spahn Tax acts as both. Indeed, the single-rate nature of the Tobin Tax has been cited as a problem for activities such as liquidity trading; this is the passing of a certain amount of currency received from a transaction to other customers in order to reduce risk and Jetin estimates that this process could involve up to four or five until a final customer is found.⁴¹

While Wahl and Waldow note that 80% of transactions are round-trip financial flows with maturities of seven days or less without foundation in real economic activity,⁴² Spahn notes that the majority of transactions are liquidity trades; these transactions are

³⁷ Peter Wahl and Peter Waldow, "Currency Transaction Tax – A Concept with a Future. Chances and Limits of Stabilizing Markets through the Tobin Tax," WEED Working Paper, World Economy, Ecology, and Development (February 2001): 9, <http://www.globalpolicy.org/images/pdfs/0401future.pdf>.

³⁸ Spahn, "On the Feasibility of a Tax on Foreign Exchange Transactions," 19-20.

³⁹ *Ibid.*, 20.

⁴⁰ *Ibid.*, 21.

⁴¹ Jetin, "How Can a Currency Transaction Tax Stabilize Foreign Exchange Markets?" 59.

⁴² Wahl and Waldow, "Currency Transaction Tax – A Concept with a Future," 5.

not necessarily speculation and may be short-term.⁴³ He further notes that such liquidity trades serve primarily to hedge against exchange rate risks,⁴⁴ where derivatives are used to hedge against volatility. The two-tiered mechanism would allow regulators to impose a smaller base rate than a simple Tobin Tax in order to prevent a loss of liquidity trading while keeping speculation at bay with the threat of the prohibitive cost of the ERND. By taxing the portion of the exchange rate that exceeds the tolerable bands with the ERND, the Spahn Tax would curb excessive speculation by preventing speculators from making profits. Table 1 shows the trend in FOREX instruments from 1998-2013.

Table 1: Global FOREX Turnover by Instrument, 1998-2013

Instrument	1998	2001	2004	2007	2010	2013
Spot	568	386	631	1005	1488	2046
Outright Forwards	128	130	209	362	475	680
FX Swaps	734	656	954	1714	1759	2228
Currency Swaps	10	7	21	31	43	54
Options/Other	87	60	119	212	207	337

Source: Bank for International Settlements, "Triennial Central Bank Survey," Table 1, 9.

Note: All values in billions USD.

As Table 1 shows, Spot and FX Swaps comprise the majority of instruments, both currently and over the past fifteen years. Spahn argues that the tax base should only apply to spots, forwards, and swap transactions as they constitute the so-called Relevant Foreign Exchange Operations (RFXOs).⁴⁵ The tax rate would only be 0.5 to 1.0 basis points,⁴⁶ precisely to minimize the potential distortions that the tax would create and allowing the continued use of derivatives for liquidity trading and hedging. Although taxing would certainly crowd some traders out of the market, and the loss of liquidity could lead to an *increase* in volatility, it must be noted that traders capable of bearing the tax may increase their trading activity, thereby producing either no change in volatility but a source of revenue, or a net decrease in volatility if they provide enough new liquidity. While speculators may be a hard lot to find and punish, the Spahn Tax allows for

⁴³ Spahn, "On the Feasibility of a Tax on Foreign Exchange Transactions," 33.

⁴⁴ *Ibid.*, 3.

⁴⁵ *Ibid.*, 37.

⁴⁶ *Ibid.*, 36.

preventing the possibility of major speculative attacks as trading activity that pushes the exchange rate outside of the ERND margins would by definition be speculative since speculation is characterized by abrupt changes in the exchange rate.⁴⁷ Since the central bank would also be under no obligation to intervene to defend an exchange rate, it can be expected to also reduce moral hazard since market participants would bear the cost of mistakes.

Since such a tax has never existed, two examples based on Chile's use of crawling bands and capital controls can provide some insight on how the tax could work. Theoretically, under crawling bands authorities are under no obligation to defend a constant rate when conditions mean that the equilibrium rate has changed, nor are they passive when misalignments occur.⁴⁸ Furthermore, crawling bands act to solidify market expectations of where the equilibrium rate lies.⁴⁹ The Spahn Tax acts in a similar way as it uses a crawling peg with safety margins – akin to crawling bands – to solidify market expectations and, since the tax relies on a fiscal instrument rather than interventions, central banks are relieved of the burden of short-term interventions and countries would earn revenue rather than incur losses of reserves.⁵⁰ The major difference is that traditional crawling bands require intervention at times; the Banco Central de Chile had to constantly intervene to support the bands and widening the bands and interventions did not prevent the cumulative decline of 32% of the Chilean peso between 1990-97.⁵¹

As it is a tax, the Spahn Tax is effectively a capital control, since it puts a cost on capital flows to encourage a realignment of time horizons. The capital control type in

⁴⁷ Ibid., 19.

⁴⁸ John Williamson, *Exchange Rate Regimes for Emerging Markets: Reviving the Intermediate Option* (Washington, DC, The Institute for International Economics, 2000), 21-23.

⁴⁹ Ibid., 23.

⁵⁰ Paul Bernd Spahn, "Stabilizing Exchange Rates with a Tobin-cum-Circuit-Breaker Tax," *Taxing Currency Transactions: From Feasibility to Implementation: Conference Papers*, Halifax Initiative (Vancouver, BC: October 4-6, 2001): 29, http://www.halifaxinitiative.org/updir/Conference_Papers.pdf.

⁵¹ José De Gregorio, Andrea Tokman and Rodrigo Valdés, "Flexible Exchange Rate with Inflation Targeting in Chile: Experience and Issues," Working Paper 540 (Washington, DC: Inter-American Development Bank, 2005): 7, <http://www.iadb.org/res/publications/pubfiles/pubWP-540.pdf>.

Chile was the use of mandatory reserves; the value of reserves at the central bank increased from 587 million USD in 1991 to 331,572 million in 1997.⁵² This provides a good inference since, as Spahn notes, “[s]ince a part of the inflow of currencies has to be kept in the form of mandatory non-interest bearing deposits, lost opportunity costs act like a tax.”⁵³ The use of capital controls in Chile was successful in discouraging short-term investment and encouraging long-term flows; short-term flows were reduced from 96.3% of total capital inflows in 1988 to 2.8% in 1997.⁵⁴ This realignment of time horizons is precisely the goal of the Spahn Tax – or any other CTT – as it attempts to encourage longer-term fundamental investment.

3.2. Conclusion – The Spahn Tax as Sound Policy, but No Panacea

A CTT has some rationale behind it but the issue is what type of CTT to implement. The Tobin Tax is rife with complications and ambiguities; its single-rate nature prevents it from being effective at curbing speculation and the case can be made that a Spahn Tax is inherently more effective at both raising revenue and curbing speculation. The lower rate of the Spahn Tax would allow liquidity trading to continue while preventing abrupt changes in the exchange rate. Even if speculation is not as prevalent, it would act as a needed safeguard against speculative activity in the future.

As noted earlier, the use of derivatives in liquidity trading can be short-term transactions, and financial institutions use them to insulate themselves from volatility. This does not mean currencies are not in danger of abrupt and unexpected changes in exchange rates. This is more important as emerging economies increasingly integrate themselves into the global economy. Savers from emerging markets may pour investments into speculative assets, especially if domestic macroeconomic shocks induce them to do so. Since the assets of countries are priced and demanded in their

⁵² Sebastian Edwards, “Exchange Rate Regimes, Capital Flows, and Crisis Prevention,” Working Paper 8529 (Cambridge, MA: National Bureau of Economic Research, 2001): Table 2, 51, http://www.nber.org/papers/w8529.pdf?new_window=1.

⁵³ Spahn, “On the Feasibility of a Tax on Foreign Exchange Transactions,” 15.

⁵⁴ Edwards, “Exchange Rate Regimes, Capital Flows, and Crisis Prevention,” Table 2, 51.

local currencies, they may be subject to abrupt changes in exchange rates as speculative in/outflows increase. A CTT should be viewed as a policy to solidify expectations of daily fluctuations, rather than eliminate fluctuations themselves, and provide some insurance policy to prevent these speculative flows from causing major changes in exchange rates. Recently, the People's Bank of China drafted rules for a CTT to curb speculation in light of capital outflows.⁵⁵ Clark et al. observe that, despite the fact that petroleum exports only accounted for 18% of exports during the oil boom years, high valuations and demand for Canadian oil assets and strong inflows drove the Canadian dollar far above a sustainable value.⁵⁶

While Canada and China are not the same – China is struggling with implementing economic reforms and Canada faced a gradual exchange rate spike during the oil boom years – the logic remains: a CTT could slow the dramatic change – or in China's case, lessen the need for central bank intervention through FOREX reserves that may signal policy distress – of the exchange rate to give policymakers some room to breathe.

Spahn notes the concept of an ERND is primarily suited for emerging economies that aim to access global capital markets, while it is less reasonable for the US or EU on the grounds that exchange rate volatility could be controlled through coordination between the Federal Reserve and European Central Bank.⁵⁷ Competitive pressures could play a role in incentivizing larger countries to adopt a Spahn Tax, such as the rise of alternative currencies that may spark a reallocation of investment away from dominant currencies, though this currently seems remote. The presence of a first-tier CTT would slow it enough to give policymakers some breathing room. The ERND would still be suitable to constrain abrupt changes from larger sell-offs. Overall, a Spahn Tax-styled

⁵⁵ Kana Nishizawa, "China May Adopt Tobin Tax on Short-term Capital Flows, SAFE Says," Bloomberg, March 22, 2016, <http://www.bloomberg.com/news/articles/2016-03-22/china-may-adopt-tobin-tax-on-short-term-capital-flows-safe-says>.

⁵⁶ Tony Clark, Jim Stanford, Diana Gibson, and Brendan Haley, "The Bitumen Cliff: Lessons and Challenges of Bitumen Mega-Developments for Canada's Economy in an Age of Climate Change," Canadian Centre for Policy Alternatives (February 21, 2013): 58, <http://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2013/02/Bitumen%20Cliff.pdf>.

⁵⁷ Spahn, "On the Feasibility of a Tax on Foreign Exchange Transactions," 28.

CTT can be reasonably expected to constrain abrupt exchange rate changes in light of recent financial developments and potential risks.

Chapter 4.

Is a CTT Enforceable?

Tax evasion is a common criticism levied against the enforceability of a CTT. The logic of the argument is that if the tax is implemented, investors will flee the jurisdiction that levies the tax and migrate to a tax-free trading zone. Kenen provides two possible tax methods: taxing on a market basis and on a national basis. The former being a tax on the dealing site of a host country and the latter being a tax collected by a bank's head office.⁵⁸

4.1. Market Taxation – Big Markets, Little Rewards

The market principle would work as follows: suppose London were to implement a tax, all trading would be subject to it regardless of the nationality of the traders, although offshore trading done by British traders would be exempt.⁵⁹ If a tax was levied this way, the risk of migration would grow because banks could avoid the tax completely by establishing dealing sites in tax-free areas.⁶⁰ As market participants try to avoid the tax, its implementation will push FOREX transactions out of taxed centers to untaxed areas – such as London in Garber's scenario – where they will be booked abroad through subsidiaries; in turn these subsidiaries will be funded with credit from parent companies in the taxed jurisdiction and they will be able to lend the FOREX obtained in

⁵⁸ Peter B. Kenen, "The Feasibility of Taxing Foreign Exchange Transactions," in *The Tobin Tax: Coping with Financial Volatility*, ed. Mahbub ul Haq et al. (New York: Oxford University Press, 1996), 113.

⁵⁹ Spahn, "On the Feasibility of a Tax on Foreign Exchange Transactions," 41.

⁶⁰ Kenen, "The Feasibility of Taxing Foreign Exchange Transactions," 114.

a credit operation to the parent.⁶¹ For countries with a small share of FOREX trading, the revenues from the tax may exceed the benefits of trying to attract additional tax-free business.⁶²

4.2. A ‘Rule of Access’ Tax – The Leviathan of FOREX Acronyms

Perhaps the best way to levy the tax would be through settlement systems, which Spahn calls a “rule of access” tax.⁶³ This rule of access would rely on taxing transactions of a currency issued by a national authority. While dealing may be decentralized, the settlement of trades is becoming increasingly centralized⁶⁴ and the infrastructure involved in settlement has greatly evolved and become highly effective. Because of this reality, a CTT could be enforceable because the institutions and infrastructure that exist can incorporate it into their systems.

The primary means in which FOREX transactions are settled is through correspondent banks operating in the countries of the two currencies in which the payments are denominated and having accounts with their domestic Large-Value Payments Systems (LVPS).⁶⁵ Most LVPS rely on the Real-Time Gross Settlement (RTGS) mechanism, whereby payments occur as orders arrive and are settled on a person-to-person or person-to-dealer basis, with both sides of the transaction being

⁶¹ Peter M. Garber, “Issues of Enforcement and Evasion in a Tax on Foreign Exchange Transactions,” in *The Tobin Tax: Coping with Financial Volatility*, ed. Mahbub ul Haq et al. (New York: Oxford University Press, 1996), 133-134.

⁶² Kenen, “The Feasibility of Taxing Foreign Exchange Transactions,” 114.

⁶³ Spahn, “On the Feasibility of a Tax on Foreign Exchange Transactions,” 42.

⁶⁴ Danny Cassimon, “Financing Sustainable Development Using a Feasible Tobin Tax,” *Journal of International Relations and Development* 4, no. 2 (June 2001): 164.

⁶⁵ Rodney Schmidt and Aniket Bhushan, “The Currency Transactions Tax: Feasibility, Revenue Estimates, and Potential Use of Revenues,” Human Development Research Paper 2011/09, North-South Institute (November 2011), 3, <http://www.nsi-ins.ca/wp-content/uploads/2012/10/2011-Currency-Transactions-Tax-Feasibility-Revenue-Estimates-and-Potential-Use-of-Revenues.pdf>

settled simultaneously and ensuring that one side cannot execute its part of the transaction and face default risk by the other party.⁶⁶

The most important development is the development of the Continuous Linked Settlement (CLS) system. The CLS system is linked to all national RTGS systems and settles FOREX transactions during a five-hour window when the time zones of major RTGS systems overlap.⁶⁷ The globalized integration of financial and information networks has also provided some opportunities for tracking information for taxation and FOREX clearing purposes. National agencies that deal with the financial sector, such as central banks, operate in an interconnected global network and cooperate in the oversight of cross-border settlement systems such as CLS.⁶⁸ This is compounded by the fact that CLS has payment accounts with all the central banks that issue currencies it processes and once payments are made, they are legally binding and final.⁶⁹

While it can be argued that financial institutions would have an incentive to avoid using the CLS in order to conceal their dealings and avoid the tax, members face benefits that far outweigh the costs. CLS members face costs as a result of pulling their membership; these include the development of IT systems and organizational logistics and if a member were to leave these costs would become dead weight.⁷⁰ Efficiency gains as a result of membership in the CLS are estimated in the sense that the CLS system allows participants to increase the scale of transactions by some 32% with no impact on operating costs.⁷¹ This means there are significant long-run benefits to make up for the up-front costs of joining the CLS system, or even to leave in the face of a small CTT. The tax is seen by Spahn as a rule of access because if the tax is implemented through these official channels, it would be prohibitively expensive to establish

⁶⁶ Stephen Spratt, "The Tobin Tax in the 21st Century: Financing Development and Promoting International Financial Stability," Technical Report, New Economics Foundation, 2006, 12, <http://visar.csustan.edu/aaba/Spratt2006.pdf>.

⁶⁷ Ibid.

⁶⁸ Ibid., 15.

⁶⁹ Schmidt and Bhushan, "The Currency Transactions Tax," 3.

⁷⁰ Spratt, "The Tobin Tax in the 21st Century," 24.

⁷¹ Ibid., 26.

alternative systems⁷² and so they would pay the tax as a membership cost to access these efficient clearing and settling systems.

CLS is intended to replace traditional means of settlement since it is the most efficient and safe means for processing FOREX transactions.⁷³ A CTT could be implemented through coding within transaction software, with the proceeds levied automatically and transferred to central banks through attached RTGS, making central banks the collecting agencies for the tax revenue.⁷⁴ However, Schmidt and Bhushan state that the CTT should not be a tax on settlement services, but that settlement providers such as CLS can collect the data necessary and send it to the relevant tax authority.⁷⁵

However one views it, the infrastructure that exists can track and identify the relevant parties for taxation purposes. Wahl and Waldow sum it up best: the development of the current infrastructure for settling FOREX transactions implies that no new infrastructure is needed for its enforcement.⁷⁶ Not only does the current financial infrastructure mean a tax could be implemented unilaterally, but the development of RTGS and CLS means transactions can be tracked anywhere, making the national basis more practical than before and a better option than a tax on a market basis. It is reasonable to believe that a CTT can be enforced by any country's settlement and payments system that settles in its respective currency,⁷⁷ such as having all USD transactions settled through Fedwire.

4.3. Conclusion – Small Tax, Big Benefits

The CTT is enforceable if implemented through a national payments system and CLS. Given the current financial infrastructure, the tracking and matching for FOREX

⁷² Spahn, "On the Feasibility of a Tax on Foreign Exchange Transactions," 50.

⁷³ Schmidt and Bhushan, "The Currency Transactions Tax," 5.

⁷⁴ Spahn, "On the Feasibility of a Tax on Foreign Exchange Transactions," 49.

⁷⁵ Schmidt and Bushan, "The Currency Transactions Tax:" 13.

⁷⁶ Wahl and Waldow, "Currency Transaction Tax – A Concept with a Future," 10.

⁷⁷ Spratt, "The Tobin Tax in the 21st Century," 18.

transactions allows for authorities to levy a CTT to the relevant parties through integrated LVPS and CLS. In addition, the application of a low tax rate from a Spahn Tax would allow a CTT to be implemented and minimize evasion by substitution. A CTT's enforceability would be strengthened if viewed as going beyond settlement systems. Whether one abides by Spahn's 'rule of access' or Schmidt and Bhushan's information-sharing for taxation approach, it speaks to the importance of regulatory collaboration.

A CTT's enforcement is negligible without collaboration, such as ensuring settlement systems, tax authorities, and bank regulators share the necessary information. In light of the recent exposure of international tax avoidance by the leak of the Panama Papers, President Obama stated the leak illustrated the scale of tax avoidance involving Fortune 500 companies and noted the problem of tax avoidance is "a huge problem."⁷⁸ US Attorney General for Manhattan Preet Bharara said he "opened a criminal investigation regarding to matters to which the Panama Papers are relevant,"⁷⁹ and while the issue is not explicitly related to FOREX, it speaks to the notion that regulatory cooperation and political will to prevent tax avoidance are key conditions for a CTT's enforceability.

⁷⁸ Rupert Neate, "Panama Papers: US Launches Criminal Inquiry into Tax Avoidance Claims," *The Guardian*, April 19, 2016, <http://www.theguardian.com/business/2016/apr/19/panama-papers-us-justice-department-investigation-tax-avoidance>.

⁷⁹ Ibid.

Chapter 5.

Why Adopt One Unilaterally?

While the literature has gone to lengths to show the technical feasibility of a CTT, it has gone to equal lengths to show how one could be adopted and why one is needed for reasons such as funding global development. However, the case for multilateral adoption is hard to make due to the problem of building an international consensus, and recent debates over an EU FTT show complications with a regional option. This section will show why multilateral adoption is so hard to achieve and make the case for unilateral adoption.

5.1. Collective Action and its Discontents – Why Universal Adoption is Unlikely

Tobin originally advocated for his tax to be collected by an international authority, such as the IMF.⁸⁰ Griffith-Jones argues that the solution for CTT revenue administration has several tiers: there would be a redistribution formula for which some of the revenue is kept based on the volume of transactions and revenue collected; some is distributed to national governments to criteria such as according to the size of their IMF quotas, some is allocated to the UN, IMF, and the World Bank, and a small part is used to fund better regulation of financial markets.⁸¹ Cassimon makes the case for higher-income countries to transfer most of the CTT's basic revenue, up to 80%, to the global level.⁸²

⁸⁰ James Tobin, "A Proposal for International Monetary Reform," 159.

⁸¹ Stephany Griffith-Jones, "Institutional Arrangements for a Tax on International Currency Transactions," in *The Tobin Tax: Coping with Financial Volatility*, ed. Mahbub ul Haq et al. (New York: Oxford University Press, 1996), 153-154.

⁸² Cassimon, "Financing Sustainable Development Using a Feasible Tobin Tax," 168.

While an equitable redistribution formula would be desirable for international social justice, the likelihood of adopting such a tax regime at the international level is unlikely. Developing countries may not have the confidence in the World Bank and IMF since they are dominated by the developed countries in organization, management, and voting, and developed countries do not have much confidence in the capacity of the UN to manage additional finance.⁸³ In reality, any advocacy of the administration of a CTT at the international level would need to counter the arguments from power politics. This comes from the fact that the developed countries have a disproportionate amount of power and influence over international organizations, such as the US and Europe holding the majority of the power in the IMF; this is illustrated by the fact that the developed countries have nearly two-thirds of the voting power and the US has an effective veto in the IMF.⁸⁴

Jetin argues that a group of countries located on the same continent could take the initiative, such as the European Union because it shares the same economic weight as the United States and because around 50% of FOREX markets are located here.⁸⁵ Even Spahn notes that because of the concentration of trade in a time zone-specific financial centre, such as London being the centre for EU-based FOREX trading, a CTT is inappropriate as a national policy and should be implemented collectively for all countries in a time zone,⁸⁶ although Spratt's notion of unilateral collection through LVPS may negate this for major currencies.

Recently, there has been a debate on the implementation of an FTT in Europe. France, Germany, and eleven other nations have signed up to implement an FTT, although the UK and fifteen other EU members will not introduce it and the US Chamber

⁸³ John Langmore, "Negotiation and Management of a Currency Transaction Tax," in *Taxing Currency Transactions: From Feasibility to Implementation: Conference Papers*, Halifax Initiative (Vancouver, BC: October 4-6, 2001): 142, http://www.halifaxinitiative.org/updir/Conference_Papers.pdf.

⁸⁴ *Ibid.*, 141.

⁸⁵ Jetin, "How Can a Currency Transaction Tax Stabilize Foreign Exchange Markets?" 70.

⁸⁶ Spahn, "On the Feasibility of a Tax on Foreign Exchange Transactions," 37.

of Commerce and Financial Services Forum have been lobbying against it to the European Commission.⁸⁷

The EU has supranational institutions that are already in place, but the same cannot be said for other regions. Because of the inability to build a consensus, unilateral adoption is seen as a practical option. A CTT cannot be introduced universally; it is required to be introduced by an existing authority, a legitimate parliamentary body, meaning the legislature that is accountable for the tax will also receive and distribute the revenue as it sees fit⁸⁸ The development of RTGS-based LVPS and CLS means any country can unilaterally implement a CTT to tax trades on its currency.⁸⁹ This paper will proceed on the assumption that unilateral adoption is more practical.

5.2. Unilateral Adoption – Assessing the Benefits

While international adoption faces practical challenges, there are benefits for a country if a CTT is adopted unilaterally. The most prominent benefit is the increase in tax revenue and there have been several attempts to estimate the potential revenue of a CTT. The most recent revenue estimate is provided by Schmidt and Bhushan. Using various tax rates and assumptions on a reduction of trading volume as a result of the tax, they estimate the amount of revenue that could be raised by a tax on individual currencies. Table 2 shows the revenue estimates.

⁸⁷ Rachel Cooper, "US Banks Attack EU's 'Tobin Tax,'" *The Telegraph*, February 14, 2013, <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/9869510/US-banks-attack-Europes-Tobin-Tax.html>.

⁸⁸ Spahn, "On the Feasibility of a Tax on Foreign Exchange transactions," 14.

⁸⁹ Spratt, "The Tobin Tax in the 21st Century," 18.

Table 2: Potential Annual Revenue of a Unilateral CTT by Major Currency

Currency	Revenue, $t=0.5bp, e=-0.50$, USD billions/yr	Market Impact, $t=0.5bp, e=-0.50$, % change in volume	Revenue, $t=1.0bp, e = -0.82$, USD billions/yr	Market Impact, $t=0.5bp, e=-0.82$, % change in volume
Dollar	34	-20	32	-62
Euro	16	-20	14	-63
Yen	8	-20	7	-64
Sterling	5	-16	7	-49

Source: Schmidt and Bhushan, "The Currency Transactions Tax:" 20.

As Table 2 shows, the US would generate the most revenue from a unilateral tax, between \$34-32 billion USD per year depending on market contraction and tax rate. Assuming the American state sees increased tax revenue as a benefit, this would provide reasonable grounds for wanting to adopt one as more revenue means more money to spend on national economic priorities. It could also stabilize the USD and provide the US with a competitive advantage in trade. Assuming that the tax decreases volatility, it could also increase the demand for USD, picking up the slack for market contraction and making the USD even more attractive as a safe investment. Given the likely incidence of CTTs, they are by nature progressive taxes, rendering them a desirable form of taxation,⁹⁰ and civil society would likely show support for such a tax since it could be accompanied by tax cuts for low and middle income workers or provide a significant increase in funding for neglected areas of the budget, thereby shifting the burden from workers to speculators.⁹¹ Pro-reform groups, such as Americans for Financial Reform, have voiced support for an FTT, which would fulfill similar functions as a CTT, on the grounds of raising revenue and reducing short-term speculation.⁹² Since an FTT is a tax on financial transactions, this means an FTT proposal would necessarily include FOREX transactions.

⁹⁰ Grabel, "Currency Transaction Taxes," 94.

⁹¹ Dean Baker, "Taxing Financial Speculation: Shifting the Burden From Wages to Wagers," Center for Economic and Policy Research (February 2000): 6, http://www.cepr.net/documents/publications/taxing_speculation_2000_02.pdf

⁹² Americans for Financial Reform, *AFR Supports "The Wall Street Trading and Speculators Tax Act,"* February 28, 2013, <http://ourfinancialsecurity.org/blogs/wp-content/ourfinancialsecurity.org/uploads/2013/02/AFR-Harkin-DeFazio-Statement-2-28-13.pdf>.

In sum, there are reasons to believe that a CTT makes sense for both increasing national economic power and for satisfying the public, especially in the post-Crisis environment. But even in the face of these reasons, a CTT has not been adopted or considered. The next section will provide the methodology for the analysis of why this has been the case.

Chapter 6.

Methodology

With the technical case of a CTT established, we must ask why as a CTT has *not* been adopted. The literature has gone to lengths to provide the economic logic of a CTT and why and how one should be adopted, but this paper contributes by asking why one has *not* been. As noted in the previous section, the US has the most to gain from implementing one.

This paper will use John Kingdon's modified garbage can model. His model focuses on changes in policy agendas, while the original model from Cohen, March, and Olsen focuses on organizational choices more broadly.⁹³ This is further enhanced by Kingdon's addition of windows of opportunity and policy entrepreneurs as significant additions to the model, among others.⁹⁴ Kingdon's model analyzes three forces – or streams – that need to converge before a window of opportunity is opened that allows an issue to make it onto an agenda: a problem, available policies, and political mobilization. Problems come to the attention of policymakers because of sudden events or from feedback from existing operations; the policy stream consists of experts and analysts examining problems, proposing solutions, and narrowing down the available options; and the political stream can be composed to swings in national mood, administrative or legislative turnover, and interest group mobilization.⁹⁵ Essentially, the three streams come together at critical times, where a problem is recognized, a solution is available in

⁹³ Michael Lipson, "A 'Garbage Can' of UN Peacekeeping," *Global Governance* 13, no. 1 (January-March 2007): 83.

⁹⁴ *Ibid.*

⁹⁵ Michael Howlett, M. Ramesh and Anthony Perl, *Studying Public Policy: Policy Cycles & Policy Subsystems 3rd Ed.* (Don Mills: Oxford University Press, 2009), 103.

the policy community, and political change makes it a good time for policy change.⁹⁶ This open window of opportunity then provides room for policy entrepreneurs to connect (or 'couple') policy proposals that can fix those problems. As Kingdon notes,

Problems or politics by themselves can structure the government agenda. But the probability of an item rising on the decision agenda is dramatically increased if all three streams – problems, policies, and politics – are joined. An alternative floating in the policy stream, for instance, becomes coupled either to a prominent problem or to events in the political stream in order to be considered seriously in a context broader than the community of specialists. If an alternative is coupled to a problem as a solution, then that combination also finds support in the political stream. Similarly, if an alternative is seized upon by politicians, it is justified as a solution to the real problem. None of the streams are sufficient by themselves to place an item firmly on the agenda.⁹⁷

Action must be taken as windows can quickly close. Windows can close because participants feel they have addressed the problem; they may fail to get action and so become unwilling to invest further time and resources into solving the issue; or the events that prompted it to open may pass, and a crisis or focusing event is by its nature of short duration.⁹⁸ When a window is open, and a policy alternative is available, it is the role of policy entrepreneurs to couple the policy to the problem. These entrepreneurs are advocates who are willing to invest resources to promote a position in return for anticipated future gain in some form, including material.⁹⁹ These entrepreneurs can provide expertise; an ability to speak for others, such as a powerful interest group; or occupy an authoritative positions such as a federal official or congressional committee chairmanship.¹⁰⁰

Since there have been few examples of explicit CTT bills in the US, bills that attempted to introduce an FTT will be the sample. The lack of implementation is interesting since there have been *twenty-three* FTT-related bills introduced across three

⁹⁶ John Kingdon, *Agendas, Alternatives, and Public Policies 2nd Ed.* (New York: Longman, 1995), 165.

⁹⁷ *Ibid.*, 178.

⁹⁸ *Ibid.*, 169.

⁹⁹ *Ibid.*, 179.

¹⁰⁰ *Ibid.*, 180.

Congresses. This paper will focus on seven bills (H.R.1068, H.R.4191, H.R.3313, H.R.880, S.2927, S.1787, and S.410) as the main sample as they are bills that explicitly sought to use an FTT for some fiscal objective, while other bills have an FTT as a smaller component. Given that Representative Peter DeFazio (D-OR-4) introduced all the House bills (H.R.), and Senator Tom Harkin (D-IA) introduced all the Senate (S.) bills, it shows a story of the vigor in which these FTT champions repeatedly tried to introduce one. The same factors that led to the sample bills' failures can reasonably be inferred to influence the other FTT bills' failures as well. For a survey of FTT bills, their sponsors, and their purposes, see Appendix A. Table 3 shows this paper's sample bills, their introduction dates, and their last actions.

Table 3: Sample US FTT Bills, 111th-113th Congresses

Bill	Date Introduced	Last Action
111th Congress (2009-2010)		
H.R.1068: Let Wall Street Pay for Wall Street's Bailout Act of 2009	Feb. 13, 2009	Referred to House Committee on Ways and Means
H.R.4191: Let Wall Street Pay for the Restoration of Main Street Act of 2009	Dec. 3, 2009	Referred to House Committee on Budget
S.2927: Wall Street Fair Share Act	Dec. 23, 2009	Read twice and referred to Senate Committee on Finance
112th Congress (2011-12)		
H.R.3313: Wall Street Trading and Speculators Tax Act*	Nov. 2, 2011	Referred to House Committee on Ways and Means
S.1787: Wall Street Trading and Speculators Tax Act*	Nov. 2, 2011	Read twice and referred to Senate Committee on Finance
113th Congress (2013-14)		
HR.880: Wall Street Trading and Speculators Tax Act*	Feb. 28, 2013	Referred to House Committee on Ways and Means
S.410: Wall Street Trading and Speculators Tax Act*	Feb. 28, 2013	Read twice and referred to Senate Committee on Finance

Source: All information from Library of Congress pages for respective bills.

Note: Bills marked with * tax currency derivatives.

As Table 3 shows, none of the bills have made it past the referral and preliminary reading stages, essentially dying without further mention. Co-sponsors have been added after the bills were introduced, but no actions occurred after what is listed above. Despite the bills being for FTTs and none of them having a Spahn Tax as a component,

their failure can be assessed under the economic and political environment of the Crisis as well as the FOREX-related issues identified in Section 2 as four of the bills include currency derivatives under their definition of security. For clarity, 'FTT' will be used synonymously as 'CTT' for Section 7-9's analysis given that many of the bills seek to tax currency derivatives. As the bills have been introduced under Congresses convened after the 2007-08 Crisis (hereby referred to as the Crisis), their failure to be implemented needs to be analyzed in the economic and political contexts of its aftermath. Therefore, the paper will analyze the three streams the following way and will argue:

1. Problems: There are problems that justify an FTT, such as volatility and the need for tax revenue, but major problems that could spur political action such as speculative attack, do not currently exist.

2. Politics (Executive): Despite initial praise from President Obama, the Administration is largely opposed to an FTT.

3. Problems & Policies: The Administration already has policies to solve perceived problems in the wake of the Crisis, such as the Dodd-Frank Act, among others. These policies are consistent with the Administration's opposition to an FTT identified in 2).

4. Politics (Legislative): Turnover in Congress has resulted in a divided government, and there is bipartisan opposition to FTTs and stronger reforms in general. Even in Democratic-controlled Congresses, opposition to an FTT existed. The policy entrepreneurs of the FTT bills were also not on the relevant committees, in contrast to the Dodd-Frank Act. The higher degree of interest group mobilization also shows the importance of non-FTT reforms. In addition, the interests of the financial industry are overall better represented than groups that support an FTT, and so are better able to influence policy.

Conclusion: The FTT bills failed because the three streams did not converge, with the strongest failure in the political stream. Although the FTT bills can reasonably solve many problems, political opposition to them has resulted in their failure.

The approach makes sense for the issue since there is little information on the bills themselves. Data is available for the number of quarterly lobbying reports, the clients submitting those reports, and the current status of each bill, but there are no Congressional hearings. Therefore, analyzing the context of the bills' introduction and failure gives us an insight on why the FTT continues to be proposed and fails to make it onto the Administration's agenda. As we are unable to go in-depth in the analysis of the

bills due to the lack of information, making inferences based on the broader political and economic environment is the best option to give us answers on their failure.

Chapter 7.

The FTT: The Issue That Will Not Die

One interesting point is that, despite the lack of implementation, the FTT has increasingly gained political traction over the years. With each subsequent attempt at introduction, there has been increased media attention and increased lobbying on behalf of both proponents and opponents, yet at every turn it met failure. The FTT seems to be the issue that will not die, but a lack of the necessary factors has prevented its success. First, we turn to the existence of problems and whether the FTT bills suit them as viable solutions.

7.1. FOREX: How Big of a Problem?

As Sections 2 and 3 showed, there is a persistent problem in regards to the excessive volatility of modern exchange rates. Despite this persistent issue, there has not been any dialogue by policymakers for taming volatility. Perhaps it is not considered as prominent a political issue, especially since most central banks commit to floating the exchange rate, although there is evidence that some countries are unwilling to accept the fluctuations inherent with pure floating regimes and will intervene as they need to.¹⁰¹ Interventions are also easier using open-market operations than designing and implementing a tax, although as mentioned in Section 2, interventions have their own complications, such as signalling policy distress.

It would be plausible to see the justification for a CTT if the USD declined as the world's reserve currency. As demand for the dollar decreases and traders sell off their

¹⁰¹ For more, see Guillermo A. Calvo and Carmen Reinhart, "Fear of Floating," *Quarterly Journal of Economics* 107, no. 2 (2002): 379-408.

dollar holdings, the US would have a much stronger rationale for using a CTT to prevent its depreciation. While the unilateral imposition of a CTT has good grounds from the exchange rate volatility and potential revenues standpoint, it lacks justification on the grounds of protecting the dollar from speculative attack due to America's global economic power. Table 4 shows the importance of the USD in the FOREX market and Table 5 shows the shares and ranks of the dominant vehicle currencies present in daily trades.

Table 4: FOREX Daily Averages in April 2013, by Currency and Instrument

Currency	Totals	Spot	Outright Forwards	FX Swaps	Currency Swaps	FX Options
USD	4652	1691	588	2030	50	293
EUR	1786	754	178	766	18	70
JPY	1231	612	123	332	11	153
GBP	631	227	69	301	5	29
AUD	462	196	50	183	6	27

Source: Bank for International Settlements, "Triennial Central Bank Survey," Table 5, 13.

Note: All values in billions USD, net-net basis.

Table 5: Percentage Shares and Ranks of Vehicle Currencies, 1998-2013

Currency	1998		2001		2004		2007		2010		2013	
	%	Rank										
USD	86.8	1	89.9	1	88.0	1	85.6	1	84.9	1	87.0	1
EUR	--	--	37.9	2	37.4	2	37.0	2	39.1	2	33.4	2
JPY	21.7	2	23.5	3	20.8	3	17.2	3	19.0	3	23.0	3
GBP	11.0	3	13.0	4	16.5	4	14.9	4	12.9	4	11.8	4
AUD	3.0	6	4.3	7	6.0	6	6.6	6	7.6	5	8.6	5

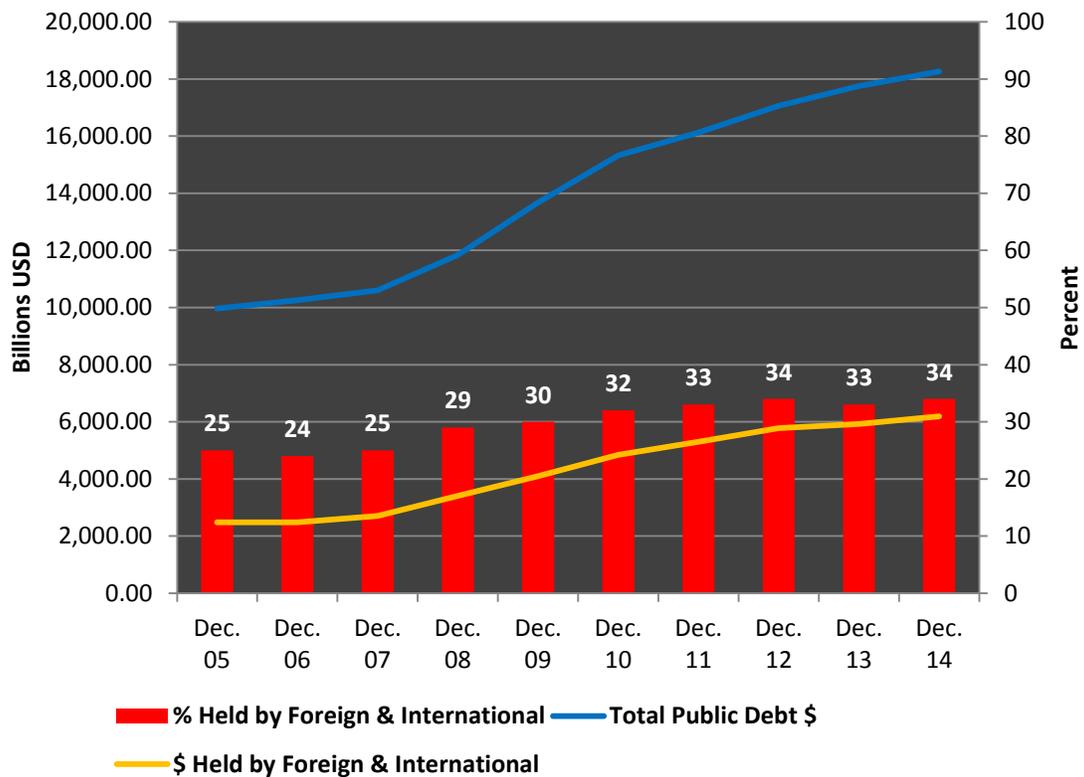
Source: Bank for International Settlements, "Triennial Central Bank Survey," Table 2, 10.

Note: Adjusted for net-net basis; % total is out of 200% because two currencies are involved in each trade.

As Table 4 shows, the USD leads in the amount of both currency and instruments being traded. In addition, Table 5 shows that the USD has maintained its position as the dominant vehicle currency for the past fifteen years, never making up less than 84 percent of daily trades. The amount of USD traded on the FOREX market is indicative of how much demand there is for it, or rather, its desirability as an asset in addition to the need to trade it to purchase goods denominated in dollars. Perhaps the

best indicator of the USD's demand is the amount of public debt held by foreigners, illustrated by their holding of US Treasury Securities. Essentially, a foreign government or firm exchanges its FOREX reserves for USD holdings with the Treasury as an interest-bearing asset. Figure 2 shows the estimated holdings of US Treasury Securities, both total and foreign-held.

Figure 2: Estimated Holdings of US Treasury Securities, Total and Foreign-Held



Source: Data from Bureau of Fiscal Service, Department of the Treasury, "Treasury Bulletin: March 2015," Table OFS-2, 43.

Note: Dollar amounts are in 2015 dollars.

As Figure 2 shows, foreign holdings of securities increased from \$2.5 trillion (25%) in December 2005 to \$6.2 trillion (34%) in December 2014. As US public debt is denominated in USD, this shows that the USD is still in strong demand by foreigners to hold as an asset. An interesting point to note is that even across the years of the Crisis (2007-2008), foreigners still invested in dollars. Roubini and Mihm note that while the Crisis worsened, investors piled into dollars, along with other developed nation

currencies, while simultaneously dumping stocks and bonds from emerging markets.¹⁰² If anything, recent events and decades show the resilience of the USD's demand. *The Economist* echoes this sentiment, noting that

One of the oddities of globalisation is that although America's trade footprint has shrunk, its monetary footprint has not...The position of the dollar, widely seen as a pillar of soft power, has strengthened...Even when a global crisis starts in America it is the safe haven to which investors rush, and foreigners accumulate dollars as a safety buffer.¹⁰³

There is little evidence of a major, politically-attractive problem for a CTT to solve. Its logic would be stronger if there is evidence of foreigners wanting to dump their USD holdings by selling treasuries. The magnitude of the sell-off would essentially be proportional to the demand for a CTT; the faster foreign investors sell off their dollars, the stronger the demand would be for the US government to protect its value, either through central bank intervention or stronger policy responses like a CTT. However, these findings do not detract from the CTT's overall effectiveness. They simply show that the problem most likely to put exchange rate management as a prominent political issue does not exist at the moment, although other problems the CTT/FTT can solve still exist. Next, we will briefly jump into the political stream and lay out the Administration's views on an FTT as its views will determine whether an FTT can solve other post-Crisis problems it had to deal with.

7.2. Executive Opposition: The Anti-FTT Political Agenda

When a window opens because a problem is present, proposed solutions fare much better if they are also politically acceptable and those that cannot gain enough support or meet with Administration opposition tend to be dropped even if they are well-suited to deal with the problem at hand.¹⁰⁴ This is precisely the story of the FTT:

¹⁰² Nouriel Rubini and Stephen Mihm, *Crisis Economics: A Crash Course in the Future of Finance* (New York: The Penguin Press, 2010), 124.

¹⁰³ "The Sticky Superpower," *The Economist*, October 3, 2015, <http://www.economist.com/econ2015?fsrc=scn%2Ftw%2Fte%2Fpe%2Fed%2Fthestickysuperpower>.

¹⁰⁴ Kingdon, *Agendas, Alternatives, and Public Policies 2nd Ed.*, 175.

entrepreneurs like DeFazio and Harkin can couple their proposals to solve certain problems, yet the lack of political traction on the Administration's behalf severely limits its success in being considered relative to alternatives.

Influential members of the Administration were against the FTT's implementation at both the global and domestic level. At the 2009 St. Andrews G20 Summit, former Treasury Secretary Timothy Geithner stated the US did not back any proposals to tax financial transactions.¹⁰⁵ Officials were instead guided by the Administration's plan on financial reform that outlined four principles to reach international consensus on: regulatory capital standards, oversight of global financial markets, supervision of internationally-active firms, and crisis prevention and management.¹⁰⁶ Furthermore, Treasury Secretary Jacob Lew expressed opposition to the EU's FTT if there were no exemptions for American firms.¹⁰⁷

Testifying before the Senate Committee on Finance, when asked about whether the Obama Administration is considering an FTT, Secretary Lew stated that "[t]he Administration has consistently opposed a financial transactions tax on the grounds that it would be vulnerable to evasion, create incentives for financial reengineering, and burden retail investors."¹⁰⁸ He further noted that the "Treasury believes that the Administration's proposed Financial Crisis Responsibility Fee is a smarter proposal than a financial transactions tax."¹⁰⁹ On the global front, Lew reiterated his opposition to the EU's FTT on the grounds of it harming US investors.¹¹⁰ The truth is in the wording. An

¹⁰⁵ Angela Monaghan, "US Treasury Secretary Timothy Geithner Slaps down Gordon Brown's 'Global Tax,'" *The Telegraph*, November 7, 2009, <http://www.telegraph.co.uk/finance/6522135/US-Treasury-Secretary-Timothy-Geithner-slaps-down-Gordon-Browns-global-tax.html>.

¹⁰⁶ Department of the Treasury, *Financial Regulatory Reform: A New Foundation: Rebuilding Financial Supervision and Regulation*, 80, https://www.treasury.gov/initiatives/Documents/FinalReport_web.pdf.

¹⁰⁷ Darrell Delamaide, "Financial Trade Tax Looks Unlikely," *USA Today*, July 2, 2013, <http://www.usatoday.com/story/money/business/2013/07/02/delamaide-columnist-financial-transaction-tax/2482435/>.

¹⁰⁸ *Questions for the Record. Nomination of Jacob J. Lew to be Secretary of the Treasury: Hearing Before the Senate Committee on Finance*, 113th Cong., 49 (February 13, 2013), <http://www.finance.senate.gov/imo/media/doc/2-20-2013%20Lew%20QFRs.pdf>.

¹⁰⁹ *Ibid.*

¹¹⁰ *Ibid.*, 126.

FTT bill that presents the tax as a solution to funding employment programs would be opposed by the Administration since the mechanism for funding those programs is viewed as ineffective. If officials supported the technical aspects of an FTT, then the likelihood of supporting it as a medium for other goals would therefore increase.

Despite the Obama Administration's current opposition to an FTT, Suskind's interviews of Peter Orszag, former Director of the Office of Budget Management, show that the President initially showed support but the idea was cast off the agenda by Lawrence Summers, former Director of the National Economic Council. According to Orszag, Summers had derailed several initiatives the President wanted to move forward, including an FTT. After an FTT was proposed to tame trading and raise money in one meeting, Obama had apparently remarked that "we are going to do this!"¹¹¹ Speaking at a press conference on the proposal of S.410 and H.R.880, Representative DeFazio seemed to confirm this, noting that in 2009, Obama was "very interested" in an FTT but "unfortunately it was assigned to Larry Summers and Timmy Geithner, who were both absolutely opposed to it, and they deep-sixed it and never brought anything back to him."¹¹² He further stated that in private discussion, Secretary Lew was "basically open to looking at it and engaging on further discussions on it."¹¹³

Although Obama had initially expressed some interest, and Secretary Lew supposedly voiced some ambiguous support, the lack of adoption confirms their disinterest. Of course, this could also be explained by the fact that the centrepiece of the Administration's financial reform is the Dodd-Frank bill and the Administration concentrated on finalizing its implementation rather than trying to implement various reforms in a piecemeal fashion.

¹¹¹ Ron Suskind, *Confidence Men: Wall Street, Washington, and the Education of a President* (New York: Harper Collins, 2011), 385.

¹¹² George Zornick, "Financial Transactions Tax Introduced Again – Can it Pass This Time?," *The Nation*, February 28, 2013, <http://www.thenation.com/article/financial-transactions-tax-introduced-again-can-it-pass-time/>.

¹¹³ *Ibid.*

7.3. Disconnected Proposals: The Administration's Other Policies for Crisis Problems

The Financial Crisis Inquiry Commission (FCIC) was commissioned to investigate the root causes of the Crisis and presented its findings on February 25, 2011. According to the FCIC, the collapse of the housing bubble was fuelled by low interest rates, easy credit, scant regulation, and toxic mortgages, and hundreds of billions of dollars in losses in mortgages and mortgage-backed securities were magnified by derivatives.¹¹⁴ While derivatives and such securities are seen as having an effect on the crash, they are only a part of the total causes that led to it. From this, we can see that the FTT bills are not suited to prevent situations like the Crisis per se, although their taxing of derivatives would certainly deter speculative trading whether those derivatives are based on mortgages or currency. The timing of their introduction, as well as the problems they sought to solve, show that they sought to deal with the problems coming to light in the Crisis' aftermath.

The central theme of the bills – especially S.410 and H.R.880 given the increased media attention they received – were to punish Wall Street for speculation and other risky behaviour, with revenue for deficit reduction and jobs programs as a means of transferring wealth to Main Street. While the Administration had other plans for stimulus, such as H.R.1: American Recovery and Reinvestment Act of 2009, the best direct comparison of the FTT bills would be with other Administration plans to curb Wall Street's risky activities.

When S.410 and H.R.880 were introduced, both Harkin and DeFazio expanded on the bills' intentions. Senator Harkin spoke of the need to use the revenue to reduce deficits and maintain investments in education, infrastructure, and job creation.¹¹⁵

¹¹⁴ Financial Crisis Inquiry Commission, *The Financial Crisis Inquiry Report: Final Report to the National Commission on the Causes of the Financial and Economic Crisis in the United States*, xvi, Government Printing Office, February 25, 2011, <http://www.gpo.gov/fdsys/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf>.

¹¹⁵ Peter DeFazio, "Lawmakers Introduce Targeted Wall Street Trading Tax," February 28, 2013, <https://defazio.house.gov/media-center/press-releases/lawmakers-introduce-targeted-wall-street-trading-tax-0>.

Representative DeFazio noted that “we desperately need it and it reins in the excessive speculative activity that has destabilized our financial system. The only way we can meaningfully address our deficit, is by taking a balanced approach that includes revenue raisers and smart, targeted cuts. This bill should be part of that balanced solution.”¹¹⁶ The sentiment was repeated by two co-sponsors. Senator Bernie Sanders (D-VT) stated the bill “will reduce gambling on Wall Street, encourage the financial sector to invest in the job-creating productive economy, and significantly reduce the deficit.”¹¹⁷ Senator Sheldon Whitehouse (D-RI) also spoke of the need to reduce high-frequency trading as the tax “will raise billions in new revenue to get rid of the sequester or reduce the deficit while also discouraging the kind of reckless high-volume trading that contributed to the financial crash in 2008.”¹¹⁸

As the first two FTT bills, H.R.1068 and H.R.4191, were titled Let Wall Street Pay for Wall Street’s Bailout, and for the Restoration of Main Street, respectively, a comparison with the Administration’s plans again show its opposition to using an FTT. The Troubled Asset Relief Program (TARP) was enacted under the George W. Bush Administration yet continued under Obama and profited the federal government in the end. Congress initially authorized \$700 billion for TARP in October 2008, which was later reduced to \$475 billion by the Dodd-Frank Act.¹¹⁹ These funds were used for stabilizing banking institutions, the US auto industry, and American Investment Group (AIG); restarting credit markets; and funding programs to help struggling families avoid foreclosure.¹²⁰ Section 2(4) of H.R.1068 notes that Wall Street investors that received TARP funds should pay for the infusion of tax money and 2(5) suggests the easiest way to raise the money is through a securities transfer tax.¹²¹ According to *ProPublica*’s Bailout Tracker, after disbursing \$430 billion, a total of \$390 has been returned; the

¹¹⁶ Ibid.

¹¹⁷ Ibid.

¹¹⁸ Ibid.

¹¹⁹ “TARP Programs,” U.S. Department of the Treasury, last modified January 13, 2016, <http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/Pages/default.aspx#>.

¹²⁰ Ibid.

¹²¹ *H.R. 1068: Make Wall Street Pay for the Wall Street Bailout Act of 2009*, The Library of Congress, February 13, 2009, <https://www.congress.gov/bill/111th-congress/house-bill/1068/text>.

Treasury has earned \$23.1 billion through dividend or interest payments; \$20 billion from sales of equity or other assets acquired by the Treasury; and \$9.63 billion through stock warrants; all leading to a total profit of \$13.1 billion for the Treasury.¹²² All of the money was generated without the need for an FTT.

On the speculation and derivatives front, the Administration was more concerned with implementing the Volcker Rule as part of its reform agenda to curb risky trading. Initially, the administration had sided with Wall Street in opposing the inclusion of the Volcker Rule until pressure from congressional Democrats made the administration rethink its position.¹²³ The rule seeks to limit the types of trades these banking entities are able to make for their own accounts in an effort to prevent these institutions from relying on federal assistance and using depositor money to make prop bets.¹²⁴ While the White House states that under the Volcker Rule banks will no longer be able to own, invest, or sponsor hedge funds, private equity funds, or proprietary trading operations for their own profit,¹²⁵ it falls short of the purposeful separation of commercial and investment banking that the pre-1999 Glass-Steagall regime enforced. There is some favourable commentary on the rule; Tangel et al. believe that it narrows loopholes that allows banks to make prop trades, forces the banks to monitor and adjust hedging strategies, and bars banks' trading desks from holding investments that exceed "the reasonably expected near-term demands of customers."¹²⁶ Other issues exist,¹²⁷ but

¹²² Paul Kiel and Dan Nguyen, "Bailout Tracker," *ProPublica*, last modified January 11, 2016, <https://projects.propublica.org/bailout/>.

¹²³ Nolan McCarty, Keith T. Poole and Howard Rosenthal, *Political Bubbles: Financial Crises and the Failure of American Democracy* (Princeton: Princeton University Press, 2013), 186-187.

¹²⁴ R. Rex Chatterjee, "Dictionaries Fail: The Volcker Rule's Reliance on Definitions renders it Ineffective and a New Solution is needed to Regulate Proprietary Trading," *BYU International Law & Management Review* 8 (Winter 2011): 41.

¹²⁵ The White House, "Wall Street Reform: The Dodd-Frank Act," <https://www.whitehouse.gov/economy/middle-class/dodd-frank-wall-street-reform>.

¹²⁶ Andrew Tangel, Jim Puzzanghera and E. Scott Reckard, "Regulators OK Volcker Rule, Curbing Big Banks' High-Risk Trades," *The Los Angeles Times*, December 11, 2013, <http://articles.latimes.com/2013/dec/11/business/la-fi-volcker-rule-20131211>.

¹²⁷ For example, see Peter Coy, "The Volcker Rule is Tough. It's Complicated. But will it be Effective?" *Bloomberg Businessweek*, December 12, 2013, <http://www.businessweek.com/articles/2013-12-11/the-volcker-rule-is-tough-dot-its-complicated-dot-will-it-be-effective>.

overall the Administration committed to implementing the rule to curb risk in derivatives trading through regulation, rather than taxation.

President Obama had his own plan for punishing Wall Street. The President and his economic team proposed a Financial Crisis Responsibility Fee (FCRF) to be imposed on the debt of the largest financial firms until the costs of assistance are recuperated from Wall Street.¹²⁸ The fee as proposed in 2010 was projected to raise \$117 billion over 12 years, and \$90 billion over the next 10 years to pay for the estimated \$117 billion cost of the TARP.¹²⁹ President Obama proposed the fee in every budget since 2010 but the proposal from 2015 reaches further by including a wider range of firms, and instead of calling the tax an FCRF, the White House has pitched it as complementing “other Administration policies aimed at preventing future financial crises and making the economy more resilient.”¹³⁰ While unlikely to pass in a Republican-controlled legislature, the persistence of the proposal over several budgets shows the Administration’s priorities lie outside of an FTT. Speaking before the Senate Committee on Finance, Geithner stated that the Administration had looked a range of proposals, including profits taxes and FTTs, but concluded the FCRC was the best way of recovering the cost of TARP and limiting risk-taking.¹³¹

In 2011, Representative DeFazio claimed that data sent to his office, as well as to Senator Harkin’s, from the Joint Committee on Taxation found that the tax contained in S.1787/H.R.3313 would raise \$352 billion in the 2013-2021 period.¹³² In 2013, the

¹²⁸ “President Obama Proposes Financial Crisis Responsibility Fee to Recoup Every Last Penny for American Taxpayers,” The White House, January 14, 2010, <https://www.whitehouse.gov/the-press-office/president-obama-proposes-financial-crisis-responsibility-fee-recoup-every-last-penn>.

¹²⁹ Ibid.

¹³⁰ Ryan Tracy, “Obama Proposes Tax on Large Financial Firms,” *The Wall Street Journal*, February 2, 2015, <http://www.wsj.com/articles/obama-proposes-tax-on-large-financial-firms-1422894601>.

¹³¹ *President’s Proposed Fee on Financial Institutions Regarding TARP, Hearings Before the Committee on Finance, United States Senate*, 111th Congress, Second Session (April 20, May 4, and May 11, 2010): 66, www.finance.senate.gov/imo/media/doc/672321.pdf.

¹³² Peter DeFazio, “Memo: Joint Tax Committee Finds Harkin, DeFazio Wall Street Trading and Speculators Tax Act Generates More Than \$350 Billion,” November 9, 2011, <http://defazio.house.gov/media-center/press-releases/memo-joint-tax-committee-finds-harkin-defazio-wall-street-trading-and>.

Congressional Budget Office noted that up to \$180 billion in revenue could be raised by an FTT in the 2014-2023 period based on data from the Joint Committee.¹³³ As the sponsors noted in their rationale for S.410/H.R.880, this money needs to be used for important public investments and job creation, but the Administration's opposition showed it had other plans. The FTT would raise more revenue than the FCRF yet was still opposed, and as Table 4-1 showed, a unilateral CTT on the USD could raise \$32-34 billion per year. Assuming stable revenue generation over several years, the CTT alone could raise more revenue than the FCRF over the same time period. The Administration's opposition demonstrates that while transactions taxes would be a better option at solving the issues of making Wall Street pay and reducing deficits, its lack of political receptivity from the Administration is a bigger obstacle than actual effectiveness.

7.4. Conclusion: A Solution Without a(n Attractive) Problem

There are many problems that the FTT can reasonably solve, whether constant (FOREX volatility) or prominent (punishing risky trading and making Wall Street pay for its bailout). But the Obama Administration not only opposed an FTT, it had its own policies for handling these issues. The TARP program across two administrations already saw the federal government receive its principal investment – and profit – for its actions, the Dodd-Frank Act's Volcker Rule is the Administration's approach to regulating derivatives trading, and the President's FCRF is his personal approach to ensuring Wall Street pays for economic recovery. These point to the notion that while the FTT has problems to solve, and there are policy proposals waiting to be considered, political opposition acted as the most prominent barrier. The next section will briefly lay out the policy environment the Administration committed to.

¹³³ Congressional Budget Office, *Options for Reducing the Deficit: 2014-2023*, November 13, 2013, 172, <https://www.cbo.gov/sites/default/files/cbofiles/attachments/44715-OptionsForReducingDeficit-3.pdf>.

Chapter 8.

The Main Policy Environment: Macroprudential Regulation, not Taxation

If policymakers become convinced a problem is pressing, or they adopt a given theme for their administration, they reach into the policy stream for an alternative that can be presented as a solution.¹³⁴ Within this stream, the Obama Administration simply ‘reached in’ for the Dodd-Frank Act, rather than consider reforms like an FTT. A full story of Dodd-Frank is outside the scope of this paper, but the emphasis the Administration placed on it, in addition to a brief explanation of the approach it took to regulating the industry, shows where the Administration’s regulatory priorities lay. Unlike the FTT, the Dodd-Frank framework, with its emphasis on oversight rather than taxing transactions, was more consistent with the Administration’s views on regulation, making the FTT much less of a serious contender for attention. As such, Dodd-Frank was implemented as a problem-solver, and the Administration’s time and resources were dedicated to finalizing it rather than considering alternatives like an FTT.

In June 2009, the Obama Administration released an eighty-nine-page outline of its reform policies. Broadly speaking, the plan fell under five main principles: promoting robust supervision and regulation of firms, establishing comprehensive supervision of financial markets, protecting consumers and investors from financial abuse, providing the government with tools to manage financial crises, and raising international regulatory standards and improving international cooperation.¹³⁵ Domestically, the plan focused on four primary areas: the creation of the Financial Stability Oversight Council, which would coordinate regulatory agencies and provide macro-level oversight; a modest revamping

¹³⁴ Kingdon, *Agendas, Alternatives, and Public Policies 2nd Ed.*, 174.

¹³⁵ Department of the Treasury, *Financial Regulatory Reform*, 3-4.

of the structure of financial regulation; an enhancement of the government's ability to take over and unwind failed firms; and the creation of a new regulatory agency for consumer and investor protection.¹³⁶

In fall 2009, House and Senate committees began work on reform legislation and the bill that the House Financial Services Committee produced was close to the Administration's plans.¹³⁷ When the bill came to the floor, two substantial amendments came from Bart Stupak (D-MI) to tighten rules for central clearing for derivatives contracts and securitization; ultimately, H.R.4173: Dodd-Frank Wall Street Reform and Consumer Protection Act passed on December 11, 2009 by a vote of 223-203, with all Republicans and 27 Democrats voting against the bill.¹³⁸ The main Senate proposal was revealed in November 2009; Senate Banking Chairman Chris Dodd (D-CT) proposed major changes in the power of the Federal Reserve to regulate banks and this was seen as considerably more ambitious than the Administration's plans and the House bill.¹³⁹

In effect, Dodd's plan was a somewhat radical restructuring of the regulatory landscape. It would strip power from the Fed and FDIC and put in their place new regulators such as an Agency for Financial Stability to oversee systemic risks; a Financial Institutions Regulatory Administration to oversee the banking industry; and the Consumer Financial Protection Agency to safeguard borrowers and other consumers.¹⁴⁰ Senator Dodd's final plan was unveiled on March 15, 2010, which had adopted some Republican demands to attract their support but also including the Volcker Rule.¹⁴¹ The Senate bill was considerably more pro-regulation when a measure backed by Blanche Lincoln (D-AR) was added to the bill. The provision called for the largest banks to spin off their derivatives trading operations, but while initially generating opposition from

¹³⁶ McCarty, Poole and Rosenthal, *Political Bubbles*, 208.

¹³⁷ *Ibid*, 209.

¹³⁸ *Ibid*.

¹³⁹ *Ibid*.

¹⁴⁰ Binyamin Appelbaum and Brady Dennis, "Legislation by Senator Dodd Would Overhaul Banking Regulators," *The Washington Post*, November 11, 2009, <http://www.washingtonpost.com/wp-dyn/content/article/2009/11/09/AR2009110901935.html?hpid=topnews>.

¹⁴¹ McCarty, Poole and Rosenthal, *Political Bubbles*, 210.

Republicans, the Administration and Democrats from New York also voiced opposition.¹⁴²

The White House states Dodd-Frank is “[t]he most far reaching Wall Street reform in history” and “will prevent the excessive risk-taking that led to the financial crisis.”¹⁴³ The most important objective of Dodd-Frank is to ensure financial stability, and the act shifts from concentrating on microprudential regulation – which focuses on institution-level risk – to macroprudential, which focuses on overall stability and systemic risk.¹⁴⁴ As an example of its approach, Title I of Dodd-Frank created the Financial Stability Oversight Council (the Council) and the Office of Financial Research (OFR) and granted the Federal Reserve additional authority to manage the systemic risk posed by Systemically Important Financial Institutions (SIMIs).¹⁴⁵ The Council is a consultative group of financial regulators with a mission to identify risks that pose a threat to the stability of the financial system, promote market discipline, and respond to emerging threats by making recommendations about appropriate regulation, collecting information on market activities, and designating systemically important institutions or activities that will come under the Federal Reserve’s oversight as the system risk regulator.¹⁴⁶

But Administration commitment goes further than coherency with agendas; Dodd-Frank was *the* preference, but we must ask *why*. As the FCIC noted, the Crisis was caused by a multitude of factors. It can be argued that commitments to macroprudential reforms such as Dodd-Frank provided a better ‘fit.’ Dodd-Frank mainly focused on avoiding a repeat of the Crisis, especially the rapid deregulation and securitization that encouraged banks to engage in risky activities.¹⁴⁷ On the Administration’s agenda on unregulated over-the-counter (OTC) derivatives, reforms reflected both new skepticism of unregulated OTC markets among elites as well as strong popular demand for

¹⁴² Ibid., 210.

¹⁴³ The White House, “Wall Street Reform.”

¹⁴⁴ Douglas D. Evanoff and William F. Moeller, “Dodd-Frank: Content, Purpose, Implementation Status, and Issues,” *Economic Perspectives* 26, no. 3 (2012): 77

¹⁴⁵ Ibid.

¹⁴⁶ Ibid.

¹⁴⁷ Mine Aysen Doyran, *Financial Crisis Management and the Pursuit of Power: American Pre-eminence and the Credit Crunch* (Burlington: Ashgate, 2011), 166

regulation in the context of the severity of the crisis and anger at the fact taxpayer support of firms like AIG was directly linked to firms' OTC credit default swap (CDS) activities.¹⁴⁸ Despite the fact the US economy would face fewer distortions through a tax, competitive pressures played a role. Under the Bush Administration, US officials recognized that internationally-coordinated regulatory tightening would help minimize competitive disadvantages for US markets and firms that could result from unilateral action.¹⁴⁹ This echoes the opposition Secretary Lew expressed. In hindsight, the argument is hard to sustain given that 'competitors' like the EU supported an FTT, meaning US consideration would likely not have resulted in such a disadvantage.

Analogies are often made with the 1997-98 East Asian crisis in regards to renewed calls for capital restrictions, but the Crisis did not shape US policy preferences the same way. Though large-scale international capital flows contributed to the US financial bubble, the US had less reason to raise the issue of restricting capital flows than East Asian countries had earlier as the US did not experience capital flight and an exchange rate crisis when the bubble burst.¹⁵⁰ From this we can see a major problem-policy disconnect as the FTT (and CTT) was not suited to solve the problems the US faced; greater oversight and transparency were deemed to be better fits for regulation, rather than a need to slow down potentially speculative capital flows.

The ideology of US officials played a role as well. US structural power within global financial markets encouraged US policymakers to favour liberalization for several decades, a preference reinforced by neoliberal ideas and the interests of powerful internationally-oriented US financial institutions.¹⁵¹ Before the crisis, US regulation was influenced by neoliberal ideas embraced by policymakers, yet while the Crisis offered a challenge, it did not deliver a transformation.¹⁵² For some, the macroprudential approach could rationalize 'anti-market' regulations, while for others, it was invoked to defend the

¹⁴⁸ Eric Helleiner, *The Status Quo Crisis: Global Financial Governance After the 2008 Financial Meltdown* (New York: Oxford University Press, 2014), 111.

¹⁴⁹ *Ibid.*, 124.

¹⁵⁰ *Ibid.*, 117.

¹⁵¹ *Ibid.*

¹⁵² *Ibid.*, 127.

more limited reforms undertaken involving extension of greater public oversight over markets without actually constraining private activities in significant ways; US officials were attracted to the latter approach.¹⁵³

While we can derive policy preferences based on ‘best fit,’ financial institutions also played a role in shaping reform preferences. By the time the Administration began to focus on financial reform, the banks had returned to profitability, paid off their TARP loans, and were once again politically powerful – the bailouts engineered by Bernanke and Paulson worked too well, healing the financial sector so quickly that it was able to fight more substantial reforms.¹⁵⁴ Given the greater lobbying the sector mounted – as shown in the next section – it is conceivable that US preferences were also shaped by the newly-recovered banks.

Riding on the heels of the TARP bailouts and the political and economic fallout of the post-Crisis environment and ongoing Great Recession, the Obama Administration focused on the macroprudential regulatory framework of Dodd-Frank. Rather than be open to different forms of regulation, the Administration committed more to ensuring a sound environment for the financial system through increased oversight. Upon the bill’s finalization in June 2010, President Obama stated the reforms represented 90% of what he proposed when he first pushed for financial reform.¹⁵⁵ If anything, Dodd-Frank’s importance underscores the Administration’s disinterest in an FTT and other types of reform. The final section will re-enter the political stream in the context of Congressional turnover and interest group mobilization, both of which contributed to the FTT bills’ failures.

¹⁵³ Ibid.

¹⁵⁴ McCarty, Poole, and Rosenthal, *Political Bubbles*, 253.

¹⁵⁵ “Remarks by the President on Wall Street Reform,” The White House, June 25, 2010, <https://www.whitehouse.gov/the-press-office/remarks-president-wall-street-reform-1>.

Chapter 9.

The Politics of Legislative Turnover: Divided Government, Unified Opposition

As legislative turnover can be an influencing factor within the politics stream, the likelihood of an FTT bill reaching the spotlight needs to be assessed in the context of the party distribution of Congress. This is especially true under the American system; the checks and balances between Congress and the executive mean that policy is much easier to implement with control of the executive, House, and Senate. Since the FTT bills' sponsors came from the Democratic Party, it follows that their implementation should be likelier under Democratic control of the House and Senate. Tables 6 and 7 show the distribution of seats in the House and Senate for the 111th, 112th, and 113th Congresses.

Table 6: Party Distribution of Seats in House of Representatives, 111th-113th Congress

Party	Congress		
	111 th	112 th	113 th
Democratic	257	193	201
Republican	178	242	234
Independent	0	0	0

Source: Data from the US House of Representatives, History Art & Archives, Party Division of the House of Representatives, <http://history.house.gov/Institution/Party-Divisions/Party-Divisions/>.

Table 7: Party Distribution of Seats in Senate, 111th-113th Congress

Party	Congress		
	111 th	112 th	113 th
Democratic	57	51	53
Republican	41	47	45
Independent	2	2	2

Source: Data from the US Senate, Party Division in the Senate, 1789-Present, <http://www.senate.gov/history/partydiv.htm>.

Despite the 111th Congress (2009-2010) being controlled by Democrats, the party was largely unreceptive to stronger reforms. While opposition to reforms such as Dodd-Frank largely came from Republicans, there was a major shift towards market-friendliness. When the Democrats gained in the 2008 elections, pro-market candidates did not leave to be replaced by liberals of the Ted Kennedy (D-MA) and Russ Feingold (D-WI) type, but rather, the Democrats gained by recruiting more moderate candidates while in contrast, the Republican gain in the 2010 elections showed a sharply conservative shift.¹⁵⁶ In the context of the ideological makeup of the House and Senate both before and after the 2008 Lehman Brothers collapse, McCarty, Poole, and Rosenthal found that issues such as the Crisis and high unemployment did not change the degree to which free market beliefs were internalized in Congress.¹⁵⁷

Even in the context of Dodd-Frank, a stronger reform was unobtainable. Former Treasury Secretary Geithner decided to remove FOREX swaps from clearing and exchange requirements that the bill tried to impose on other derivatives contracts and an ideal reform that would have limited the scope of regulator discretion was unobtainable because the Democrats lacked a filibuster-proof majority in the 111th Senate.¹⁵⁸ Several Democrats, such as Ben Nelson (NE) cannot be classified as progressives, and on critical amendments, ten or more moderate Democrats diverged from progressives and

¹⁵⁶ McCarty, Poole and Rosenthal, *Political Bubbles*, 191-192.

¹⁵⁷ *Ibid.*, 191.

¹⁵⁸ *Ibid.*, 189.

voted with Republicans.¹⁵⁹ Overall, there seemed to be bipartisan opposition to any stronger form of regulation even under Congresses controlled by Democrats.

Neither Senator Harkin nor Representative DeFazio sat on his respective tax committee where revenue bills are introduced, and it was predicted it was unlikely the Republican chair of the House Ways and Means Committee would bring the House bill (H.R.880) up for discussion,¹⁶⁰ and similar inferences could be made for the Senate version (S.410). The last action for all of the FTT bills is simply referral to their respective committees. Despite the FTT being mentioned as a concept in several hearings (largely to negative reception),¹⁶¹ the sample bills themselves did not receive any.¹⁶² By contrast, H.R. 992: Swaps Regulatory Improvement Act, which passed the House but did not proceed past a referral to the Senate Committee on Banking, Housing, and Urban Affairs, received explicit mention in hearings.¹⁶³ As the chairmanship of relevant committees is dictated by the party distribution in Congress, and the hearing process is the method in which committees start to compile information to begin policymaking, the lack of further action on the FTT bills shows a lack of receptiveness across both Democratic- and Republican-dominated Congresses. The lack of hearings is all the more curious as the Joint Committee on Taxation, comprised of members of the Senate Finance Committee and the House Ways and Means Committee, had written positively about the FTT. As mentioned in Section 7.3, the Joint

¹⁵⁹ McCarty, Poole and Rosenthal, *Political Bubbles*, 189.

¹⁶⁰ Megan Barnett, "Why the Financial Transaction Tax Proposal is DOA," *Fortune*, November 4, 2011, <http://fortune.com/2011/11/04/why-the-financial-transaction-tax-proposal-is-doa/>.

¹⁶¹ For more, see *Tax Reform and the Tax Treatment of Financial Instruments: Joint Hearing Before the Committee on Ways and Means U.S. House of Representatives and the Finance Committee U.S. Senate*, 112th Congress, December 6, 2011; *Hearing on Ways and Means International Tax Reform Discussion Draft: Hearing Before the Subcommittee on Select Revenue Measures of the Committee on Ways and Means U.S. House of Representatives*, 112th Congress, November 17, 2011; and *Hearing on Ways and Means International Tax Reform Discussion Draft: Hearing Before the Subcommittee on Select Revenue Measures of the Committee on Ways and Means U.S. House of Representatives*, 112th Congress, November 17, 2011.

¹⁶² "Congressional Hearings," US Government Publishing Office, <https://www.gpo.gov/fdsys/browse/collection.action?collectionCode=CHRG&browsePath=112&isCollapsed=true&leafLevelBrowse=false&ycord=0>.

¹⁶³ *H.R.992: Swaps Regulatory Improvement Act*, The Library of Congress, March 6, 2013, <https://www.congress.gov/bill/113th-congress/house-bill/992/all-actions?overview=closed>.

Committee had positive revenue estimates for the FTT. The overall lack of support from the Senate Finance Committee during the 111th Congress can be seen as implicit Democratic opposition to the measure.

9.1. The Big Banks' Big Representation: The Mobilization of Interest Groups

Interest group mobilization is also an indicator within the politics stream. Higher activity surrounding a policy indicates actors want to provide input on legislation, whether voicing support, opposition, or providing consultation. As such, interest groups can represent a type of policy entrepreneur, able to connect issues with proposals and assist or hinder their passage.

When measuring interest group activity, this paper uses a three-variable measure to analyze how much lobbying activity there has been on the FTT bills. The analysis is based on the number of lobbying reports submitted by clients on specific bills to the Senate Office of Public Records, drawn from a database compiled by the Center for Responsive Politics on each bill. Financial companies and those organizations that have expressed opposition to an FTT are placed under the 'Finance' category. Financial companies are assumed to be opposed because of the potential loss to income. Organizations and associations that are not explicitly financial but have expressed opposition, such as the U.S. Chamber of Commerce,¹⁶⁴ are also assumed to hold the same views. To put the potential losses of a CTT/FTT in context, Table 8 shows the top 10 banks trading FOREX in 2012 and 2013.

¹⁶⁴ For more, see U.S. Chamber of Commerce, "U.S. Chamber Warns Against Taxing Financial Transactions," <https://www.uschamber.com/press-release/us-chamber-warns-against-taxing-financial-transactions>.

Table 8: Top Ten Companies Trading FOREX, 2012-2013

2012			2013		
Company	Market Share	HQ	Company	Market Share	HQ
Deutsche Bank	14.57%	Germany	Deutsche Bank	15.18%	Germany
Citigroup	12.26%	US	Citigroup	14.90%	US
Barclays	10.95%	UK	Barclays	10.24%	UK
UBS	10.48%	Switzerland	UBS	10.11%	Switzerland
HSBC	6.72%	Hong Kong	HSBC	6.93%	Hong Kong
J. P. Morgan	6.60%	US	J. P. Morgan	6.07%	US
RBS	5.86%	Scotland	RBS	5.62%	Scotland
Credit Suisse	4.68%	Switzerland	Credit Suisse	3.70%	Switzerland
Morgan Stanley	3.52%	US	Morgan Stanley	3.15%	US
Goldman Sachs	3.12%	US	BAML	3.08%	US
US Total Share:	25.50%		US Total Share:	27.20%	

Source: Martin, "Deutsche Bank Wins Euromoney FX Poll."

As Table 8 shows, US banks have the largest market share for both years, demonstrating their dominance of the market. While the full data is not accessible, Euromoney's 2014 Survey notes that Citigroup had taken the top spot, with a market share of 16.04%, rising by 1.14% since 2013.¹⁶⁵ Bank of America Merrill Lynch (BAML) had the biggest gains in 2014, increasing its share by 1.30% from 2013 to 4.38% in 2014 and rising from tenth to seventh place.¹⁶⁶ Morgan Stanley fell from ninth to eleventh place, with Goldman Sachs taking tenth place despite a decline in volumes of 0.22%.¹⁶⁷ Taking everything into account, we can see that US banks have an immense stake in the global FOREX market and would be opposed to an FTT.

Given the ambiguous nature of some companies' views, such as energy companies, they are coded as 'Other.' While it is reasonable to assume that companies in energy, software, and other sectors may be opposed to an FTT, the coding in this paper mainly seeks to compare the representation of financial and pro-reform groups. If anything, assuming Other companies hold anti-FTT views would greatly tilt the balance

¹⁶⁵ "Euromoney FX Survey 2014 Results Revealed," *Euromoney*, May 8, 2014, <http://www.euromoney.com/Article/3338848/Euromoney-FX-survey-2014-results-revealed.html>.

¹⁶⁶ Ibid.

¹⁶⁷ Ibid.

of representation in favour of the financial camp. Even isolating the Other companies from Finance shows the greater activity from the latter.

The paper predicts that labour and pro-reform groups will support an FTT since it would shift the economy away from financialization and act as a form of social justice through economic reform. Pro-Reform groups are represented by organizations such as Americans for Financial Reform. Americans for Financial Reform is composed of numerous groups –which are largely progressive – including the AFL-CIO and Campaign for America’s Future, and supports measures such as an FTT and a renewed Glass-Steagall Act.¹⁶⁸ Other organizations that are not part of Americans for Financial Reform’s membership, such as Friends of the Earth¹⁶⁹ and the American Federation of State, County, and Municipal Employees,¹⁷⁰ are under this category as they have also written in favour of an FTT. Table 9 shows how the lobbying reports were coded. For details on which organizations were included and the coding rationale, see Appendix B.

Table 9: Coding for Lobbying Reports

Group Type	Code	Composition
Finance	F	Financial institutions, groups opposing FTT
Other	O	Non-financial organizations, such as energy companies
Pro-Reform	PR	Pro-FTT/reform groups

The biggest winners of an FTT would be pro-reform and labour groups since they benefit from economic stability and a transfer of wealth from big banks. The biggest loser of an FTT is the financial industry since they must pay the cost of the tax and their profitable but potentially damaging activities are reduced. However, since the former group has lesser resources than the latter, policymaking will likely reflect the interests of the financial industry. Resistance may also be mounted by organizations such as non-financial corporations, likely because they can also profit from FOREX trading, despite

¹⁶⁸ For more, see Americans for Financial Reform, “Coalition Members,” <http://ourfinancialsecurity.org/about/our-coalition/>.

¹⁶⁹ For more, see “Robin Hood Tax Legislation Introduced, Could Generate Billions of Dollars to Fight Climate Change,” Friends of the Earth, April 17, 2013, <http://www.foe.org/news/news-releases/2013-04-robin-hood-tax-legislation-introduced-could-generate-billions>

¹⁷⁰ DeFazio, “Lawmakers Introduce Targeted Wall Street Trading Tax.”

the stability provided by an FTT that would benefit their trade in goods. Tables 10 and 11 show the number of quarterly lobbying reports that various clients submitted in regards to the specific bills.

Table 10: Lobbying Reports per Group, Senate FTT Bills

Group	S.2927	S.1787	S.410	Total
Financial	80 (86%)	76 (83%)	79 (65%)	235 (77%)
Other	13 (14%)	--	2 (2%)	15 (5%)
Pro-Reform	--	16 (17%)	40 (33%)	56 (18%)
Total	93	92	121	306

Source: Data from Center for Responsive Politics.

Table 11: Lobbying Reports per Group, House FTT Bills

Group	H.R.4191	H.R.1068	H.R.3313	H.R.880	Total
Financial	143 (89%)	77 (90%)	74 (80%)	80 (67%)	374 (82%)
Other	17 (11%)	9 (10%)	--	2 (2%)	28 (6%)
Pro-Reform	1 (1%)	--	18 (20%)	37 (31%)	56 (12%)
Total	161	86	92	119	458

Source: Data from Center for Responsive Politics.

As Tables 10 and 11 show, the lobbying efforts on behalf of the financial industry have been consistently stronger across all bills, although S.410 and H.R.880 saw Pro-Reform groups file close to a third of related lobbying reports. DeFazio has blamed the White House's lukewarm reception to an FTT on the close ties between Wall Street, Geithner, and Summers.¹⁷¹ As stated earlier, the Obama Administration is committed to finalizing its Dodd-Frank reform, and interest group activity has been concentrated on providing input on that. Unfortunately, the Administration and Congress did not streamline or consolidate the regulatory agencies in charge of rulemaking; some provisions require the approval of multiple agencies whose members can disagree on

¹⁷¹ Charles Pope, "Peter DeFazio Proposes Transactions Tax to Blunt Wall Street Abuses," *The Oregonian*, November 2, 2011, http://www.oregonlive.com/politics/index.ssf/2011/11/peter_defazio_proposes_transac.html.

legal points.¹⁷² Reform was limited by giving regulators extensive rule-making authority, putting them under considerable pressure from the industry to accommodate Wall Street interests.¹⁷³ This can explain the large number of meetings at federal agencies.

While the politics of Dodd-Frank are outside the scope of this paper, the lobbying activity on Dodd-Frank shows that the industry has been represented at substantially more meetings than pro-reform groups. The Sunlight Foundation estimates that in 2010-2013, the financial industry has been present at meetings with federal regulators almost fourteen times as frequently as consumer and pro-reform groups.¹⁷⁴ According to their sample, financial institutions logged 2118 meetings with regulators at the Federal Reserve, Treasury, and Commodity Futures Trading Commission (CFTC); by contrast, pro-reform groups only logged 153.¹⁷⁵

The distribution of lobbying efforts tells two stories: first, the stronger concentration of lobbying efforts around Dodd-Frank show that the industry is responding to policy that has already been implemented and is the centrepiece of the Administration's financial reform agenda. Second, the stronger representation through both a larger number of lobbying logs on the FTT bills and the substantially stronger representation with federal regulators in Dodd-Frank meetings show that policymakers generally give the financial industry more attention when formulating policy.

9.2. Conclusion: The Issue That Will Not Die OR Gain Attention

From the above we can draw two main conclusions that hindered success in the legislative aspect of the political stream: first, Congress as a whole is generally opposed

¹⁷² Kevin McCoy, "Dodd-Frank Act: After 3 Years, a Long To-do List," *USA Today*, September 12, 2013, www.usatoday.com/story/money/business/2013/06/03/dodd-frank-financial-reform-progress/2377603/

¹⁷³ McCarty, Poole and Rosenthal, *Political Bubbles*, 188.

¹⁷⁴ Lee Drutman, "What the Banks' Three-Year War on Dodd-Frank Looks Like," The Sunlight Foundation (July 22, 2013), <http://sunlightfoundation.com/feature/dodd-frank-3-year/>.

¹⁷⁵ *Ibid.*, Figure 2.

to stronger reform measures. The FTT bill sponsors were not members of the relevant committees, which reduces their influence on garnering attention for their bills. This is in contrast to Dodd-Frank, where Senator Dodd was the chairman of the Senate Banking, Housing and Urban Affairs Committee and acted as the policy champion for Dodd-Frank. Second, interest group activity between both pro-reform and financial industry representatives favoured the latter, as the industry logged more lobbying reports opposing the FTT than pro-FTT groups, and both groups have been concentrating their efforts on Dodd-Frank, the Administration's main financial reform priority. In regards to the FTT bills, we can reasonably infer that the greater lobbying on behalf of the financial industry shows its success at helping to keep the tax off the agenda.

Chapter 10.

Conclusion

This paper set out to show the feasibility of a CTT and delved into the debate on contemporary financial de/regulation in order to assess why one has not been adopted. Overall, the failure of the FTT bills to be placed on the agenda is largely a reflection of the failure of the three streams to converge, with the strongest indicator being the failure in the political stream. In order to see one come to fruition, let alone be placed on the agenda, it would require that members within the government at both executive and legislative levels be receptive to it, have policy entrepreneurs with proposals ready to make the appropriate coupling and make it into the necessary inroads, and see robust mobilization of pro-FTT interest groups that catch the attention of policymakers. The FTT failed because of the lack of these streams – or realities – converging.

While a CTT is practical and feasible, the political environment of the current Administration was not conducive to one. The FTT bills failed due to being promoted for problems the Administration already had plans for. They also did not have the ear of anyone within the Administration or the relevant committees, and the Administration is concentrating on finalizing Dodd-Frank as its main financial reform post-Crisis. In the legislative branch, Congress as a whole opposed to them, and interest group mobilization both reacted to the Administration's priorities on Dodd-Frank and reflected the financial industry's opposition to the tax. These factors largely point to a (substantial) failure in one particular stream: politics.

Despite not being an attractive issue for the current Administration, the CTT still remains a sound policy. Its effectiveness in stabilizing exchange rates is not discredited by the Administration's opposition to the FTT bills. Failure is all the more interesting given that the CTT benefits a broad array of actors, whether reassuring exporters

through solidifying exchange rate expectations, providing revenue for public spending programs, or even deterring speculative capital flows that may actually increase uncertainty for financial institutions. Therefore, the biggest failure of the bills comes from the lack of political receptivity from the US government's executive and legislative branches. There are already proposals ready in the policy stream and there are problems to solve, but for future success, the CTT needs policy entrepreneurs in the relevant committees and needs (much) stronger support in both Congress and the White House. Given its specificity, a CTT would be better promoted as an 'insurance policy' that would prevent speculative behavior while enhancing macroprudential reforms. Perhaps specificity is another reason why the FTT bills failed; proponents should view the tax as a means to enhance existing regulatory measures rather than a measure on its own. As noted in Section 3, speculative finance may flow from countries that may not have their macroeconomic houses in order, and a CTT may act as an effective deterrent to this. As Baker noted an FTT's attractiveness can be bolstered by tax cuts for lower incomes, perhaps a CTT's attractiveness can be bolstered by seeing it as a means to fund an insurance scheme paid for by the financial sector for future catastrophic failures. While the Administration's FCRF originally aimed to recover the TARP costs and evolved into a fee to strengthen the financial system, the CTT can be a complement in light of increasing global risks.

But there are other issues in regards to the CTT's political feasibility. A CTT would be costly for a major firm that regularly trades large amounts of currency, but it would not take away the political and economic power these institutions have. Recently, several banks pleaded guilty to conspiring to manipulate the spot price of USD and Euros,¹⁷⁶ and a CTT may do little to prevent this behavior.

Within the context of the garbage can model, this paper observed a vigorous interaction between the politics and policy streams. This is especially true in the context of the role that entrepreneurs play; this paper demonstrated that a strong emphasis needs to be placed on the interests that motivate entrepreneurs and how these translate

¹⁷⁶ Karen Freifeld, David Henry and Steve Slater, "Global Banks Admit Guilt in FOREX Probe, Fined Nearly \$6 Billion," *Reuters*, May 20, 2015, <http://www.reuters.com/article/2015/05/20/us-banks-forex-settlement-idUSKBN0050CQ20150520>.

into policy outcomes. The model acknowledges entrepreneurs promote a position in return for anticipated future gain, and the financial lobby played a role in shaping US policy preferences in numerous cases.

This was most apparent through the findings of Section 9.1, which found a stronger lobbying position by the financial industry. This has major implications for a CTT as the size of the major banks can allow them to influence the agenda on financial de/regulation. An example of this can be seen in the industry's ability to get Dodd-Frank's Section 716 repealed. Section 716 required financial institutions to 'push out' their risky derivatives trading into subsidiaries that were subject to higher capital requirements.¹⁷⁷ On December 16, 2014, the spending bill H.R. 83: Consolidated and Further Continuing Appropriations Act of 2015 was signed by President Obama to provide \$1.1 trillion to the US government for 2015. But hidden within the bill was a provision that repealed Dodd-Frank's Section 716. In 2013, Citigroup helped draft H.R. 992: Swaps Regulatory Improvement Act, in which its recommendations were reflected in 70 of its 85 lines and two paragraphs prepared by several banks were copied word-for-word.¹⁷⁸ While H.R. 992 did not pass, it was included in H.R.83 in its entirety.¹⁷⁹ As such, the 'push out' requirement of Dodd-Frank's Section 716 was repealed, leading some to believe that banks will be eligible for a bailout for risky trading due to the fact that they will continue to trade with FDIC-insured funds.¹⁸⁰ Across the board, the financial industry is largely successful in having its interests reflected in policy. As this paper sought to demonstrate the FTT bills' failures under comprehensive factors, a

¹⁷⁷ Henry Engler, "Reversal of Dodd-Frank Swaps Rule Ignores Lessons of Financial Crisis, 'London Whale,'" *Reuters Blogs*, December 18, 2014, <http://blogs.reuters.com/financial-regulatory-forum/2014/12/18/reversal-of-dodd-frank-swaps-rule-ignores-lessons-from-financial-crisis-london-whale/>.

¹⁷⁸ Eric Lipton and Ben Protess, "Banks' Lobbyists Help in Drafting Financial Bills," *Dealbook*, May 23, 2013, http://dealbook.nytimes.com/2013/05/23/banks-lobbyists-help-in-drafting-financial-bills/?_r=0.

¹⁷⁹ *H.R. 83: Consolidating and Further Continuing Appropriations Act, 2015*, Government Printing Office, December 17, 2014, 249-250, <http://www.gpo.gov/fdsys/pkg/BILLS-113hr83enr/pdf/BILLS-113hr83enr.pdf>.

¹⁸⁰ Erika Eichelberger, "All About That Wall Street Giveaway That Elizabeth Warren Hates," *Mother Jones*, December 11, 2014, <http://www.motherjones.com/politics/2014/12/spending-bill-wall-street-derivatives-elizabeth-warren>.

future project could explore a stronger causal mechanism between their failure and Wall Street influence on the Administration.

Big bank opposition is also a potential Achilles heel on a CTT's technical feasibility. While CLS is a critical component for the technical feasibility of a CTT, we can predict opposition since CLS shareholders, while including central banks, mostly comprise major financial institutions.¹⁸¹ The same banks that lobbied on Dodd-Frank and the FTT, such as Citigroup, J.P. Morgan Chase, and Goldman Sachs, are shareholders in CLS.

Future research could also perform an analysis on how an American FTT present in previous decades was repealed. From 1914 to 1966, the US levied a tax on stock issuances (0.1% in 1965) and transfers (0.04%) and the US still maintains a small FTT to finance the Securities and Exchange Commission (SEC)¹⁸² The world today is certainly different from that time period, but an analysis of the FTT's repeal could shed light on the environment in which a new one can be implemented. While Section 7.2 noted Secretary Lew opposed the tax based on technical issues, these technical issues are minor given that major financial centres, such as the UK and Switzerland, already have FTTs.¹⁸³ Opposition to a CTT/FTT seems more political than economic.

There are a few conditions in which a CTT could be more seriously considered. As noted in Section 7.1, if the USD ever faced a major sell-off, a remedy like the CTT could be considered to protect its value. But this paints a grim scenario: as the US has not been a major victim of currency speculation, it means the realization of a CTT in the country most capable of sustaining it could require major crisis conditions, or, if the conditions of decline are able to be accurately forecast, implemented to cushion the oncoming blow. Changes in the global order could spark a case for a CTT. China is often seen as the next global superpower, and with superpower status comes economic

¹⁸¹ For more, see the full membership list at the CLS Group's website: <http://www.cls-group.com/Membership/Community/Pages/default.aspx>.

¹⁸² "Facts and Myths About a Financial Transaction Tax," Center for Economic and Policy Research, May 2013, <http://www.cepr.net/documents/ftt-facts-myths.pdf>.

¹⁸³ Ibid.

prestige and the possibility of a new reserve currency. But as *The Economist* notes, any reordering of the world economy will not be as fast or decisive as last time and China is still a middle-income country with immature financial markets.¹⁸⁴

There is also the possibility that the completion of Dodd-Frank's implementation can free up Administration time and resources to concentrate on further reforms – if warranted. As of September 30, 2015, of Dodd-Frank's 390 total rulemaking requirements, 249 (63.8%) have been finalized, 83 (21.3%) have not yet been proposed, and rules have been proposed that would meet 58 (14.9%) requirements.¹⁸⁵ Assuming Dodd-Frank's finalization has been completed, there could be a push for an FTT depending on the next President. But it could also just be as likely that the next Administration views Dodd-Frank as adequately dealing with the problems in the financial sector, with the window of financial reform slammed firmly closed.

On a final point of opportunity, although there have been delays and issues with the implementation of an FTT in the EU, if it is successful in its operation, it may influence US proponents to continue to advocate for the same. Perhaps with the potential rise of a public sphere as an element of the international financial architecture,¹⁸⁶ a trans-Atlantic dialogue could be sparked that transmits policy success from the EU to the US. While global post-Crisis regulation reflected the ability of the US to shape outcomes, they did not do so without opposition, with the EU blocking tighter international standards for bank regulation favoured by the US during Basel III negotiations.¹⁸⁷ As Germain notes, “[w]e no longer live...under the international thumb of US regulators, with the result that the possibility of a (global) financial public sphere has emerged.”¹⁸⁸ Within the G20, 16 countries have some form of an FTT,¹⁸⁹ and the lack of

¹⁸⁴ “The Sticky Superpower.”

¹⁸⁵ “Dodd-Frank Progress Report, Third Quarter 2015,” 2, Davis Polk, www.davispolk.com/sites/default/files/Q32015_Dodd.Frank_.Progress.Report.pdf.

¹⁸⁶ For more, see Randall Germain, “Financial Governance and Transnational Deliberative Democracy,” *Review of International Studies* 36 (2010): 493-509.

¹⁸⁷ Helleiner, *The Status Quo Crisis*, 124.

¹⁸⁸ Randall Germain, “Financial Governance and Transnational Deliberative Democracy,” *Review of International Studies* 36 (2010): 502.

¹⁸⁹ “Facts and Myths About a Financial Transaction Tax.”

an FTT in the US could demonstrate there are other factors involved in its absence, such as the political power of the financial industry. A comparative study in the future is welcome. Major reforms of the financial sector are needed if we are to prevent future crises, and even if we truly cannot turn back the clock, we can – if not, must – move forward with the lessons learned from today.

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Appendix A.

House and Senate Bills with FTT Components, 111th-113th Congresses

Bill	Sponsor	Date Introduced	Purpose
111th Congress (2009-2010)			
H.R.1068: Let Wall Street Pay for Wall Street's Bailout Act of 2009	Rep. Peter DeFazio (D-OR-4)	Feb. 13, 2009	Recoup the net cost of carrying out TARP.
H.R.5204: 21st Century Full Employment and Training Act	Rep. John Conyers, Jr. (D-MI-14)	May 27, 2010	Establish the National Full Employment Trust Fund to create employment opportunities.
H.R.5783: Investing in Our Future Act of 2010	Rep. Fortney Pete Stark (D-CA-13)	July 20, 2010	Impose an excise tax on currency transactions for childcare and global development.
H.R.4191: Let Wall Street Pay for the Restoration of Main Street Act of 2009	Rep. Peter DeFazio (D-OR-4)	Dec. 3, 2009	Fund job creation and deficit reduction.
S.2927: Wall Street Fair Share Act	Senator Tom Harkin (D-IA)	Dec. 23, 2009	Fund job creation, deficit reduction, and other purposes.
112th Congress (2011-2012)			
H.R.3638: Restore the American Dream for the 99% Act	Rep. Raul Grijalva (D-AZ-7)	Feb. 9, 2012	Create American jobs and reduce the deficit, and for other purposes.
H.R.755: Investing in Our Future Act of 2011	Rep. Fortney Pete Stark (D-CA-13)	Feb. 18, 2011	Impose an excise tax on currency transactions for childcare and global development.
S.2252: Rebuild America Act	Senator Tom Harkin (D-IA)	March 29, 2012	Create jobs, build opportunities for working families, and restore balance to the tax code.
S.915: American Health Security Act of 2011	Senator Bernie Sanders (I-VT)	May 9, 2011	Provide for health care for every American and control cost and enhance the quality.
H.R.5727: Rebuild America Act	Rep. Rosa DeLauro (D-CT-3)	June 4, 2012	Create jobs, build opportunities for working families, and restore balance to the tax code.
S.3272: Comprehensive Dental Reform Act of 2012	Senator Bernie Sanders (I-VT)	June 7, 2012	Improve access to oral health care for vulnerable and underserved populations

Bill	Sponsor	Date Introduced	Purpose
112th Congress (2011-2012)			
H.R.2003: Taxing Speculators Out of the Oil Market Act	Rep. Peter DeFazio (D-OR-4)	June 8, 2011	Reduce the volatility and price of oil.
H.R.5909: Comprehensive Dental Reform Act of 2012	Rep. Elijah Cummings (D-MD-7)	July 10, 2012	Improve access to oral health care for vulnerable and underserved populations.
H.R.6411: Inclusive Prosperity Act	Rep. Keith Ellison (D-MN-5)	Sept. 14, 2012	Strengthen financial security, expand opportunity, and stop shrinking the middle class.
H.R.3313: Wall Street Trading and Speculators Tax Act	Rep. Peter DeFazio (D-OR-4)	Nov. 2, 2011	Impose a tax on certain trading transactions.
S.1787: Wall Street Trading and Speculators Tax Act	Senator Tom Harkin (D-IA)	Nov. 2, 2011	Impose a tax on certain trading transactions.
113th Congress (2013-2014)			
S.277: Job Preservation and Economic Certainty Act	Rep. Sheldon Whitehouse (D-RI)	Feb. 11, 2013	Replace the Budget Control Act sequester by eliminating tax loopholes, and for other purposes.
H.R.676: Expanded & Improved Medicare For All Act	Rep. John Conyers, Jr. (D-MI-13)	Feb. 22, 2013	Provide comprehensive health insurance coverage for all US residents, improve health care delivery, and for other purposes.
HR.880: Wall Street Trading and Speculators Tax Act	Rep. Peter DeFazio (D-OR-4)	Feb. 28, 2013	Impose a tax on certain trading transactions.
S.410: Wall Street Trading and Speculators Tax Act	Senator Tom Harkin (D-IA)	Feb. 28, 2013	Impose a tax on certain trading transactions.
H.R.1000: Humphrey-Hawkins Full Employment and Training Act	Rep. John Conyers, Jr. (D-MI-13)	March 6, 2013	Establish the National Full Employment Trust Fund to create employment opportunities
H.R.1579: Inclusive Prosperity Act of 2013	Senator Keith Ellison (D-MN-5)	April 16, 2013	Strengthen financial security, reduce market volatility, expand opportunity, and stop shrinking the middle class.
H.R.870: Humphrey-Hawkins 21st Century Full Employment and Training Act of 2013	Rep. John Conyers, Jr. (D-MI-13)	April 23, 2013	Establish the National Full Employment Trust Fund to create employment opportunities.

Source: All information from Congress.gov pages for respective bills

Appendix B.

Lobbying Clients and Assigned Coding

Client	Type	Source/Rationale
AEGON NV	F	Investment and insurance company
Allianz	F	<u>SIFMA Asset Management Member (Allianz Global Investors)</u>
American Bankers Association	F	<u>SIFMA and Associations Oppose Taxes on Financial Sector</u>
American Council of Life Insurers	F	Trade association of life insurers
American Family Insurance	F	Investment and insurance company
Ameriprise Financial	F	<u>SIFMA Asset Management Member</u>
Bank of America	F	<u>SIFMA Asset Management Member</u>
BATS Global Markets	F	US stock exchange in Kansas
Charles Schwab Corp	F	<u>SIFMA Broker Dealer Member</u>
Chicago Board Options Exchange	F	Chicago-based options exchange.
Citigroup Inc	F	<u>SIFMA Broker Dealer Member</u>
CME Group	F	<u>Report on Tobin Taxes, anti-FTT</u>
Credit Union National Association	F	National association of credit unions
Financial Services Forum	F	<u>SIFMA Letter to Geithner Opposing FTT</u>
Financial Services Institute	F	<u>Press release against HR.4191 and S.2927</u>
GETCO Holding Company	F	<u>Submission to SEC: FTT and regulations could have adverse effect</u>
Hartford Financial Services	F	Investment and insurance company
Investment Company Institute	F	<u>SIFMA Letter to Geithner Opposing FTT</u>
Knight Capital Group	F	<u>Submission to SEC: FTT and regulations could have adverse effect</u>
Managed Funds Association	F	<u>Letter to EU Commission opposing FTT</u>
Massachusetts Mutual Life Insurance	F	Investment and insurance company
National Association of Manufacturers	F	<u>SIFMA Letter to Geithner Opposing FTT</u>
Nationwide	F	Investment and insurance company
New York Life Insurance	F	<u>SIFMA Asset Management Member</u>
Northwestern Mutual	F	<u>SIFMA Broker Dealer Member</u>
NYSE Euronext	F	Operates NYSE and Euronext stock exchanges

Client	Type	Source/Rationale
Options Clearing Corp	F	Chicago-based clearing house
Pension Financial Services	F	Retirement financial planning firm
Principal Financial Group	F	<u>SIFMA Asset Management Member (Principal Global Investors)</u>
Property Casualty Insurers Association of America	F	<u>SIFMA and Associations Oppose Taxes on Financial Sector</u>
Prudential PLC	F	<u>SIFMA Broker Dealer Member</u>
Savings Coalition of America	F	<u>Members Include SIFMA and banking associations</u>
Securities Industry & Financial Mkt Assn (SIFMA)	F	<u>SIFMA opposition to FTT</u>
Security Traders Association	F	<u>Opposition to FTT by President & CEO</u>
TD Ameritrade	F	<u>SIFMA Broker Dealer Member</u>
TIAA-CREF	F	<u>SIFMA Broker Dealer Member</u>
UBS AG	F	<u>SIFMA Broker Dealer Member</u>
US Chamber of Commerce	F	<u>SIFMA Letter to Geithner Opposing FTT</u>
Vanguard Group	F	<u>SIFMA Asset Management Member</u>
AT&T Inc	O	Telecom company
Calpine Corp	O	Natural gas and energy company
Capital Metropolitan Transport Authority	O	Public transportation
Deere & Co	O	Industrial equipment company
El Paso Corp	O	Natural gas and energy company
Electric Power Supply Association	O	Trade association of power suppliers
Memphis Area Transit Authority	O	Public transportation
Metropolitan Transportation Authority	O	Public transportation
Wildcat Communications I LLC	O	Telecommunications company
AFL-CIO	PR	<u>Americans for Financial Reform Member</u>
American Fedn of St/Cnty/Munic Employees	PR	<u>Americans for Financial Reform Member</u>
Communications Workers of America	PR	<u>Americans for Financial Reform Member</u>
Friends of the Earth	PR	<u>Press Release: Robin Hood Tax Support</u>
Health Care for America Now	PR	<u>DeFazio Press Release on H.R.880/S.410</u>
Leadership Conference on Civil Rights	PR	<u>Americans for Financial Reform Member</u>
National Education Association	PR	<u>DeFazio Press Release on H.R.880/S.410</u>

Client	Type	Source/Rationale
National Women's Law Center	PR	<u>Americans for Financial Reform: S.1787 Summary</u>
NETWORK	PR	<u>Position, Pro-FTT</u>
Public Citizen	PR	<u>Americans for Financial Reform Member</u>
Teamsters Union	PR	<u>Americans for Financial Reform Member</u>
United Auto Workers	PR	<u>National Nurses United Press Release on FTT</u>
US Public Interest Research Group (PIRG)	PR	<u>Americans for Financial Reform Member</u>

Note: The coding reflects an attempt to best measure the balance of representation between explicitly pro- and anti-CTT/FTT clients. As such, the project sought to find the best available information providing explicit positions and code the clients accordingly. The Financial category includes both demonstrably anti-CTT/FTT clients and other financial companies whose positions were not explicit but who could reasonably be against the FTT bills, such as insurance companies, options exchanges, and clearing houses. Assumptions were made on association; for example, SIFMA as an organization wrote against the FTT, so its members are also assumed to be against it.

Due to the ambiguity for non-financial companies such as Deere & Co. and the Transit/Transportation Authorities, they are included in the Other category. While it can be reasoned that companies such as Deere & Co. would oppose a CTT/FTT because of potential impacts to their hedging operations, and the Transit/Transportation Authorities would support a CTT/FTT as a source of income for transit projects, coding them into the Other category portrays a more accurate picture of the lobbying by demonstrably pro- and anti-CTT/FTT clients.

The addition of Other clients (omitting the Transit/Transportation Authorities) into the Financial category would measurably increase the representation of Financial groups, while the inclusion of the Transit/Transportation Authorities would have a negligible impact on Pro-Reform representation.