Why firms/computers will not move to New Jersey (or elsewhere) to avoid STT

In 1905, when the tax was adopted because New York's leaders preferred sales to income and property taxes, the Stock Exchange incorporated in NJ and threatened to move. Volume, however, continued to increase, and the tax became accepted as a routine part of doing business. Volume is a key to this proposal.

It is important to remember that this is a sales tax. It is not a tax on Wall Street. The tax affects investors not Wall Street firms. So, to use an example, if I go to my local store to buy a product and the government puts a 33% tax on it, the product is too expensive, I will not buy the product, and, if the product is critical to the store, the business will close. Here the tax rate is less than ¼ of 1 percent which is not enough to deter anyone from continuing to purchase stock through New York dealers and exchanges. See remarks of Nobel Prize-winning economist Joseph Stiglitz (https://youtu.be/MunHdPLkigQ). It is important to recognize that NY firms do not pay the tax, they just collect it and remit it to the government (Wall Street employees only pay the tiny tax in their personal trading accounts).

In the late 1970s, when New York City was in financial crisis, the revenue was diverted to bail the City out and protect its bondholders. After NYC came out of financial crisis, Mayor Abraham Beame agreed the tax was no longer needed. So, it was gradually eliminated so by 1981 partial rebates of the tax ended and it was simply being calculated not collected (hence the ability of Tax and Finance to release data on what the tax would raise if collected – $14 billion in 2017). [see footnote 3]

Another reason for the elimination of the tax was artificial exuberance about the ability of Wall Street to generate economic gains for the entire population. This optimism ended with the financial crisis of 2008.

Since 1981, stock transactions have been consummated electronically. This has led to two relevant developments. First, 80% of trades are now algorithmic. Wealthy persons hire people to design computer programs that allow them to take advantage of very small movements in the prices of stocks. This is not investment-oriented activity, is not economically productive, and, as Nobel Prize-winning economist Joseph Stiglitz has said, should be subject to taxation (see video cited above). Thus, computerization is a compelling reason for STT not a barrier to it. Second, the computers that consummate these trades have been relocated to New Jersey for many years. Huge computer farms are not well suited to NYC.

There has been an explosion of the volume of trading in New York for three reasons. First, economic growth has chiefly been occurring in the centers of high tech and high finance. People involved in those industries want to be in locations where they will find fellow movers and shakers. Other areas of the country, however, like Upstate NY, are being hollowed out. They see little of these gains. See Moretti, The New Geography of Jobs. Second, as mentioned, computerization has facilitated increased volume of trading. Third, the stock market is increasingly divorced from the economic reality of Americans. Hence, the rise in the stock market at the same time as the economic crisis precipitated by COVID.

Volume in NYC is about 5 times or more than that of all of Europe. People who trade in NYC take advantage of high volume. There is no other location in the world where volume is so high and transaction costs as low as in NY.

All foreign exchanges already have financial transaction taxes. Investors cannot move to foreign exchanges to avoid a NY tax. For example, London has had a stock transfer tax since 1700 (when London was the financial capital of the world that NY is today). It is significantly actually higher than the NYS tax. Yet no one has ever talked about moving the London Exchange to Dublin, Ireland.

NJ just proposed a tax and Wall Street threatened to move the computers elsewhere. It is critical to understand that, since NJ does not facilitate trades, only process them, NJ's sole nexus for taxation is the location of the computers.

The computers could move to Bora Bora and trades would still be taxable in NY because the trades are facilitated in NY. That is the NY nexus. Not where computers are located. Not where the buyer or seller is located. This is the same principle that allows NY to tax internet sales that are processed in other states. An Amazon purchase in California can be taxable in New York. Or a Netflix download can be taxable in Illinois, though the source of the programming is elsewhere (Illinois has this type of sales tax). Note: "the cloud" is simply a series of computers located in various places. It is not some mystical ephemeral amorphous thing that avoids taxation.

Whether firms will move is a traditional cost-benefit analysis. The costs of moving lock, stock, and barrel are extremely high. In comparison, the cost of the tax is extremely low because a) firms do not pay the tax, they only collect it; b) the extremely high volume of trades in NY guarantees low transaction costs and easy access to stocks, making it the most attractive location for investors, notwithstanding the tax. STT adds to transaction cost but minimally and not enough to make a difference. See Pollin and Heintz, Evaluation of a Proposal to Reinstate the New York Stock Transfer Tax (also negating the argument that employment in the financial industry will decline if the tax is collected). This is true as Professor Stiglitz has said so long as the tax is kept at the very same low rate as in current law.

This is not to say that some investor might decide to do a transaction elsewhere, but NY has never had a monopoly on stock trading (many cities had stock exchanges but those closed over time because they could not match the volume and hence lower transaction costs in NY). Because of high volume, there is no other location in the United States or the World (all the other foreign exchanges already have the tax) that can offer the advantages of trading in NY.

Indeed the financial sector has been growing worldwide since 1980 and has doubled its share of the U.S. economy since that time. So it is true that there is more financial activity outside NYC than in the past (though, as mentioned, historically there were many different centers of finance in the U.S. other than NYC). However, trading in NYC has been growing by leaps and bounds.

The fact that some financial firm or some billionaire departed NYC for some remote location is irrelevant to the STT (though it might be relevant to income tax collections). To begin with, STT was not a motivation, since it was not being collected. Moreover, as long as such individuals continue to arrange trades through NY, that activity will be taxable under STT.

The Citizens Budget Commission (so-called) has a long history since 1932 (at the outset of FDR's first term) of advocacy against taxation and progressive policies. We debated its spokesperson, who lasted a short time as Albany County Budget Director, on a podcast sponsored by Senator James Sanders. The CBC representative was asked for a solution to the budget crisis. He replied that the State should (because of the Covid emergency) borrow money by issuing bonds for non-capital expenditures and take money from successful school districts and transfer it to poor ones. Neither are sound budgetary practices. Destroying successful schools is not the solution for poorer Districts. But that is the idea of this anti-tax organization which has, like Ronald Reagan and Donald Trump, never met a tax it liked.

My Upstate colleagues are indeed witness to the fact that jobs can leave declining industrial cities in NYS for other locations to avoid the higher wages that prevailed in our once prosperous Upstate communities. This occurred after STT was eliminated and policy favored the financialization of the economy, which was a disaster for Upstate NY. See Moretti, supra. STT is needed to restore some balance to the economy and to rebuild the infrastructure of the State, which will both create and attract jobs.