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The Big Short

A Robin Hood tax could soften the blow of the market meltdown.

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by Mel Watkins

Financial speculation costs all of us dearly. One way to curb such speculation is through the Robin Hood Tax. For proof, consider the splendid new book, *The Big Short*, by the bestselling American financial writer, Michael Lewis. This book reads like a thriller, while it reveals the working of the US financial markets.

The cast of characters includes mostly young alpha American males who have an epiphany: the highly-valued derivatives built around the sub-prime mortgage market are as rotten as they get. They see that the bubble blown up around these derivatives is bound to burst, and that their prices will go down the toilet. Hence the sub-title: *Inside the Doomsday Machine*.

> **It's as close as you can come to betting on the end of the world and living like a lord ever after.**

So the Wall Street outsiders sell the Collatoralized Debt Obligations short (that is, they promise to deliver them at some future date) at what seems like a fair price to most of the market, which is mesmerized by all the action. But the protagonists sense that their selling price will be much much more than they'll actually have to pay for the CDOs they need to fulfill the contract.

Their gamble: that the whole castle of cards constructed around the sub-prime mortgages will come tumbling down. Of course, as we now know, that means a mind boggling financial collapse and a globe-circling financial crisis that will trigger off an economic crisis that will leave most of us worse off. That handful of alpha males, however, became billionaires.

A big short indeed! It's as close as you can come to betting on the end of the world and living like a lord ever after.

Make no mistake: their profits come from the poor. At the bottom of the pyramid of soiled paper, known as securities, are those low-income Americans (particularly African-Americans) who wanted nothing more than a house of their own. They were conned into taking out a mortgage that the sellers knew they — with no income and no assets — could never pay. The sellers got their fees and went in search of more suckers — making sure they were nowhere nearby when the foreclosures came. They were far away, living off the fat of the land.

Meanwhile, the unsustainable mortgages were sliced and diced into packages and sold like hotcakes in a world where credit was cheap because the accommodating central bank, the Fed, was deliberately keeping interest rates low.

One scam led to another. What began as a market in houses morphed into a market in mortgages. Then the mortgages were packaged into securities, which became a market in their own right.

Nor did the growth end there. The next step was to sell insurance on those securities should they default, and then that insurance became yet another market in its own right. By now we're talking castles conjured out of thin air — and there are yet more esoteric spinoffs too disgusting to be described. Most the players in the market were unable to see the big picture. Except for those big shorters.

The final clincher in this Robin Hood real time movie is that the crash comes and the US government — faced with financial and economic crises — comes to the rescue. Those who sold short stood to make billions, at the expense of those traders who didn't see the collapse coming.

But, lo and behold, the government bails out the losers. So who pays? Your average citizen called the taxpayer. (Maybe now you see how the Tea Party came to be.) As the cautionary tale unfolds, the reader has to wonder how it might have been avoided.

Well, imagine there had been a tax, a tiny tax, on each and every financial transaction.

Then there would have been two possibilities. The first is that the tax would have deterred some portion of the enormous number of transactions and the scam might have been contained before it got out of hand.

The second is that even that tiny tax, given the flood of transactions, would have raised many billions of dollars that could be used to help those who were hurt — with lots left over to come to the aid of those in extreme poverty globally and to mitigate the costs of climate change on developing countries.

Actually both happy outcomes could have happened. Let's make sure they do next time.

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