THE DAILY CALLER

Here's What Bernie Sanders' Wall Street Tax Means For The Middle Class

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Presidential hopeful Sen. Bernie Sanders suggested implementing a financial-transaction tax to raise funds for his plan to provide free college education – a proposal many economists feel could have a detrimental effect on the economy.

While Sanders says the levy will "reduce risky and unproductive high-speed trading and other forms of Wall Street speculation," critics say his policies will lead to fewer people investing altogether.

Under the Vermont politician's plan, introduced in the upper chamber last May, stocks would see a 0.5 percent tax rate, bond trades would get a 0.1 percent rate and derivatives would see a 0.005 percent tax rate, MarketWatch reports.

According to Chris Edwards, the director of tax policy studies at the Cato Institute, the high rates could exacerbate the problem of corporations and high-income earners investing out of the United States.

"Sanders new financial tax would push financial activity offshore, and the U.S. financial industry would lose jobs," he told The Daily Caller News Foundation. "Foreign financial centers, such as London and Hong Kong, would gain at our expense. Sanders needs to realize that we live in a global economy, so raising taxes on mobile activity like stock trading just makes the tax base vanish — we would shoot ourselves in the foot."

Edwards added that college tuition, which the revenue raised would be put toward, is already heavily subsidized and could lead to issues for the working class.

"More subsidies would boost tuition inflation at colleges in a vicious spiral upwards," he said. "Besides, more college subsidies would increase income inequality by aiding future lawyers and accountants at the expense of people who don't attend college, such as truck drivers."

Adversaries of the tax fear it could lead to turmoil in the markets – but depending on how much it would cut down on volume, it could cause a different set of issues.

"If it cuts volume a lot, it could reduce volatility," Curtis Dubay, a research fellow specializing in tax policy at the Heritage Foundation, told TheDCNF. "But that will be a secondary issue because if the tax is onerous enough to reduce volume that much, it will have greatly reduced asset prices."

According to a May analysis by the Tax Policy Foundation, a Washington, D.C.-based research group, after the senator introduced his proposal in Congress, the levy would not generate as much revenue as he anticipated.

“Since the financial transaction tax is a tax on trades, the number of taxable trades would decline. The smaller tax base would mean lower revenue from the financial transaction tax,” the findings read. “In addition, the reduced trade volume would result in fewer people making money from the stock market and could push down capital gains tax revenue.”

According to the International Business Times, the tax increase could lead to 24 percent drop in trading volume.

“Sanders might think his new financial tax would just hit high earners, but middle-class savers would also be hit because their mutual funds buy and sell securities, and the tax would reduce stock prices and harm the overall economy,” Edwards said told The Daily Caller News Foundation.