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Berkeley Center for
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Berkeley Center for Law and Business
University of California, Berkeley
School of Law
Boalt Hall #7200
Berkeley, CA 94720-7220

Bloomberg's Plan to Crack Down on Wall Street Indicates a Change of Heart

By Abhishek Banerji, LL.M Candidate 2020 | March 1, 2020

The Washington Post in a recent article reported that Michael Bloomberg, a Democratic presidential candidate in the 2020 U.S. presidential primaries, recently announced a financial reform policy that subjects Wall Street to regulatory scrutiny. This policy, however, contradicts many of Bloomberg's earlier statements in defense of Wall Street while he was mayor of New York.

On Tuesday February 18, Bloomberg released a proposal that, if adopted, would reverse Trump's policy to decrease equity levels in banks, toughen up stress tests, and reinstate financial institution's annual living wills. Most notably, the proposal seeks to strengthen the Volcker Rule and introduce a financial transactions tax ("FTT") to U.S. markets.

The Volcker Rule was established under §619 of the Dodd-Frank Wall Street Reform Act of 2010. The rule prohibits large commercial banks from using customer deposits to fund investments in hedge funds, private equity funds, and other trading operations. Moreover, the Volcker Rule requires that CEOs personally attest to their banks' compliance. However, notwithstanding Bloomberg's recent attempts to strengthen the Volcker Rule, Bloomberg publicly called the Dodd-Frank regulations "stupid laws" back in 2014. Clearly, the long-time New Yorker has undergone a change of heart.

As for the proposed FTT, according to Bloomberg's proposal, the introduction of an FTT in the U.S. would "defray the costs of overseeing markets" and "address other social needs," as seen in other global financial centers such as the United Kingdom and Hong Kong. In addition, Bloomberg's proposal cites a 2015 paper issued by the Urban-Brookings Tax Policy Center that found that the tax burden from an FTT would fall on high income households. As for implementation, the FTT would be set at 0.1% for every stock or bond traded and phased in gradually, starting at 0.02% to minimize unintended consequences. According to Stu Loeser, a senior adviser for the Bloomberg campaign, Bloomberg initially objected to an FTT because he worried that if the U.S. was the only country adopting an FTT, the financial industry would migrate outside of U.S. borders. However, since then, the U.K. and Hong Kong have implemented an FTT. This, according to Bloomberg, has assuaged his prior concerns.

Nevertheless, the proposed introduction of an FTT is not without criticism. For example, the U.S. Chamber of Commerce in September 2019 released a report arguing that the FTT would be paid by ordinary retail investors attempting to save for their retirements and FTTs in other countries raised less revenue than expected. Nevertheless, the suggested strengthening of the Volcker Rule and introduction of an FTT signals a change of heart in the former New York republican mayor.