Incidence of bank levy and bank market power

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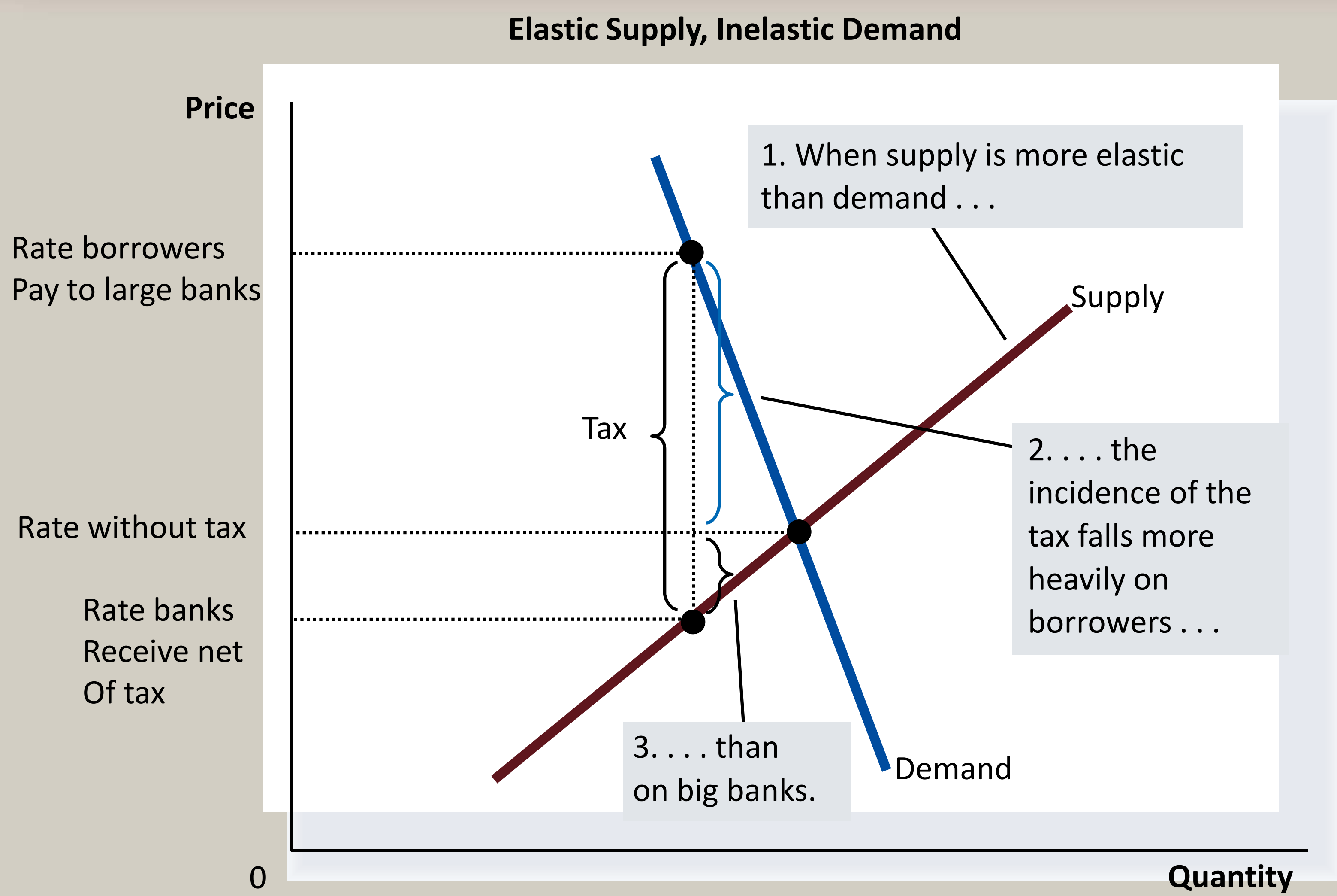
General comment

- It is a very clear, simple and interesting paper
- Using an Hungarian natural experiment on bank asset taxation and wonderful data
- To ask a more general question about who pays the burden of a bank asset tax
- To which most would like to know the answer

How the Burden of a Bank Asset Tax Is Divided



So what is the question and what is the answer?

- Question: Who is paying the tax on big Hungarian banks' assets?
- Answer:
  - It turns out their borrowers are
  - especially borrowers that cannot easily walk away (the inelastic ones)
  - Big banks' existing houshold borrowers foot the bill.
  - But their new loan applicants do not

What does this mean?

- Hungary taxes big banks, but these fully shrug it off to existing household borrowers, so what?
- One could claim this is an efficient tax
  - Transfer from existing borrowers to the government
  - But no deadweight loss
- Not really:
  - We **WANT** big banks to shrink because their size has a negative externality (it is Pigovian tax)
  - But making banks pay back the too big to fail subsidy does not seem to work really well

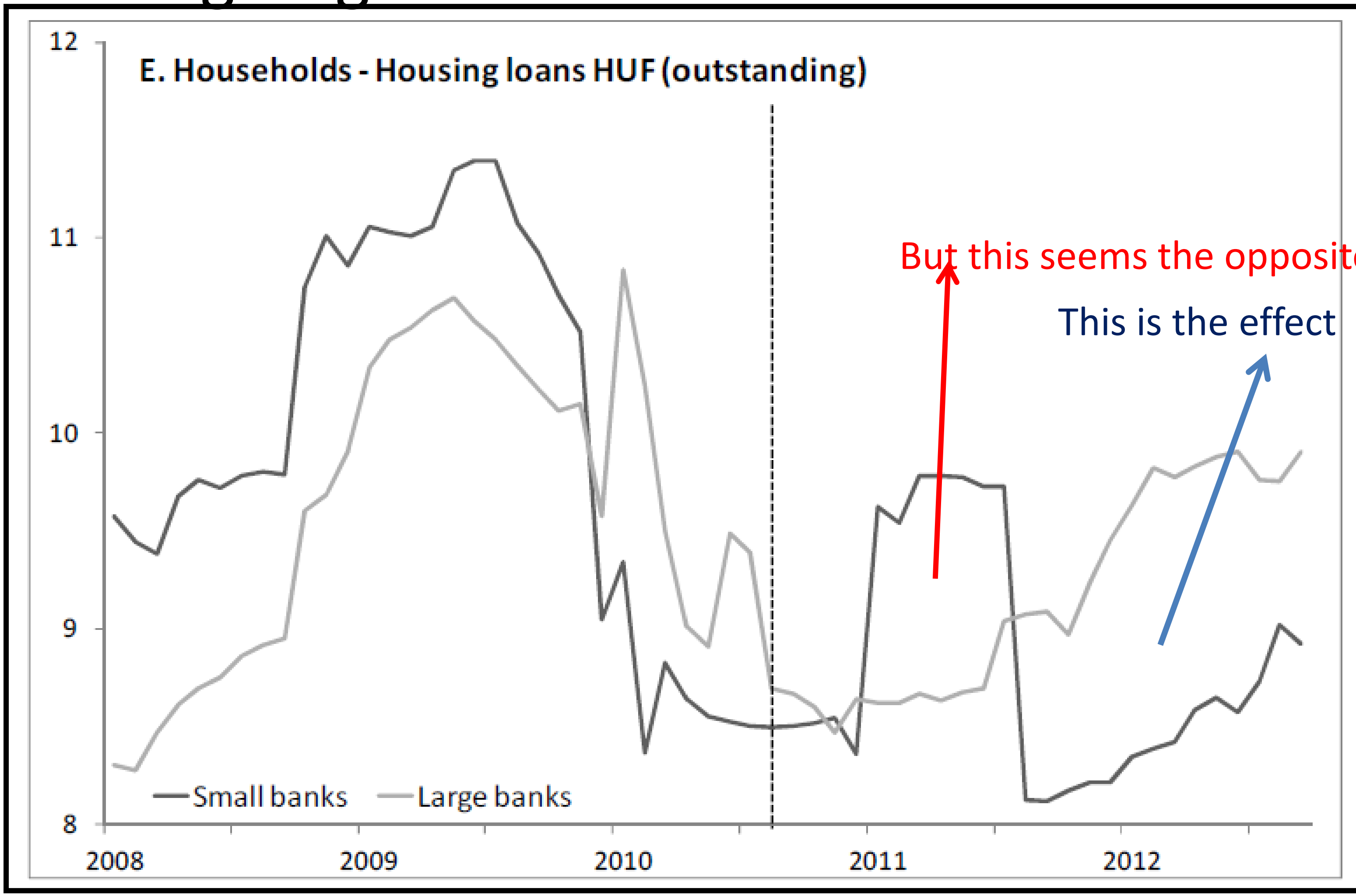
Is it really true?

- There is a consistent and very robust positive sign for small loans to non financial companies
- The crucial assumption is that households are less elastic because of switching costs
  - But does this not depend on retail bank multimarket contact in the region you live?
  - Often you can only change to other big banks that also pay the tax
  - In other words: are bank size and switching costs not positively correlated?

Is it really true II?

- Why make assumptions about demand elasticity
  - All the data to calculate depand elasticities are there
  - So why not separate on the basis of elasticities and have bank/loan type fixed effects?
- Control variables
  - Should be included also with an interaction for big banks, as this is the reason for their inclusion
- Why only lending rates?
  - Big banks could lower deposit rated more or charge larger fees

Is it true III?
It seems as if the effects may be absent or even change sign if the time window is shortened



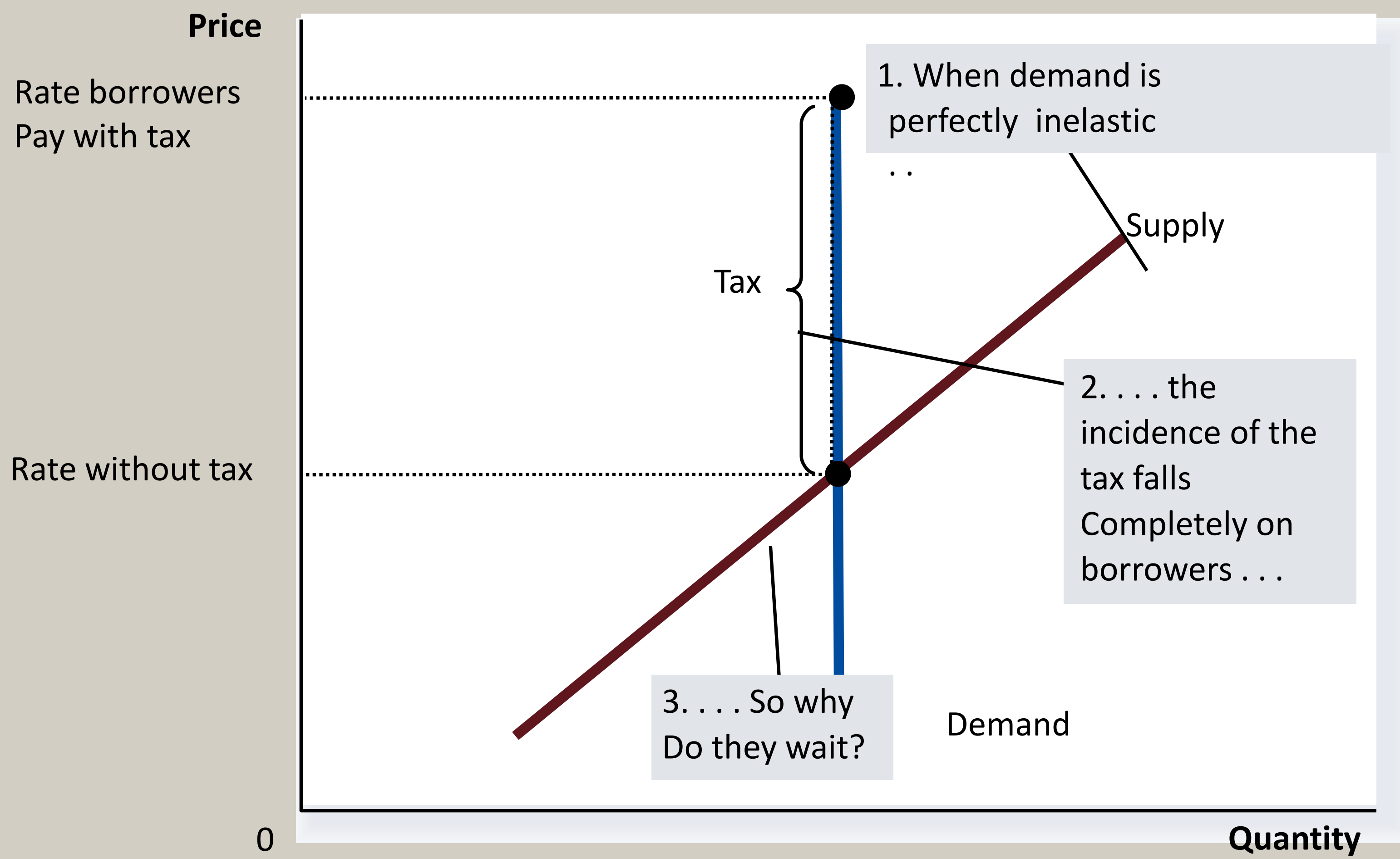
Something that boggles me badly

- The point of the paper is that big banks make existing household borrowers pay the tax, since
  1. Big banks can unillaterally change interest rates,
  2. Household borrowers cannot get away

- But if this is true, then why did banks not already increase the interest rates before the tax?
- Possible answer: collusion between big banks in their reaction on the levy, but less so before.
- In this case the tax has worked as a coordination device for the collusion of big banks: ugly

How the Burden of a Tax Is Divided

Elastic Supply, Perfectly Inelastic Demand



Conclusion

- It is very interesting and surely I tend to beleive the found stylised facts
- It follows that the net welfare effect of a tax on big banks is uncertain
- If market power is strong and collusive spirits are not kept in check, the tax on bank assets may make things worse