The Center for Media and Democracy

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The Financial Speculation Tax

What is a financial speculation tax (FST)?

An FST is a modest set of taxes – e.g. 0.25 percent on a stock purchase or sale and 0.02 percent on the sale or purchase of a future, option, or credit default swap. These rates are proportional to the actual transaction costs in the industry.

Is there a bill in Congress?

Rep. Pete DeFazio (D-Oregon) has introduced HR 4191, the "Let Wall Street Pay for the Restoration of Main Street Act." Senator Tom Harkin (D-Iowa) has introduced S 2927, the "Wall Street Fair Share Act." Under these bills, half the funds are dedicated to job creation and half to deficit reduction. The bills were designed to have broad bipartisan appeal in Congress. Eventually, there may be multiple FST vehicles in Congress.

Is there any polling on the topic?

Early indicators are that taxes on Wall Street are popular with the public. For instance, a January 2010 poll showed that 81% of Americans agree with the following strongly worded statement: "We need to rein in the greedy, reckless behavior of the big banks on Wall Street that cost millions of jobs and led to huge bailouts on our dime. This tax will put a limit on the casino culture of Wall Street that provides no real value and only exists to line the banker's pockets. This reform will strengthen our financial system to help prevent another crisis and reduce the deficit." 51% of Americans strongly agree, 30% somewhat agree, and only 15% disagree with this statement, (Lake Research)

Key Points

- **A FST would raise over $100 billion per year in badly needed revenue or one trillion over the course of a decade.** This is a substantial sum of revenue, which skims the fat off of a sector of the economy that can afford to pay it. Other revenue raising options being discussed (such as a value added tax) would fall disproportionately on the middle class.

- **A FST would reduce dangerous financial market speculation.** Since the tax would hit high-volume, high-speed trading the hardest, it would serve to discourage short-term speculation in financial markets as well as the proliferation of ever more complex derivative instruments. More complex derivatives could be subject to the tax many times over, substantially reducing the potential profits from complexity.

- **A FST would encourage longer-term, productive investment.** By reducing the volume and profitability of short-term trading that serves no productive purpose, the tax would encourage Wall Street to find new ways to make money off of longer-term, productive investments.

- **Put Wall Street to work for Main Street.** Reckless Wall Street gambling has cost Americans trillion in lost wages, savings and housing wealth and has cost states billions in lost revenue. It's time to take it back and put Wall Street to work rebuilding Main Street with a financial speculation tax to create jobs and support critical public services.

<u>What are the myths about the FST?</u>

MYTH: This has never been tried before.

> TRUTH: The FST is not a new idea. The U.S. had a transfer tax from 1914 to 1966 which levied a 0.20 percent tax on all sales or transfers of stock. **In 1932, Congress more than doubled the tax to help financial recovery and job creation during the Great Depression.** Transaction taxes were imposed in most financial markets up until the last two decades, and there still is a 0.5 percent stamp tax imposed on each trade on the London Stock Exchange. The U.S. already has a very modest FST, which is used to finance the Securities and Exchange Commission and the Commodity Futures Trading Commission.

MYTH: Transactions are so internationally mobile that an FTT in one country is unenforceable and will simply result in trading moving overseas, plus it is too hard to implement.

> TRUTH: The U.K. has had a tax on stock trades for decades, and the U.K.'s volume of trading has grown robustly. The revenue it raises each year would be the equivalent of $30 billion in the U.S. economy. This real-world example indicates that a unilateral FST can work. Plus, an IMF report this year indicated that an FST is a reasonable option to implement and enforce.

MYTH: The costs will be passed on to average investors.

> TRUTH: A tax of 0.25 percent would make little difference to a person who intends to hold onto stocks as a long-term investment. The FTT would cost a day trader buying $100,000 of stock only $125. But to protect small investors further, the DeFazio-Harkin bill specifically exempts vehicles such as 401Ks, health and college savings accounts and the first $100,000 in trades.

MYTH: The idea has little support.

> TRUTH: The idea is supported by SEIU and the AFL-CIO, which has made "Make Wall Street Pay" a leading campaign, as well by as financiers George Soros, John Bogle and Warren Buffett. Overseas, prominent leaders, such as French Prime Minister Nicolas Sarkozy and German's Angela Merkel, support a global FTT. A long list of prominent economists have supported it including, John Maynard Keynes, Nobelists James Tobin and Joseph Stiglitz, Jamie Galbraith, Dean Baker, Robert Pollin. After the 1987 Wall Street crash, an FST was endorsed by Bob Dole, Jim Wright and the first President Bush.