AMERICANS FOR FINANCIAL REFORM
ACCOUNTABILITY ★ FAIRNESS ★ SECURITY

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Why we need a financial speculation tax

- *A tiny tax on Wall Street speculation could raise huge sums*. A Financial Speculation Tax (or Financial Transaction Tax) is a tiny tax on Wall Street trading in stocks, bonds, foreign currency, derivatives, and other complex financial products. Senator Harkin and Representative DeFazio have proposed (*The Wall Street Trading & Speculators Tax Act*) a tax of 3 basis points – just 3 cents per $100 traded – on stocks, bonds, and derivatives transactions. According to the non-partisan Joint Committee on Taxation, this tax would raise over $350 billion in the next decade. A tax of 10 basis points (10 cents per $100) on financial transactions, like the tax proposed by the European Union, would raise even more. Representative Ellison has also introduced a transaction tax bill, H.R. 6411 (*The Inclusive Prosperity Act*).

- *It's only fair.* When we buy everyday items from a candy bar to a new car, we have to pay a sales tax. These tax rates usually run into several percentage points – tens to hundreds of times higher than any of the speculation tax levels proposed. Yet Wall Street traders buy and sell millions of dollars of securities hundreds of times a day without paying anything. Reckless Wall Street gambling has cost Americans trillion in lost wages, savings, and household wealth and has cost states billions in lost revenue. It's only fair to put Wall Street to work rebuilding Main Street with a financial transactions tax to create jobs, lay the groundwork for long-term economic prosperity, and help stabilize the national debt.

- *Proven track record shows it is practical to implement.* The idea of a small fee on the sale of financial instruments such as securities and derivatives is not new; such taxes have a long track record both in the United States and around the world. From 1914 to 1966 the United States levied a small fee on all sales and transfers of stocks. The U.K. currently levies a transaction tax of one half percentage point on stock transfers and has done so for many decades. Asian countries such as Hong Kong, Taiwan, South Korea, and India also currently collect securities transaction taxes. These taxes cannot easily be evaded because buyers and sellers want access to developed country exchanges like those in New York, London, Hong Kong, and Europe. The International Monetary Fund has found that a broad transaction tax is practical to implement.

- *The FTT would reduce dangerous financial market speculation.* The speculation tax would serve to discourage short-term speculation in financial markets, as well as the proliferation of ever more complex financial instruments. High frequency traders sometimes trade stocks thousands of times in seconds. Such short-term churning does not contribute to the capital markets' purpose of long-term price discovery. A financial transaction tax would create economic benefits by channeling resources away from such unproductive short-term speculation and toward more useful purposes like investment in businesses that create jobs. Even a tiny tax would effectively discourage high frequency traders – one trader told the Wall Street Journal that a tax of even one penny per $100 would make his trading strategies impossible.

- *The FTT would encourage long-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.

- *Does not harm retirement savings.* Opponents of a speculation tax are arguing that it would have a significant impact on retirement savings. This is not true. First, speculation tax revenues would help avoid major cuts to retirement benefits such as Social Security and Medicare. These cuts could be devastating to the elderly. By contrast, any impact of a speculation tax on retirement savings would be tiny and indirect. For example, under the Harkin-DeFazio transaction tax proposal family buying $100,000 in bonds for their retirement savings would incur just $30 in costs due to the transaction tax. None of the interest earned on their investment would be touched by the transaction tax.

  It is also important to note that the transaction tax is miniscule compared to current expense ratios charged by managers of 401(k) or retirement funds. The expense ratio for the typical equity mutual fund is 140 basis points per year – almost fifty times the 3 basis points in the Harkin-DeFazio proposal. The typical bond mutual fund charges 92 basis points, or over 30 times the Harkin-DeFazio rate. A speculation tax would also help align the interests of retirement savers and fund managers by providing a disincentive for "churning" of retirement portfolios, which research has shown reduces investment returns.

- *Supported by workers, the public, successful investors, experts, and world leaders*. The financial speculation tax has been supported by groups and individuals ranging from the AFL-CIO to prominent investors including Berkshire Hathaway CEO Warren Buffett and The Vanguard Group Founder and CEO John Bogle. Other prominent supporters include: Nobel Prize winners in economics Joseph Stiglitz and Paul Krugman; Shelia Bair, former Chair of the FDIC; Paul Volcker, U.S. Federal Reserve Chair during Carter and Reagan administrations; former President Sarkozy of France; Chancellor Merkel of Germany; former Prime Minister Zapatero of Spain; and George Soros. In fact, 12 European Union nations have officially endorsed a financial transactions tax.