A Wall Street Speculation Tax:
The Time Has Come

WHAT IS IT?

It's a small tax on sales of stocks, bonds, and complex financial instruments. A *very small* tax. The proposal co-introduced by Senator Tom Harkin of Iowa and Representative Peter DeFazio of Oregon sets a rate of .03 percent; that's 30 cents per $1000. A bill introduced by Minnesota Representative Keith Ellison calls for a 0.5 percent tax on most such transactions.

THREE BIG REASONS IT MAKES SENSE

1: Revenue. Even on the very modest scale of Harkin-DeFazio, such a tax could raise several hundred billions dollars over the next decade, according to a congressional analysis of similar legislation introduced in 2012. That's many times the revenue to be gained by implementing the Buffett Rule or taxing "carried interest," to mention two good proposals that have attracted wider notice. It's also far more money than the government would likely save through the Medicare and Social Security cuts that some politicians advocate in the name of "fiscal responsibility."

2: Fairness. Think of this as a way to close a gaping loophole in America's tax structure. Ordinary people pay sales taxes on all manner of goods and services. Yet no such taxes apply to Wall Streeters when they buy and sell financial securities. This helps explain why we are talking about a woefully *undertaxed* sector of the economy: the financial industry collects more than 30 percent of the nation's total corporate profits, while paying only about 18 percent of corporate taxes and contributing less than 2 percent of total tax revenues. (See Bureau of Economic Analysis profit figures and IMF report on financial sector taxation. Figures are for 2011.)

At a time of sharp cuts in state education and health care spending, these revenues could help shore up a range of programs on which low- and middle-income families depend.

3: Economic Benefits. Revenue and fairness aside, such a tax would restrain the computer-driven high-frequency trading that caused the "Flash Crash" of May 2010 and continues to pose a danger to financial stability and reliable market liquidity. More broadly speaking, it would move the markets away from churning and short-termism, drawing money out of empty speculation and back toward job creation and useful private and public investment.

That combination of benefits explains why a wide range of economists and other authorities believe a Wall Street speculation tax would make sense even if federal tax rates were not at a half-century low and the country badly in need of revenue.

WHY DON'T WE HAVE ONE ALREADY?

Financial interests have mobilized their enormous influence against the idea, fearing that it would attract strong popular support if more people knew about it. They have reason to think so: In a December 2012 survey of national voters, 65 percent said that increasing "taxes on Wall Street banks that helped create our economic problems" would be a better way to reduce the nation's deficit than cutting "spending on programs like education, Social Security, Medicare, and environmental protection."

WHAT ABOUT THE EFFECTS ON PENSION FUNDS AND ORDINARY INVESTORS?

To keep the idea off the table, Wall Street high flyers argue that ordinary families and retirees would suffer. But their claims don't add up. In a recent report, Public Citizen showed that a .03 percent transaction tax would cost the typical holder of a 401K plan in the range of $25 a year – a miniscule amount compared to the $1100 or so in fees levied on that same investor by the financial industry itself.

Pension funds and traditional stock-and-bond-holders would barely notice such a tax, since they already pay far more in exchange fees, clearing fees, fund management fees, and other private costs built into the financial system. The cost would fall overwhelmingly on speculators – on individuals and institutions in the habit of holding financial instruments for hours, minutes, or even seconds as opposed to months or years.

WHAT ABOUT COMPETITIVENESS AND GROWTH?

As the chief instigators of an economic tragedy from which the country is still struggling to escape, big-bank executives and traders understand that few people would mind a tax that took a small dent out of their resurging profits and prodded them to do less trading and more lending and investing. So they base their arguments both on claims of harm to average people and on scare stories about damage to U.S. competiveness and economic growth.

But similar taxes already exist in more than thirty countries, including the financial centers of Hong King, Singapore, and the United Kingdom. After studying the record, the finance ministers of the European Union recently voted to authorize France, Germany, Italy, Spain, and seven other countries to move forward with a coordinated speculation tax. The U.S. itself had such a tax for much of the 20th century, with none of the dire consequences cited by Wall Street critics.

HOW DO WE PUT THIS IDEA ON THE TABLE?

Simple: tell your Senators and House members to support the Harkin-DeFazio or Ellison proposals. Even more simple: sign our online petition calling on the President and Congress to Get Behind a Wall Street Speculation Tax.

TO LEARN MORE:

- Facts & Myths About a Financial Transaction Tax
- Statements of Support
- Harkin DeFazio in Brief
- USA Today editorial

- Banker Video
- Capitol Hill Briefing (11/30/12)