Tax the sales of stocks, bonds, options, futures, and other financial products: $391 billion to $1.8 trillion over 10 years

The idea: A financial transactions tax (also known as a financial speculation tax) is a tiny tax placed on the trading of Wall Street financial instruments, including stocks, bonds, derivatives, futures, options, and credit default swaps. If Congress enacted a financial speculation tax, the country could raise between $391 billion[3] to $1.8 trillion[4] over the next 10 years, depending on which financial products are taxed at what rates. Several financial transactions tax proposals exist. One would tax stocks at $3 on every $10,000 traded, exempting pensions, mutual funds, education savings accounts, health savings accounts, and individual retirement accounts. Another proposal would tax all financial products at different rates ($50 per $10,000 stocks traded to $1 per $10,000 on bonds, and other products in between). The first would raise an estimated $391 billion in revenues over 10 years, while the latter could raise more than $1.8 trillion over 10 years.

The rationale: A financial transactions tax would increase tax fairness. Most goods and services are taxed at point of sale. There is no reason to exempt stocks and bonds from sales taxes. In fact, the United States had a financial speculation tax in place between 1914 and 1966, when the federal government levied a tax of $2 on every $10,000 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. Even today, the government levies an infinitesimal financial transactions tax on stocks that is used to finance the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), and other financial regulatory agencies. Because of the high volume of trading on the New York stock exchange, the transactions tax can produce a large stream of revenue.

The financial transactions tax could help reduce speculative trading. The tax falls most heavily on high-volume, high-speed trading, discouraging short-term speculation in financial markets and the proliferation of ever more complex financial products. By

reducing the profitability of complex, short-term trading, the tax could encourage Wall Street to put more money into longer-term investments in the real economy.
At least 29 countries – including Australia, Hong Kong, Switzerland, and the U.K. – levy some form of a financial transactions tax. International financial regulatory bodies have recommended establishing a financial speculation tax.

This tax would also address the larger issue of Wall Street's responsibility for the Great Recession. Since ethically and legally questionable practices by large banks and trading companies were largely responsible for the financial meltdown in 2008-2009 that cost the American economy eight million jobs and is the principle cause of the immediate revenue contraction, many consider it appropriate that the financial sector contribute more to rebuilding the economy.

Support for the idea: A growing number of economists and business, financial, and political leaders support the idea, including Warren Buffett, Bill Gates, John Bogle (founder of the Vanguard Group), Paul Volcker, and David Stockman, and Nobel Prize-winning economists James Tobin, Joseph Stiglitz, and Paul Krugman also support the idea; a majority of Americans support the idea when it is explained to them.

Several members of Congress have introduced legislation over the last two sessions to enact various forms of a financial speculation tax. Sen. Tom Harkin (D-IA) and Rep. Peter DeFazio (D-OR) introduced the "Wall Street Trading and Speculators Tax Act," which proposes a 0.03 percent tax on stock, bond, and derivative trades. Rep. Peter Stark (D-CA) introduced the "Investing in Our Future Act of 2011," which applies a tax of 0.005 percent on currency transactions and directs the revenues to childcare, global health, and climate change. DeFazio also introduced the "Taxing Speculators out of the Oil Market Act," which places a 0.01 percent tax on transactions in oil futures, options, and swaps.

Of the plans reviewed for this revenue project, the following plans support enacting a financial transactions tax: Our Fiscal Security's (Economic Policy Institute, Demos, and The Century Foundation) *Investing in America's Economy*, Center for American Progress' *Budgeting for Growth*, Andy Stern's *21st Century Plan*, Institute for America's Future *Citizens' Commission*, Congressional Black Caucus' *The Responsible Path*, Congressional Progressive Caucus' *The People's Budget*, Comeback America's *Restoring Fiscal Sanity*, and Joseph Stiglitz's *Principles and Guidelines for Deficit Reduction.*

[3]Joint Committee on Taxation, Memorandum, Rep. Peter DeFazio (D-OR).
[4]*The Deficit-Reducing Potential of a Financial Speculation Tax*, Center for Economic and Policy Research, pg. 3.