The Wall Street Sales Tax

As policymakers in Washington, DC continue to debate our nation's budget priorities, some of the options currently being considered are cuts in Social Security benefits, education and health programs, important investments in transportation infrastructure and health research, and anti-poverty programs, among many others.[1]

The last major budget deal, enacted earlier this year, increased tax rates on the very wealthy – individuals with annual incomes of $400,000 or more and couples with annual incomes of $450,000 or more.[2] While these revenue increases helped, annual budget deficits are expected to grow again after 2015.[3] In part this is because, despite the latest round of deficit reduction, tax revenues remain lower as a share of the economy than they were during the Clinton years, the last time the federal budget was balanced.[4]

There is a better and more progressive way to address our long-term budget deficits than cutting important programs like Social Security, education, and health research: enacting a Wall Street Sales Tax (also known as the Financial Transaction Tax).

- ***What is the Wall Street Sales Tax?*** A Wall Street Sales Tax is a tiny tax on Wall Street trades. This small tax would be collected when stocks, bonds, derivatives, futures, options, and credit default swaps are sold on public exchanges. Proposals in the U.S. range from 3 to 50 cents per $100 in stock trades, for example. This tax, which is substantially less than one percent in all cases, would be far lower than the sales taxes that most Americans pay every day on purchases of ordinary goods and services.

- ***How much revenue would it raise?*** Depending on what the tax rate is and the financial products that get taxed, it could raise at least $352 billion over nine years (about $40 billion per year) [5] to as much as $177 billion per year or more.[6]

- ***Will it hurt the economy?*** No. In fact, it will probably help the economy by discouraging the kinds of rampant, short-term speculation that caused several crashes on Wall Street, including the "flash crash" of

[1] Lori Montgomery and Paul Kane, "Obama, Boehner move closer to cliff deal," *The Washington Post*, December 17, 2012. Available online at: http://www.washingtonpost.com/politics/obama-boehner-meet-as-debt-talks-intensify/2012/12/17/6b43c24a-4868-11e2-b6f0-e851e741d196_story.html?wpisrc=nl_wonk.

[2] Senate Finance Committee, "H.R. 8: The American Taxpayer Relief Act." Available online at: http://www.finance.senate.gov/legislation/details/?id=acd8d505-5056-a032-5213-d4c3ac0bb7b0.

[3] Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2013 to 2023," February 5, 2013. Available online at: http://www.cbo.gov/publication/43907.

[4] Ibid.

[5] Kate Cyrul for Senator Tom Harkin (D-IA) and Jen Gilbreath for Congressman Peter DeFazio (D-OR), "MEMO: Joint Tax Committee Finds Harkin, DeFazio Wall Street Trading and Speculators Tax Generates More Than $350 Billion," November 07, 2011. Available online at: http://www.defazio.house.gov/index.php?option=com_content&task=view&id=736&Itemid=70.

[6] Dean Baker, Robert Pollin, Travis McArthur, and Mat Sherman, "The Potential Revenue from Financial Transaction Taxes," Center for Economic and Policy Research, December 2009. Available online at: http://www.cepr.net/documents/publications/ftt-revenue-2009-12.pdf

2010, when the Dow Jones average fell more than 1,000 points due to computerized trading, and a similar crash in 1987, when the market dropped more than 22 percent in a single day.[7]

- ***But won't people with 401k retirement accounts get hurt?*** No. The tax targets the financial sector and Wall Street speculators who frequently trade large numbers of stocks and financial products. The tax is negligible for long-term investments normally made for retirement accounts. A high-frequency trader would pay 1,666 times more in transaction taxes than the average pension fund.[8]

- ***But won't all the traders move to another country if we tax them?*** No. First, many other countries already have a similar tax, including Britain, Australia, Hong Kong, Switzerland, and at least 25 others,[9] and they have seen no adverse effects on their economic growth. Currently, 11 countries in the European Union, including Germany and France, are considering adopting a new financial transaction tax. The tax is designed to be very difficult to dodge. It covers all transactions taking place in one of those countries, any trader whose institutional headquarters is in one of the countries, and all transactions involving securities issued in those countries.[10] Even U.S. traders will be subject to this tax, all of which will go to European coffers!

Several members of Congress have introduced legislation over the last two sessions to tax financial products:

- ***Wall Street Trading and Speculators Tax Act:*** This legislation, introduced by Sen. Tom Harkin (D-IA) and Rep. Peter DeFazio (D-OR), proposes a 0.03 percent tax (3 cents on every $100 in trades) on stock, bond, and derivative trades. This proposal would raise $352 billion over nine years (about $40 billion per year), according to the Joint Committee on Taxation.[11]

- ***Inclusive Prosperity Act:*** This legislation, introduced by Rep. Keith Ellison (D-MN), would impose a 0.5 percent tax on the sale of stocks, a 0.1 percent tax on the sale of bonds, and a 0.005 percent tax on the sale of derivatives. It creates a tax credit to offset the cost of the tax for individuals making less than $50,000 per year and couples making less than $75,000. According to one analysis, this legislation could raise as much as $353 billion per year.[12]

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[7] *USA Today*, "High-frequency trading insanity," (editorial), September 26, 2012. Available online at: "http://usatoday30.usatoday.com/news/opinion/editorials/story/2012-09-26/high-frequency-trading-crash/57846524/1.

[8] Stamp Out Poverty, "Financial Transaction Tax Myth Busting," pp. 4, 11. Available online at: http://www.stampoutpoverty.org/wf_library_post/financial-transaction-tax-myth-busting/.

[9] Ibid, pp. 9-11.

[10] Felix Salmon, "Europe's robust financial transaction tax," Reuters, January 30, 2013. Available online at http://blogs.reuters.com/felix-salmon/2013/01/30/europes-robust-financial-transactions-tax/ See also Alex Barker, "Wider 'Tobin tax' will net €35bn," *Financial Times*, January 29, 2013. Available online at: http://www.ft.com/intl/cms/s/0/e82a3792-6a2a-11e2-a3db-00144feab49a.html#axzz2K9ctGli6.

[11] Kate Cyrul for Senator Tom Harkin (D-IA) and Jen Gilbreath for Congressman Peter DeFazio (D-OR), "MEMO: Joint Tax Committee Finds Harkin, DeFazio Wall Street Trading and Speculators Tax Generates More Than $350 Billion," November 07, 2011. Available online at: http://www.defazio.house.gov/index.php?option=com_content&task=view&id=736&Itemid=70.

[12] Robert Pollin and James Heinz, University of Massachusetts-Amherst, "Thoughts on Tax Rates and Revenue Potential for Financial Transaction Tax in U.S. Markets," March 2, 2012.