Americans for Financial Reform
Accountability, Fairness, Security

Support Taxes on Financial Speculation

Let Wall Street Pay for the Restoration of Main Street Act (H.R. 4191)
The Wall Street Fair Share Act (S. 2927)

There is a growing movement in both the United States and around the world for taxing financial speculation. ***AFR supports the creation of a modest set of financial speculation taxes (FSTs), as proposed in the House and Senate bills.*** The proposed FSTs (also known as financial transaction taxes) would:

- Raise over $100 billion per year in badly- needed revenue.
- Reduce dangerous financial market volatility.
- Oblige the financial sector to help pay for the financial mess that they created.
- Effectively exempt most stock trades made by the middle class.
- Fund job creation and deficit reduction.

Even very small taxes on trades in stocks, options, credit default swaps, and other derivative instruments can raise an enormous amount of revenue. Even assuming large reductions in trading volume, modest FSTs could raise more than $100 billion a year, or more than $1 trillion over 10 years.

Currently speculators and high-frequency traders execute a staggering 70% of equity market trades and an even higher percentage of trades of options, futures and other hedging transactions. Higher trading costs will discourage risky speculation. And since the bulk of the revenue from FSTs would come from the financial sector, Wall Street would be paying to help get us out of the mess that they got us into.

Specifically, the FSTs as proposed in the House and Senate bills would:

- Place a 0.25% tax on stock purchases and options and 0.02% on trades of futures, credit default swaps and most other derivative instruments.
- Exempt individual retirement accounts, open-ended, tax-benefit~~t~~ed mutual funds, pension funds, initial or original issuances of corporate stock and debt, plus all non-corporate debt, and currency trades.
- In the Senate bill, also cover all non-original trades of corporate debt.
- Credit the first $100,000 of stock purchases per year ($250 of taxes), which effectively exempts all but the wealthiest of individual taxpayers.
- Include provisions to capture FSTs where trading is moved to an offshore facility, which will greatly limit any incentive for firms to shift trading off-shore to avoid FSTs.
- Be directed toward funding job creation and deficit reduction.

Critics from Wall Street~~,~~ assert that FSTs would impose unreasonable trading expenses. In fact, the cost of trading financial assets has dropped dramatically over the last three decades as a result of computerization, which has led to an explosion in trading volume and a disproportionate redistribution of resources to the financial sector. The proposed FSTs would raise trading costs only back to the level of the 1970s or 80s. The U.S. had a vibrant and well-developed capital market in these decades, so there is no reason to believe that raising trading costs back to earlier levels would prevent these markets from performing their economic function.

Critics of the FSTs also assert that they will cause trading volumes to collapse and tax revenues to plummet. Yet in the U.K. financial transactions are already being taxed at roughly twice the proposed FST rates and the London Stock Exchange remains strong – other European nations agree.

While AFR supports the House and Senate bills, they could be strengthened by taxing all trades and then providing rebates from favored accounts, such as pensions and 401(k)s. This would be simpler administratively, since all trades could then be treated identically, and would reduce the likelihood of mistakes or deliberate fraud to escape the tax. Economically, the rebate could be some fixed percentage (e.g. 0.1 percent) of the money in a pension or 401(k) with the idea that this would cover the tax on a normal amount of trading. This way, managers of pensions and holders of 401(k)s would still have an incentive to reduce their trading, even if the tax would on average cost them nothing.

A tax that modestly increases the cost of trading can both drastically reduce the amount of wasteful trading in financial markets and raise an enormous amount of revenue to fix the damage that the financial sector has caused.