Make Wall Street Pay for Rebuilding the American Dream

9. Tax Wall Street Speculation. A tiny fee of 1/20th of 1% on each Wall Street trade would raise tens of billions of dollars annually with little impact on actual investment. This would reduce speculation, "flash trading," and outrageous bankers' bonuses—and we'd have a lot more money to spend on Main Street job creation.

"The financial sector polluted the global economy with toxic assets and now they ought to clean it out."
– *Nobel Laureate Economist Joseph Stiglitz*

A tax on Wall Street gambling (also known as a financial speculation, transactions, or Robin Hood tax) is a set of tiny taxes, such as 1/20th of 1%, on Wall Street trades. [Rebuild the Dream, AFL-CIO, Bob Herbert (*New York Times*), Robin Hood.org] A Wall Street gambling tax would:

- **Raise tens of billions of dollars per year in badly-needed revenue, or hundreds of billions of dollars over the course of a decade.** By skimming the fat off a part of the economy that can afford to pay it, this money would go a long way towards filling federal and state budget gaps. [Center for Economic Policy Research (CEPR), Center on Budget & Policy Priorities (CBPP)]
- **Reduce dangerous Wall Street speculation.** Since the tax would hit high-volume, high-speed computerized trading the hardest, it would discourage the excessive short-term speculation that enriches only Wall Street insiders while threatening our financial stability.
- **Encourage investment in the real economy.** By reducing the profitability of short-term trading that profits on price swings, not real growth, the tax would encourage Wall Street to steer funds towards longer-term, productive investments that create and develop real businesses.

Here are some myths and facts about a Wall Street gambling tax:

- MYTH: This has never been tried before. TRUTH: This is not a new idea. **The U.S. had a tax on stock trades from 1914 to 1966, which Congress more than doubled in 1932 to help bring us out of the Great Depression.** There still is a 1/2 of a percent tax on stock trades on the London Stock Exchange. The U.S. currently has a very small transaction fee that is used to fund the Securities and Exchange Commission. [UK Government; SEC]

- MYTH: Finance is so globalized that a tax in one country will move trading overseas. TRUTH: **The London Stock Exchange remains the second-largest in Europe while taxing stock trades for decades.** The revenue it raises is equivalent to $40 billion per year in the U.S. economy. This real-world example shows that such a tax would work. [World Federation of Exchanges]

- MYTH: The costs will be passed on to average investors. TRUTH: **A tax of 1/20th of 1% would be minimal for average investors who hold stocks as long-term investments, and is less costly than brokerage fees.** Furthermore, if investors respond by trading less frequently or by using index funds, they would spend no more on total trading, leaving Wall Street to bear the whole cost. [Demos]

- MYTH: The idea has little support. TRUTH: **The tax is supported by major business and political leaders**. Financiers George Soros, John Bogle (Vanguard Group founder), Warren Buffett, and David Stockman (Reagan's OMB director) support the idea. Prominent economists have endorsed it, including John Maynard Keynes; Nobel prize winners Paul Krugman, James Tobin and Joseph Stiglitz; James Galbraith; Dean Baker; and Robert Pollin. It's included in many major budget plans, including The People's Budget [Congressional Progressive Caucus], The Citizens' Commission on Jobs, Deficits and America's Economic Future [members from The American Prospect, Center for Community Change, CEPR, Communication Workers of America, Institute for America's Future, Institute for Women's Policy Research, PolicyLink, Political Economy Research Institute, Roosevelt Institute, and SEIU], and Investing in America's Future [The Century Foundation, Demos and Economic Policy Institute].

Prepared by Nicole Woo, Center for Economic Policy Research (www.cepr.net)
Series Editors: Heather McGhee, Demos & Barry Kendall, Progressive Ideas Network. [REVISED 8-7-11]