Tax the Speculators

By Ralph Nader
February 4, 2009

Let's start with a fairness point. Why should you pay a 5 to 6 percent sales tax for buying the necessities of life, when tomorrow, some speculator on Wall Street can buy $100 million worth of Exxon derivatives and not pay one penny in sales tax?
Let's further add a point of common sense. The basic premise of taxation should be to first tax what society likes the least or dislikes the most, before it taxes honest labor or human needs.

In that way, revenues can be raised at the same time as the taxes discourage those activities which are least valued, such as the most speculative stock market trades, pollution (a carbon tax), gambling, and the addictive industries that sicken or destroy health and amass large costs.

So, your member of Congress, who is grappling these days with gigantic deficits on the backs of your children at the same time as that deep recession and tax cuts reduce revenues and increase torrents of red ink, should be championing such transaction taxes.

Yet apart from a small number of legislators, most notably Congressman Peter Welch (Dem. VT) and Peter DeFazio (Dem. OR), the biggest revenue producer of all—a tax on stock derivative transactions—essentially bets on bets—and other mystifying gambles by casino capitalism—is at best corridor talk on Capitol Hill.

There are differing estimates of how much such Wall Street transaction taxes can raise each year. A transaction tax would, however, certainly raise enough to make the Wall Street crooks and gamblers pay for their own Washington bailout. Lets scan some figures economists put forth.

The most discussed and popular one is a simple sales tax on currency trades across borders. Called the Tobin Tax after its originator, the late James Tobin, a Nobel laureate economist at Yale University, 10 to 25 cents per hundred dollars of the huge amounts of dollars traded each day across bordered would produce from $100 to $300 billion per year.

There are scores of civic, labor, environmental, development, poverty and law groups all over the world pressing for such laws in their countries. (see tobintaxcall.free.fr).

According the University of Massachusetts economist, Robert Pollin, various kinds of securities-trading taxes are on the books in about forty countries, including Japan, the UK and Brazil.

Pollin writes in the current issue of the estimable Boston Review: "A small tax on all financial-market transactions, comparable to a sales tax, would raise the costs on short-term speculative trading while having negligible effect on people who trade infrequently. It would thus discourage speculation and channel funds toward productive investment."
He adds that after the 1987 stock market crash, securities-trading taxes "or similar measures" were endorsed by then Senate Minority Leader Bob Dole and even the first President Bush. Professor Pollin estimates that a one-half of one percent tax would raise about $350 billion a

year. That seems conservative. The Wall Street Journal once mentioned about $500 trillion in derivatives trades alone in 2008—the most speculative of transactions. A one tenth of one percent tax would raise $500 billion dollars a year, assuming that level of trading.

Economist Dean Baker says a “modest financial transactions tax would be enough to “finance a 10% across-the-board reduction in the income tax on labor.

The stock transaction tax goes back a long way. A version helped fund the Civil War and the imperial Spanish-American War. The famous British economist, John Maynard Keynes, extolled in 1936 a securities transaction tax as having the effect of “mitigating the predominance of speculation over enterprise.” The U.S. had some kind of transaction tax from 1914 to 1966.

The corporate history scholar (read his excellent book, Unequal Protection) Thom Hartmann, turned three-hour-a-day talk-show-host on Air America (airamerica.com/thomvision), had discussed the long evolution of what he calls a “securities turnover excise tax” to “tamp down toxic speculation, while encouraging healthy investment.”

So, why don’t we have such a mega-revenue generator and lighten the income tax load on today and tomorrow’s American worker? (It was one of the most popular ideas I campaigned on last year. People got it.) Because American workers need to learn about this proposed tax policy and ram it through Congress. Tell your Senators and Representatives—no ifs, ands or buts. Otherwise, Wall Street will keep rampaging over people’s pensions and mutual fund savings, destabilize their jobs and hand them the bailout bill, as is occurring now.

A few minutes spent lobbying members of Congress by millions of Americans (call, write or e-mail, visit or picket) will produce one big Change for the better. Contact your member of Congress. The current financial mess makes this the right time for action.