



THE U.S. FINANCIAL TRANSACTIONS TAX

A Policy Brief

By Benjamin A. Kreider

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CONTENTS

HOW THE FTT WOULD WORK	3
ARGUMENTS FOR & AGAINST THE TAX	4
PROPOSERS & OPPOSERS OF THE FTT	5
PRECEDENTS & CURRENT LEGISLATION	6

About the Author

Benjamin Kreider is a research consultant at United for a Fair Economy and a PhD Candidate in Social Policy at Brandeis University's Heller School of Social Policy and Management. He holds an MA in International Affairs from the Georgetown University School of Foreign Service and a BA in Government from Bowdoin College. Mr. Kreider was a Fulbright Fellow in Germany and has worked for organizations including the Economic Policy Institute, U.S. Department of State, Laborers' International Union of North America, and Institute on Assets and Social Policy at Brandeis University.

About United for a Fair Economy (www.faireconomy.org)

United for a Fair Economy (UFE) challenges the concentration of wealth and power that corrupts democracy, deepens the racial divide and tears communities apart. We use popular economics education, trainings, and creative communications to support social movements working for a resilient, sustainable and equitable economy.

About the Responsible Wealth Project (www.responsiblewealth.org)

UFE's Responsible Wealth Project is a network of business leaders, investors, and inheritors in the richest 5% of wealth and/or income in the U.S. who believe that growing inequality is not in their best interest, nor in the best interest of society. As beneficiaries of economic policies tilted in their favor, Responsible Wealth members feel a responsibility to join with others in examining and changing the corporate and government policies that widen the economic gap. As wealthy and upper-income individuals, members speak out — in Congress, in the media, and in corporate boardrooms — for progressive taxes and greater corporate accountability.

HOW THE FTT WOULD WORK

What do Bill Gates, Archbishop Desmond Tutu, House Minority Leader Nancy Pelosi, former UN Secretary General Kofi Annan, Nobel-prize winning economist Joseph Stiglitz, have in common? All of these prominent figures support some type of Financial Transactions Tax, a progressive tax on financial speculation.¹

ON A REGULAR BUSINESS DAY, HUNDREDS OF BILLIONS OF DOLLARS IN STOCKS AND BONDS ARE TRADED ON WALL STREET, BUT THESE TRANSACTIONS ARE NOT SUBJECT TO THE SAME TAXES AS EVERYDAY CONSUMER PURCHASES.

The proposed U.S. Financial Transactions Tax (FTT), commonly known as the “Robin Hood Tax,” seeks to raise billions of dollars in federal revenue by levying a small excise tax on certain transactions in the financial sector. Not only would the FTT raise significant revenue from a sector that can afford it, but it would also reduce speculative

investment activity.² The tax would particularly target hedge funds and other large, institutional investors- particularly high-speed traders - rather than small individual investors. In addition, the proposed legislation stipulates that the revenue would be spent on job-creating infrastructure projects as well as social programs such as education.

The financial crisis took a huge toll on Main Street, despite the fact that it was primarily caused by Wall Street. The FTT would compel Wall Street to reverse critical cuts in the social safety net. It would accomplish this by taxing some of the transactions in the financial industry, the nation’s most profitable sector.

On a regular business day, hundreds of billions of dollars in stocks and bonds are traded on Wall Street, but these transactions are not subject to the same taxes as everyday consumer purchases.^{3,4} The large dollar volume of trading activity means that even a relatively small tax would generate a significant amount of revenue.

Under the current proposal, tax rates would vary for each type

of security traded, and financial institutions would be responsible for paying the FTT. The tax would not apply to initial stock issuances, or to debt instruments with maturities of 60 days or less.⁵

THE LARGE DOLLAR VOLUME OF TRADING ACTIVITY MEANS THAT EVEN A RELATIVELY SMALL TAX WOULD GENERATE A SIGNIFICANT AMOUNT OF REVENUE.

Here are the suggested rates at which various securities would be taxed in the U.S., based on the legislation currently pending in Congress:

- 0.5% for stocks (or \$5 on every \$1,000 of stocks traded)
- 0.1% for bonds (or \$1 on every \$1,000 of bonds traded)
- 0.005% for derivatives (or 5 cents on every \$1,000 of derivatives traded)

The exact mechanisms of the tax, however, are highly complex, and beyond the scope of this paper.⁶

ARGUMENTS FOR AND AGAINST THE TAX

The FTT has several main purposes. First, revenue generated by the tax would be used to both create high-quality jobs and reverse some of the cuts in the social safety net that occurred due to the 2008 financial crisis.⁷ More specifically, revenue would fund infrastructure improvements, free college tuition, and programs to address social needs, including education and health care. This revenue could also be used to pay down part of the national debt. In addition, the tax would give Wall Street firms less of an incentive to engage in risky financial speculation, particularly high-frequency trading.⁸ In turn, this would give firms an impetus to make productive, long-term investments in the economy.⁹

THE TAX WOULD GIVE WALL STREET FIRMS LESS OF AN INCENTIVE TO ENGAGE IN RISKY FINANCIAL SPECULATION, PARTICULARLY HIGH-FREQUENCY TRADING. IN TURN, THIS WOULD GIVE FIRMS AN IMPETUS TO MAKE PRODUCTIVE, LONG-TERM INVESTMENTS IN THE ECONOMY.



Photo: Supporters say revenue would better fund programs to address social needs, including education and health care. Credit: Robinhood Tax Campaign

Moreover, proponents argue that less speculative trading would increase market stability.^{10,11}

Supporters of the tax note that it would be relatively easy to administer, as trades already occur electronically, so the tax could be collected electronically as well. Also, the tax would be highly progressive, as high-income individuals own the vast majority of stock shares in the U.S. In fact, individuals making less than \$50,000 a year, and couples making less than \$75,000 a year, would receive a tax credit for any costs resulting from the law.¹²

Opponents of the idea, however, note that financiers would likely develop ways around the tax, including by moving trading

offshore.¹³ Many of the world's largest financial markets already have implemented the tax, however, so traders would need to be inventive to avoid the tax. Opponents of the FTT also argue that it would lead to lower trading volumes and decreased market liquidity. In addition, several studies show that FTT's lead to more market volatility, not less.¹⁴

There is no consensus on the amount of revenue an FTT would generate. The Robin Hood Campaign, a coalition of U.S. civil society groups in favor of the tax, claims that the tax would generate more than \$300 billion annually.¹⁵ Economist Dr. Robert Pollin from the University of Massachusetts at Amherst estimates that the tax would raise \$340 billion over a decade.¹⁶

However, the Tax Policy Center, a nonpartisan research institute based at the Brookings Institution and Urban Institute, estimates that the tax would generate \$50 billion a year.¹⁷ In truth, it is unknown how much revenue the policy would produce, as that depends

on changes in investor behavior and overall U.S. trading volume. Most analysts agree that trading volume would decline if an FTT passed, due to higher transaction costs,^{18,19} but it is unknown to what extent it would decline.

PROPONENTS & OPPONENTS OF THE FTT

Not only do the U.S. and other countries have experience with the FTT, but the proposal also has support from both Democratic and Republican public figures. Over 1,000 economists worldwide— including two Nobel Prize winners, business people including Warren Buffett, Bill Gates, and George Soros, former Reagan Budget Director David Stockman, former Treasury Secretary Paul Volcker, and former UN Secretary General Kofi Annan— support the tax.^{20,21} Renowned economist John Maynard Keynes even mentioned the idea of an FTT after speculation led to the 1929 stock market crash.²² In addition, more than 170 national organizations in the U.S. support the Robin Hood Tax Campaign. Endorsing organizations include the National Organization for Women, the Sierra Club, National Nurses Union, and Catholics United.²³

Opponents of the Robin Hood Tax include financial firms, and conservative economists. In the New York Times, Nathaniel Popper wrote that the financial transactions tax was a “solution in search of a problem.”²⁴ Economist Tyler Cowen also opposes FTT’s.²⁵ Financial firms argue that the FTT would harm their businesses. Vanguard Mutual Funds, for instance, developed a model in 2015 predicting that a 0.1 percent tax on stock trades would reduce returns of an actively managed, small-cap stock fund by a 1.62 percentage points annually. The effect on large-cap stock funds would be less dramatic; those returns would decline by 0.58 percentage points. Vanguard’s widely-held index funds would likely also be less impacted, but the company did not run those numbers.²⁶

PRECEDENTS & CURRENT LEGISLATION

While the FTT has received more publicity in the wake of the Great Recession, it is not a new idea. If Congress approves the FTT, it would neither be the first time the U.S. had such a tax, nor in the world. In fact, the U.S. itself had an FTT until 1966. The UK already has an FTT, as do several dozen other countries, including France, India, South Africa, China, Brazil, and Russia.²⁷ London remains the second largest financial center worldwide, even though the UK has had an FTT for centuries.²⁸ The European Parliament also passed a resolution in 2012 in favor of an FTT; the resolution stressed that there should eventually be a worldwide FTT.²⁹ Eleven European Union countries may implement an FTT as a result of the resolution, but the UK and several other countries have opposed the EU's version of the tax.

IF CONGRESS APPROVES THE FTT, IT WOULD NEITHER BE THE FIRST TIME THE U.S. HAD SUCH A TAX, NOR IN THE WORLD.

Congressional representatives have introduced a number of similar FTT bills in recent years,

especially in the wake of various economic crises. These bills have included the Wall Street Trading and Speculators Tax Act, a proposal introduced in 2011 by Rep. Peter Defazio (D - OR) and Sen. Tom Harkin (D - IA). These bills, H.R. 3313 and S. 1787, differed from the current proposals in Congress, in that they proposed a lower tax of .03% on all trades. Rep. John Conyers (D - MI) has suggested that an FTT could be used to fund job creation bills and other legislation, including the Humphrey-Hawkins Bill.

Several FTT bills have been proposed in the House and Senate. Rep. Keith Ellison (D - Minn.) is the chief sponsor of H.R. 1464 in the House, and Sen. Bernie Sanders (I - VT) is the chief sponsor for the Senate bill, S. 1371. Both bills were proposed in the current session of Congress and are referred to as the Inclusive Prosperity Act of 2015. S. 1371 explicitly links the revenue from the tax to the College For All Act, another piece of legislation Sanders authored.³⁰ The House bill has 34 co-sponsors, while the Senate bill has only one.^{31, 32} Democratic presidential nominee Hillary Clinton also supports an FTT, although her proposal is not as ambitious as the legislation currently in Congress.³³

While the Robin Hood Tax has gained some prominent supporters, thus far, its current legislative form has been unable to reach the floor of Congress. After Ellison introduced his bill in the House on March 19, 2015, it was promptly referred to the Committee on Ways and Means.³⁴ After being introduced on May 19, 2015, the Senate bill was referred to the Committee on Finance, which is where it remains.³⁵ No votes have been held on either bill. The fate of the FTT will likely depend a great deal on the outcome of the November elections. In any case, the FTT is a policy already in place in much of the world, and it will continue to merit consideration.

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