



Americans for Financial Reform
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October xx, 2011

Representative Jeb Hensarling
129 Cannon House Office Building
Washington DC 20515

Senator Patty Murray
448 Russell Senate Office Building
Washington DC 20515

Re: Financial Speculation Tax

Dear Senator Murray and Representative Hensarling:

We are writing to you today to urge the Joint Select Committee on Deficit Reduction to examine a small levy on financial speculation as a revenue-raising measure.

The deficit problem that the Select Committee must address was to a significant degree created by the world financial crisis, a crisis caused by Wall Street speculation. It is therefore appropriate that we call on Wall Street to help address it. A small tax on financial market transactions has the potential to raise significant revenue and simultaneously limit reckless short-term speculation that can threaten financial stability.

The idea of a small fee on the sale of financial instruments like securities and derivatives is not a new one. Such taxes have a long track record both in the United States and globally. The United States had a transfer tax from 1914 to 1966 which levied a small fee on all sales or transfers of stock. The UK levies a transaction tax of one half percentage point on stock transfers and has done so for many decades. Asian countries such as Hong Kong, Taiwan, South Korea, and India also currently levy securities transaction taxes. The European Union is currently proposing a tax of one-tenth of one percent on the trading of shares and bonds, as well as a smaller tax on derivatives transactions. The French and German governments have already endorsed this idea.

There is no question that even an extremely low fee on the vast market in financial transactions would generate significant revenue. The value of the U.S. market in stocks and bonds alone exceeds \$40 trillion, and the notional value of derivatives transactions is several times that. The IMF cites estimates that a miniscule tax of one cent per \$100 of financial transactions globally would raise over \$200 billion each year. The European Union's proposed financial transaction tax is forecast to raise almost \$70 billion annually. In the United States, economists at the University of Massachusetts and the Center for Economic and Policy Research have estimated

that one U.S. financial transaction tax proposal would raise \$176 billion a year. Even a smaller tax could easily raise tens of billions per year.

Beyond the revenues to be raised, even a small financial transactions tax would have the salutary effect of discouraging the kind of high frequency trading that has increased harmful volatility in financial markets and was responsible for the “flash crash” last year. High frequency traders sometimes hold stocks for only fractions of a second and do not generally contribute to the capital markets’ purpose of long-term price discovery. A financial transaction tax could create economic benefits by channeling resources away from such unproductive short-term speculation and toward more useful purposes.

Numerous bills have been introduced in Congress utilizing a financial transaction tax mechanism. In the 111th Congress these included S. 2927 (Harkin) and HR 4191 (DeFazio), while in the current Congress they include HR 870 (Conyers), HR 755 (Stark), and HR 2003 (DeFazio).

Over 1,000 economists recently signed an open letter advocating a financial speculation tax "technically feasible" and "morally right." They join a long list of historically prominent economists -- including Nobel prize winners like James Tobin and Joseph Stiglitz -- who have endorsed the idea of a transaction tax as a valuable tool to discourage high-volume speculative trading that serves no useful social purpose.

Critics charge that if the United States reapplies this tax domestically it would push trading overseas. This claim is demonstrably false as countries like the United Kingdom and Hong Kong levy small transaction taxes while remaining world financial centers. This claim also ignores the international movement toward the use of transaction taxes, as shown by the European Union’s transaction tax proposal. Respected institutions like the International Monetary Fund and the Gates Foundation have concluded that it is administratively feasible to levy a small financial transaction tax in a single jurisdiction.

Today, three years after the financial meltdown and a taxpayer bailout, Wall Street is booming with record profits and bonuses being reported. At the same time folks on Main Street are still suffering with zero new job growth and rising poverty. It is both fair and practical to call on Wall Street to do more to aid the recovery.

Sincerely,

AFL-CIO

AFSCME

Alliance for a Just Society

Campaign for Community change

Center for Media and Democracy
Citizen Action of New York
Citizen Action of Wisconsin
Citizen Action/Illinois
Community Organizations in Action
Community Voices Heard (New York, NY)
Connecticut Citizen Action Group
Consumer Action
Consumer watchdog
Courage Campaign
Demos
Essential Information
Florida Consumer Action Network
Foreclosurehamlet.org
Friends of the Earth US
Georgia Rural Urban Summit
Good Old Lower East Side (or GOALS) (New York, NY)
Grass Roots Organizing (Missouri)
Health Alliance International, Seattle, Washington
Illinois People's Action
Institute for Policy Studies, Global Economy Project
Iowa Citizen Action Network
Iowa Citizens for Community Improvement
Its Our Economy
Jobs with Justice
Lakeview Action Coalition
Liberty tree foundation
Maine People's Alliance
Maryknoll Office for Global Concerns
Michigan Citizen Action
Michigan Organizing Project
Missouri Progressive Vote Coalition
National Employment Law Project
National People's action
National Women's Law Center
Neighborhood Economic Development Advocacy Project (NEDAP)
NETWORK, A National Catholic Social Justice Lobby
New Bottom Line
New Hampshire Citizens Alliance for Action
New Jersey Citizen Action
New New deal project, Chicago, Il

NH Citizen Alliance
NJ Citizen Action
Ocean State Action
OMB watch
Oregon Action
Penn Action
PICO National Network
Progress Ohio
Progressive Democrats of America
Progressive Maryland
ProgressOhio
SEIU
SOUL (Chicago, IL)
Sugar Law Center for Economic and Social Justice
Sunflower Community Action (Kansas)
Syracuse United Neighbors
TakeAction Minnesota
Tax Justice Network USA
Tennessee Citizen Action
The Chicago Political Economy Group, Chicago, IL
UFE
United Action for Idaho
USAction
Virginia Organizing
Voices of Community Activists and Leaders (or VOCAL-NY) (New York, NY)
Washington Community Action Network
West Virginia Citizen Action Group

