CPEG Fact Sheet
Taxing Wall Street to Revive Main Street

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As a country we have so many needs – job, new roads, better schools and hospitals – the list seems endless. But people say there is no money for all this and everyone is concerned about government debt. Is there any way to pay for these needs without going further into debt?

Yes. Despite what conservatives often say, there are several potential sources of money to pay for the needs of our country. Perhaps the most promising is a tax on the trading of financial assets, a financial transaction tax, often called an FTT or a "Tax on Wall Street Speculators."

1. How would an FTT work? How much money could it raise?

An FTT would be a small tax on all trading in stocks, currencies, and debt products such as treasury bills and bonds (and futures and options contracts on all of these). The amount of the tax would be quite small. For example, a tax of $1 on every $400 of stocks traded (0.25%; one-quarter of one percent) and $1 on every $800 of currency and debt trading including derivatives (0.125%, one-eighth of one percent). This fee (tax) would have raised between $750 billion and $1.2 trillion during each of the past five years (2005 – 2009). With that amount of revenue we could put a large number of people back to work on the projects that are needed to rebuild our economy so that it serves all the people, not just the few.

2. Who would pay the tax?

Anyone who traded stocks, currencies or debt instruments would pay the tax. It would apply to both buyers and sellers. Most of the income from this tax would come from institutions and individuals who trade frequently. These are big banks, hedge funds and brokers as well as wealthy individuals who own the largest amount of stock. This does not mean that you would pay the tax if you deposited money in your bank account or exchanged US dollars for Canadian dollars because you were traveling to Canada. These are not trades.

3. I have some money in a 401(k), and some of it is invested in stocks. Would I pay the FTT?

Yes; however you would only pay it when you bought or sold stock or bonds. If you invest for the long term instead of trading for short term profits, you would pay very little tax –less than the fees normally charged by mutual fund managers to handle your investments.

4. Would an FTT make our markets less competitive by discouraging trading?

Most of the trading that takes place in stock, currency and debt markets is unrelated to any productive activity in the real economy. For example, the total value of all the new issues of stock that companies bring to market to raise capital is represents less than the value of one week's trading. Similarly, the value of currency trades is more than 25 times the actual value of our foreign trade. Even if trading were to decline by 50% – a very unlikely event – our financial markets would remain liquid and attractive to investors from both the U.S. and abroad.

5. Is there any experience of an FTT that we could look at to see how it would work?

Yes, Britain has had a stamp tax on stock trading for many years. It has provided needed government revenue and has not hampered the growth of the British stock market, which is now the second largest in the world.

6. All this sounds good. Are there any other benefits from an FTT?

Many argue that an economy heavily dependent on financial activities serves only the few. One additional benefit of an FTT would be a reduction in the role of Wall Street in our economy**.** We could use FTT revenues to develop manufacturing, infrastructure and services that benefit the rest of us. Very little has been suggested – and nothing done – to help move us n this direction. An FTT is not the compete answer (see CPEG's Fact Sheet: Regulating the Banks), but it would help.

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