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Tax the speculators: the transaction tax as a weapon of the nation-state

by Richard Freeman

A tax on the sale or transfer of financial securities has been applied frequently throughout the history of Europe and the United States, and its restoration is sorely needed today.

British oligarchical financiers and their Wall Street helpers have tried, with a fair degree of success, to blot out the true history of the transaction tax. They slander the proponents of the tax as "kooky," "dangerous," and "out of the mainstream," and claim that the tax has rarely been applied, and has largely been untested. In July 1993, the Catalyst Institute (formerly the MidAmerica Institute Research Project), a Mont Pelerin Society-affiliated think-tank based in Chicago, released a report entitled "Securities Transaction Taxes: Can They Raise Revenue?" that lied that "little revenue would be raised," and further, that "a tax focusing on equity transactions . . . would decrease business fixed investment," i.e., that it would contract industry. Nothing could be further from the truth.

On June 27, Pennsylvania state representative Harold James introduced House bill 2833, a proposal that his state levy a tax, at the rate of two-tenths of 1%, on the transfer or sale of "any bond, stock, security, future, option, swap or derivative." Representative James urged the immediate adoption of this measure, which at minimum would initially raise $10 billion in revenues, to thus prevent the projected murder of 3,500 persons by Pennsylvania Gov. Tom Ridge's Nazi-like policy of throwing 220,000 persons off the state's medical assistance program (see article, p. 68).

In proposing this course of action, Representative James has revived a 300-year-old tradition. The transaction tax is an incisive weapon at the service of the nation-state, in the project of nation-building. It takes its place alongside the protective tariff, the Hamiltonian system of national banking, and the financing of infrastructure, as a key instrument in policy-making. For only if a state can tax financial bubbles, which are a tool of British economic warfare, and which threaten to devour the state's physical economy and population, and only if it can tax these financial flows as a helpful and painless source of state revenues, can the state protect its existence.

This is not just a good idea; it is an idea that has been implemented:

- President Abraham Lincoln and the U.S. Congress adopted the tax in 1862 as a weapon, along with an anti-gold speculation tax in 1863, to defeat the British Confederate military, as well as London-led economic warfare, at a time when the American Republic's fate hung in the balance. The United States instituted a federal transaction tax twice more, from 1898 until 1902, and from 1915 until 1965, that is, for half a century.
- England adopted a transaction tax in 1711, and had it in force continuously, until 1993. The Netherlands (1689), France (1798), and Germany (1881) all instituted the tax, and each of them had it in effect for at least 100 years.
- During this century, five states—New York, Pennsylvania, Massachusetts, South Carolina, and Florida—instituted state-applied transaction taxes, with New York's lasting from 1905 until 1975. The Securities and Exchange Commission successfully operates a stock transfer fee, which, in 1996, will allow the SEC to return a $288 million surplus to the federal treasury.
- Leading national figures, from House Speaker Jim Wright (1987), to Senate Finance Committee Chairman Lloyd Bentsen (1990), to Nobel Prize-winner in economics James Tobin (1992), to economist Lyndon LaRouche (1993), have called for the tax.

Two reasons for the tax

There are two principal reasons for the tax: raising revenue and crushing speculation. Both need to come into play to help reverse the ongoing economic collapse, which threatens to become the worst in 500 years.

The explosive growth of financial markets represents a huge speculative bubble. The worldwide value of derivatives outstanding has exploded from close to zero in 1986, to about $10 trillion in 1991, to $75 trillion in 1995. The derivatives losses to pension plans, government agencies, corporations, and individuals represent tens of billions of dollars. In mid-August, it was discovered that there were losses in Pennsylvania (see box). The issue of protection of public funds, as well as the elimination of speculation, is crucial.

Further, the Nazi policy of the "Contract on Americans" and the genocidal policy of the International Monetary Fund put hundreds of millions of lives at risk. Saving human lives is more important than the "inconvenience" of a speculator paying a 0.2% tax on financial transactions, which in the case

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of Pennsylvania, is only one-thirtieth the level of what people pay as a sales tax. Applied on a U.S. national level, a transaction tax could raise, initially, between $100 billion and $400 billion a year.

We present the story of the transaction tax, which is sometimes called a "stock transfer tax" when applied mainly to stock sales. We begin with the European history of the tax, especially England and the Netherlands, where the tax first began, as well as two other European powers, Germany and France. Then we look at the history of the tax in the United States.

I. European history of the tax

A. England

England, which has second oldest transaction tax, shows in microcosm many of the critical features of the tax. Some of that history is presented in a 1940 report, entitled "Stock Transfer Taxes," which was prepared by the Committee for the Study of Federal and State Stock Transfer Taxes. This committee was established in 1939 to study and improve the stock transfer tax then in effect in New York State. Hereafter, we will refer to the report as the "Stock Transfer Taxes" Report of 1940. According to the report:

"The transaction tax in Great Britain originated with the adoption in the 1690s, during the reign of William and Mary, of a system of stamp duties on transfers of various types of properties, privileges and offices. According to the English Stamp Act of 1694 . . . the payment of a stamp duty of five shillings was made requisite to the authentication of all conveyances and presumably represented a guarantee by the state of legal title thereto. Though the law did not specifically define conveyance as covering both tangible and intangible property, it may be inferred from the general usage of this term in English statutory law that both types of conveyances were covered under the act."

The transaction tax is an extension of, or subdivision, if you will, of the "conveyance tax." An example of tangible property is a home, horse, cart, office, etc. Intangible property is represented by a stock, financial instrument, etc. However, since joint-stock companies were of little importance in the late 17th century, the conveyances of stock to which the tax could be applied were relatively few. The tax therefore was restricted in the main to transfers of real property and offices.

In 1711, the British Parliament passed a Stamp Act which made explicit the tax on intangible property: It incorporated a flat duty of 2 shilling 6 pence sterling on all transfers of corporate shares. In 1713, the tax on stock transfers was increased to 4 shilling 6 pence. In the 1790s, the tax rate was raised to 6 shilling 9 pence per conveyance.

The stock transfer tax was often collected as a stamp tax; that is, whoever effected the sale, had to purchase a stamp, issued by a government authority. Gradually, there arose two taxes: one for the registered transfer of title of ownership; a second, for the everyday trading of stock.

Ironically, as the British government became more squeezed for revenue, and as the nature of stock trading took on the more pronounced character of gambling, even the *Economist* magazine, the mouthpiece of the British financier oligarchy, jumped on the bandwagon for increasing the rate

Derivatives losses threaten Pennsylvania

The losses from derivatives investment have been building over the last several years, ranging from Orange County, California in 1994, to Barings Bank, London. Now they have hit Pennsylvania.

On Aug. 13, the Bethel Park School District in Allegheny County filed a federal suit, charging First Empire Securities of New York with fraud in the sale of mortgage-backed derivatives securities; the district has lost $2 million over the last five years. Pennsylvania Auditor General Barbara Hafer reports that at least 18 school districts in 13 counties, plus a vocational-technical school, have invested more than $59 million in mortgage-related derivatives.

The suit claims that First Empire deliberately "churned" securities for its own profit, since it received a commission on each of the hundreds of transactions it made. The disclosure requirements of a securities transfer tax would have allowed state regulators to monitor these transactions, and detect suspicious trading activity at an early point.

However, the problem extends far beyond the issue of local school districts.

For example, the 1993 Financial Report of the Pennsylvania Public School Employees Retirement System (PSERS) showed that $2.8 billion out of the total $25.4 billion fund, were also invested in mortgage-backed derivatives securities.

Similarly, the 1993 Annual Report of the State Employees Retirement System (SERS) revealed a substantial derivatives exposure. Also worrisome, is the fact that PNC Bank, which was the agent bank for the SERS and master trust custodian for the PSERS, reported a $2 billion loss in the value of its securities and derivatives for 1994.

—*Phil Valenti*

of the tax. In arguing a particular point on Chancellor of the Exchequer Goschen's proposal for increasing the stock transfer tax, the March 31, 1888 *Economist* said that speculative trading of stock should be taxed. Stated the *Economist:*

"Now, probably nowhere has the advisability of taxing those speculative transactions been more strongly advocated than in these columns. There is no shadow of a reason why gambling purchases and sales of stock should be permitted to escape taxation, while bona fide purchases and sales should be taxed."

In response to the need to raise more revenues, the tax was increased repeatedly, including after World War I. It reached the rate of 2% by 1963—ten times the level proposed by Representative James in Pennsylvania—and was maintained at a rate of between 1% and 2% until 1986 (the tax was applied only to stocks and not to derivatives, etc.). In fiscal year 1992-93, the stamp duty on U.K. equities raised £830 million (about $1.25 billion) in revenues for the British government. In 1993, after 282 years of being continuously in effect, speculators forced the British government to abolish the tax.

B. The Netherlands

"The taxation of stock exchange transactions in Holland dates back to the 17th century and originated as an attempt by the city of Amsterdam to control speculation in shares of the Dutch Indies Companies," the "Stock Transfer Taxes" Report of 1940 said. "Many individuals held that such speculation was detrimental to the credit of these companies and hence should be curbed by taxation. . . . The Council of the city of Amsterdam enacted, in 1689, a law imposing an *ad valorem* tax on transactions in shares of the Dutch East India and West India companies. This tax, as amended in May 1689, applied only to margin trading and was based on the par value of the shares transacted. The tax on East India shares was fixed at one-thirtieth of 1% and that on West India shares at one-sixtieth of 1%. . . . All brokers were required to record every purchase or sale used in this country."

The Netherlands stock transfer tax was stopped sometime around the 1750s, but resumed again in March 1917, and was levied at the effective tax rate of one-tenth of 1% of the value of the transaction. In 1938, the transaction tax yielded 4,327,000 guilders, which constituted four-tenths of 1% of the Dutch federal budget revenues for that year. Holland repealed the tax in 1990-91, as did several European countries, under intense pressure from banks and speculators.

C. Germany

Prior to the formation of a unified German state, stock transactions were taxed only by the Hanse cities of Hamburg and Lubeck. In 1881, a national German transaction tax was adopted, with the rate set at 0.20 marks on all stock transactions, regardless of the amount involved.

The most interesting development came in 1884 when, in introducing amendments to the 1881 Stamp Act, one participant in the German parliamentary debate very usefully assailed speculation, while asserting the right and duty of the state to intervene. He said:

"Large sums are involved in stock exchange transactions.

TABLE 1

Transaction taxes around the world

Country	Tax size 1991	Description
Australia	0.3%	Transaction tax
Austria	0.15%	Transfer tax
	0.06%	Arrangement fee
	0.04%-0.09%	Courtage fee
Belgium	0.17%	Stamp tax on buys & sells
	0.025%	Stock market fee
Canada		No taxes
Denmark		No taxes for non-residents
Finland	0.5%	Transaction tax
France	0.15%	Trading tax
Germany	0.125%	Stock market remittance tax
	0.06%	Courtage tax (official broker fee)
Hongkong	0.25%	Stamp duty
	0.006%	Special levy
	0.050%	Exchange levy
Italy	0.05%	Stamp duty tax
Japan	0.30%	Sales tax
Malaysia	0.05%	Clearing fee
	0.3%	Transfer stamp duty on purchases and sales
Netherlands		No taxes
New Zealand	0.0057% plus per trade fee	Transaction levy
Norway		No taxes
Singapore	0.1%	Contract stamp duty
	0.05%	Clearing fee
	0.2%	Transfer stamp duty
Sweden	0.5%	Turnover tax
Switzerland	0.0005%	Exchange tax
	0.01%	State tax
	0,075%	Stamp tax
Taiwan	0.6%	Transaction tax
U.S.A.	0.0033%	SEC fee
United Kingdom	£2	PTM levy
	0.5%	Stamp duty tax

Source: "Securities Transaction Taxes: What About the International Experiences and Migrating Markets?" by Kenneth A. Froot and John Y. Campbell, Catalyst Institute, Chicago, Illinois, July 1993; UBS Philips and Drew.

As of 1991, eighteen countries had transaction taxes in effect, or transaction fees were being levied by their nation's stock and/or financial trading regulatory bodies, such as the Securities and Exchange Commission in the United States. But during 1991-93, speculators coerced the repeal of the transaction taxes by a number of governments, including the United Kingdom and Germany. This facilitated faster growth of the global speculative bubble.

Transactions are executed with great facility. With variations in business activity, intelligent stock brokers—and there is no lack of them—may gain large profits in no time. . . . Compare this with the gains in agriculture or industry, where profits are amassed very slowly and only with much difficulty and many hindrances. Trading on the stock exchange enjoys unlimited freedom. . . . The brokers are free to establish their own regulations with the aid of the courts of commerce and to fix prices independently on the big stock exchanges. . . . According to my way of thinking this turnover or transactions tax is nothing more than a return for the benefits bestowed by the government on the brokers. All brokers should pay for the protection afforded them by the government. Consequently I believe there is ample justification for the tax."

The rate was increased according to German development financing needs. On Aug. 7, 1923, at the height of the Weimar hyperinflation, the tax rate applied to shares of domestic (and colonial) corporations was increased to 3%, and in the case of transactions between brokers and the public, to 6%. In 1991, Germany still had a stock transfer tax of 0.125%, applied to German residents. This was repealed in 1991, again at the behest of speculators.

Until as late as 1989, the German government held firm and refused to legalize the trading of some financial derivatives within the country. As a result of pressure from the trading of German government bond futures in the London markets, amendments to Germany's gambling law in 1989 made changes, and permitted retail participation in derivatives markets, followed by the opening of Germany's first financial exchange, the Deutsche Terminbörse, in 1990.

D. France

Taxation on security transactions began in France with the enactment of the Stamp Act of Nov. 3, 1798, and the Registry Law of Dec. 12, 1798. As of 1938, the last year for which the "Stock Transfer Taxes" Report of 1940 carries data, the rate on the stock transfer tax was 0.43%; the transaction taxes yielded almost 2% of France's national revenue. As of 1991, France had a 0.15% trading tax on its stock exchange. In addition, there is a fee exacted on France's major futures/options exchange, the MATIF.

Transaction fees fund SEC

The Securities and Exchange Commission (SEC), a branch of the United States government that regulates and polices stock trading, is a completely self-financed agency. It applies a transaction fee, which operates in exactly the same fashion as a transaction tax, except that the SEC, not being a government, lacks the power to tax. The Commission assesses a fee on the registration statement of stocks for all stock exchanges in America, at the rate of one-twenty-ninth of 1% of the face value of the security registered; and a fee of one-three-hundreth of 1% on the face value of stocks traded day-to-day.

The following is the projected source of SEC revenues for 1996:

Fees assessed on registration:	$439,545,000
Fees assessed on trading:	$117,252,000
Other revenues:	$29,700,000
Total:	$585,797,000

According to the SEC, its expenditures for 1996 are projected to be $297,405,000; so, the SEC will run a surplus of $288,392,000, which will be turned over to the U.S. Treasury and included in the general revenues of the federal government. So, de facto, today, there already is a kind of national transaction tax in effect in the United States, from which the United States collects more than a quarter-billion dollars a year.

In addition, the New York Stock Exchange, the Philadelphia Stock Exchange, and other stock exchanges in America self-fund themselves through transaction fees. The administration of the fee presents no technical problem. If the financiers choose to pay transaction fees when it is to their advantage, they should also pay a transaction tax when it is to the benefit of the nation.—*Richard Freeman*

II. United States history of the tax

The Lincoln era

The context for the adoption of the U.S. transaction tax in 1862, was that fierce battle between republicanism and oligarchism: the Civil War. Much is owed to the courage of America's greatest President, Abraham Lincoln, who was at war with the British oligarchy, the most evil force in the world. He was attempting to prevent the disintegration of the American nation-state. The parallel to today's situation in Pennsylvania is notable.

In 1861, the British launched and directed their puppet, the Confederacy, in an insurrectionary uprising against the United States. To reinforce the activities on the battlefield, the British conducted the war on a second front: economic warfare, using speculation, and the manipulation of the financial and gold markets, to attempt to shatter the integrity of America's credit system, especially the greenback, America's

currency, and U.S. Treasury bonds. This started in the period December 1860 through February 1861, before Lincoln took office as President (March 1861), when London and Wall Street forced the U.S. Treasury to market $15 million of Treasury notes and bonds at ruinous interest rates of 10-12%.

On Dec. 31, 1861, the American nationalist forces, led by Sen. John Sherman (R-Ohio) and Rep. Thaddeus Stevens (R-Pa.), introduced the Legal Tender Act. It passed Congress and was signed by President Lincoln into law on Feb. 25, 1862. Up to then, America did not have a single, coherent national currency. Three issues of legal tender notes, totalling $450 million, were issued by the end of 1862. This was the greenback, which became America's currency. It was essential to the functioning of the Union and its war effort.

The British gameplan was to wreck the American credit system, by attacking the fragile greenback. London speculated its value downward, and hoarded gold. Since currencies were valued against gold—even though the U.S. had gone off the gold standard in 1861—a soaring gold price meant that the value of the greenback, and of U.S. treasury bonds, whose interest debt service was to be repaid in gold, would plunge.

In 1861, the price of an ounce of gold averaged $100; its price would be speculated up to an average of $113.30 per ounce in 1862; $145.20 per ounce in 1863; and $203.30 per ounce in 1864. This process was abetted by John Pierpont Morgan, who was 24 years old when the Civil War started. Morgan was deployed by his father, the powerful banker Junius Morgan, head of the London-based firm Peabody and Co. Peabody and Co. had been founded in the 1840s in London by George Peabody, who was extremely close to Queen Victoria.

The Union victories at Gettysburg, Pennsylvania and Vicksburg, Mississippi in the summer of 1863, brought the price of gold down from its level of $163 per ounce earlier in the year, to a trading range of $126-129 per ounce. In response, Peabody and Co., working through its American employee, J.P. Morgan, surreptitiously accumulated $4-5 million worth of gold. Of this amount, Morgan shipped half to England, including $1.5 million in one shipment on Oct. 10, 1863. The artificial gold corner, created a scarcity of the metal in the United States, sent the price of gold skyrocketing, and caused an immediate depreciation of both the greenback and U.S. Treasury issues.

This is the background against which President Lincoln acted. In his first action, in mid-1862, to curb speculation against the greenback, as well as against the stocks of fragile U.S. companies, Lincoln and the Republican-controlled Congress adopted a stock transfer tax, to be assessed on every stock sale (L. 1862, Ch. 119, Sec. 94). The "Stock Transfer Taxes" Report of 1940, said:

The tax "was levied at the rate of 10 cents on every broker's note, or memorandum of sale of stock, irrespective of the amount of stock involved in such sales. It was part of a comprehensive provision taxing at the rate indicated, sales by brokers of every type of property, goods, stock, bonds, real estate, merchandise, etc.

"Two years later [in 1864], the provision for the taxation of stocks and bonds was segregated from the provisions covering the taxation of other types of sales made by brokers. In place of this flat rate tax, a proportional rate was established. The tax was fixed at one-twentieth of 1% of the par value of the stock, or, in other words, at 5¢ for every $100 of par value. In this way, the tax was made more fair and also more productive of revenue."

The tax raised revenue for the U.S. government to spend on the war effort.

But Lincoln had to wage a parallel fight against the gold speculators, who were led by the British-run House of Peabody-Morgan. On March 3, 1863, Lincoln and the Congress placed a 0.5% tax on time-sales (i.e., forward sales and the like) of gold. The 1863 Act also stipulated that loans made against the security of gold or silver coin, which had a greater value than the pledged coin, were prohibited. A contemporary edition of the *New York Times* reported that in reaction to the tax, the day after the tax was passed, on March 4, 1863, gold prices fell 5%, and a further 10% on March 5.

On June 17, 1864, Congress escalated. It passed legislation that effectively would have shut down the gold room at the New York Stock Exchange. The bill forbade anything but spot selling of gold, i.e., no forward or future contracts would be allowed. Again, the issue was not strictly gold, but whether the United States would have sovereign control over its credit and currency, or whether oligarchical financiers would have the final say. The June 17 legislation, in and of itself, did not succeed. The British and the Morgans flew into action, speculating and hoarding gold, to drive up the price of gold, and undo entirely the intent of the legislation. Fifteen days after the June 17 legislation had been passed, it was repealed.

But the thrust of the overall strategy of President Lincoln's 1861-65 measures did succeed. Typified by such measures as the subsidization of transcontinental railroad building; the creation of land grant colleges; and the Homestead Act, which brought millions of acres under cultivation, Lincoln established a principle: to dirigistically foster productive investment, while crushing speculation. The transaction tax was an indispensable, leading component of this package.

In 1870, the tax was repealed.

McKinley revives the tax

In 1898, President William McKinley adopted the transaction tax. McKinley, who was felled by a British-controlled assassin's bullet in 1901, was a proponent of the protective tariff and other nationalist measures. In 1898, a stamp tax on stock transactions was enacted (Law 1898, Ch. 448, Sec. 6).

The "Stock Transfer Taxes" Report of 1940 said, "When the tax was reimposed, however, during the Spanish-American War, its basis was broadened to include not only the

sales of stock but the transfers of stock of every form and description as well, such as transfers resulting from gifts, inheritances, bankruptcies, loans, exchanges and assignments. . . . The tax became a hybrid one combining the features of a tax on stock trading with those of a tax on the transfers of title to stock. . . . It was primarily a tax on stock market operations." The rate of the tax was now set at 2¢ per $100 of par value, which, when translated into percentages, amounts to one-fiftieth of 1% of the aggregate par value of the stock sold. In 1902, during President Teddy Roosevelt's term, the tax was repealed.

The 1915 tax lasts till 1965

In 1914, the United States adopted a transaction tax, which went into effect in 1915. This was the third time America had ratified such a tax, and this time, it lasted a half-century.

Though the United States did not enter the British-engineered World War I at its outbreak, the government required added sources of revenue, and in 1914, it resorted to the stock transfer and other stamp taxes on a temporary basis. The stock transfer tax went into effect in 1915, and was made permanent in 1917.

The tax was almost identical to the one adopted in 1898 (L. 1914, Ch. 331, Sec 5.).

The tax was levied at the rate of 2¢ per $100 par value trade. By 1929, the tax yielded the U.S. government $40 million in revenues. In 1932, U.S. Rep. Fiorello LaGuardia (D-N.Y.) proposed what would effectively be a 10-fold increase in the federal stock transfer tax, whereby the existing rate would be made equal to 0.25% of the market value of the securities traded. This touched off a battle royal in the House Ways and Means Committee, with Wall Street's agents there telling old wives' tales that the increase in the tax rate schedule would "produc[e] violent fluctuations in [stock] transactions from day to day or even from hour to hour." Though the LaGuardia proposal was killed, instead, the federal transfer tax was raised to between 4¢ and 5¢.

The federal transaction tax survived the post-war period. Finally, it was killed in 1965, helping clear the way for the wild speculation on the U.S. stock market during the latter part of the 1960s, known as the "Go-Go Years."

III. State transaction taxes

The fight in Pennsylvania for a state-administered securities transaction tax is nothing new: That state, along with four others, administered one earlier in this century. These taxes existed at the same time as the U.S. federal government had one, and were not seen as in conflict with the federal tax.

The state taxes were enacted between the repeal of the McKinley transaction tax in 1902, and the re-adoption of a federal tax for a third time in 1915. In 1905, New York State, where more than three-quarters of all stock trading transpired (and still does) took the bold step of levying a transaction tax at the rate of 2¢ per $100 traded (0.02%). The tax was intended as a source of revenue, to replace the state property tax. Modifications over time raised the rate to 4¢ per share traded.

The constitutionality of the tax was upheld in the courts [*People ex. rel. Hatch v. Reardon* (184 N.Y. 341; Aff'd 204 U.S. 152)]. It stayed in effect until 1975.

In 1915, state transfer taxes were also instituted in Pennsylvania and Massachusetts, and shortly afterward, in Florida and South Carolina, patterned after the national tax of 1915. The Pennsylvania and Massachusetts rate was 0.02%, the South Carolina rate was 0.04%, and the Florida rate was 0.1%. Since Florida and South Carolina did not, and still do not have state stock exchanges, presumably the tax was applied on state residents irrespective of where their stocks were traded, a precedent with direct bearing on Representative James's House Bill 2833. All four of the latter states' transaction taxes were in effect for at least a quarter-century.

The "Stock Transfer Taxes" Report of 1940 said that, "during the prosperous Twenties, the [state] stock transfer taxes were extremely lucrative."

In the period from 1915 through 1965, the federal and New York State transaction taxes were both in force. The two taxes combined amounted to between 8¢ and 9¢ per $100 of par value stock, slightly less than one-tenth of 1%. Clearly, this level of tax is easily supportable.

IV. The fight for the transaction tax today

Though repealed on a national level and in New York State in 1965 and 1975, respectively, the idea of a transaction tax would not die. As during the 1980s and 1990s, the volume of derivatives whirled out of control, creating a speculative bubble growing at a hyperbolic rate of growth; and as the shrinking physical economy collapsed incomes, as well as federal, state, and local budget revenues, the demand for a transactions tax was rekindled.

A partial list indicates the increasing density of calls for re-instating this tax.

1. In 1987, Rep. Jim Wright (D-Tex.), then Speaker of the U.S. House of Representatives, proposed a Securities Tax on stock trading. The tax would have required payment of 0.5% of the value of the transaction, by both the seller and the buyer; thus it would have been a 1.0% tax. In May 1993, Wright explained the background to the bill:

"I proposed the tax at the time I was Speaker. . . . I raised it as one of the few options I thought of, to raise revenues without putting the burden on low-income Americans. Instead, shift the tax to speculators. I thought that with the large volume of stock trading and sales, a tax applied there wouldn't be hurtful to the average taxpayer or be a burden on him.

"At the time, we were trying to work through a budget bill; we wrote out a budget that had a $36 billion reduction. That would reduce the budget by that amount. In 1987, that would be the 1988 budget that we were preparing. The $36 billion reduction was to come half through taxes, and half through expenditure cuts. We had budget cuts of $9 billion in domestic programs and $9 billion [in] military, that's $18 billion. And then the other half was to come from taxes. That's when I came up with my options."

Speaker Wright revealed that "the vote was very close; I think, it was 206 to 205," in which the budget bill, containing this tax, went down to defeat.

2. During the 1990 budget negotiations, Chairman of the Senate Finance Committee Lloyd Bentsen proposed a Securities Transactions Excise Tax (STET) of 0.5% on all financial transactions except Treasury securities. But the proposal was opposed and was not included in the final budget resolution.

3. In 1989, Joseph Stiglitz, now chairman of the Council of Economic Advisers (CEA), proposed a securities transaction tax in an article, "Using Tax Policy to Curb Speculative Short-Term Trading," in the *Journal of Financial Services Research,* 3, (1989), pp. 101-16.

4. In 1989 and 1990, Lawrence Summers, who is now deputy secretary of the Treasury, along with his wife Victoria P. Summers, issued two articles proposing a transaction tax: "When Financial Markets Work Too Well: A Cautious Case for a Securities Transaction Tax," which was a Harvard University Mimeo, 1989; and "The Case for a Securities Transactions Excise Tax," which appeared in the *Journal of Financial Services Research,* 3, (December 1989), pp. 261-86.

5. James Tobin, Nobel Prize winner in Economics and professor of economics at Yale University, proposed a 0.5% tax on foreign exchange transactions, in an article entitled "Tax the Speculators" in the Dec. 22, 1992 *Financial Times.* Tobin wrote:

"Since the breakdown of the Bretton Woods agreement in 1973, exchange rates among leading national currencies have fluctuated, often violently. Much of their volatility reflects short-term speculation, distorting signals the markets give for trade and long-range investment. Most experts agree that the ups and downs have greatly exceeded variations in rational estimates of currencies' fundamental values. . . .

"Here I shall argue for a different proposal, which I first advanced in 1978. An international uniform tax should be levied on spot transactions in foreign exchange (including deliveries on futures contracts and options). . . .

"A one-half-percent tax on currency transaction is equivalent to a four percentage point difference in annual interest rates on three-month bills, a considerable deterrent to those contemplating a quick round trip to another currency."

6. On March 9, 1993, Lyndon LaRouche proposed that the United States adopt a 0.1% tax on the face value, or in the case of derivatives, the notional principal amount, of all financial transactions, including stocks, bonds, foreign exchange, options, futures, and all forms of derivatives. LaRouche said this tax should "lance the speculative bubble," and calculations showed it could raise more than $100 billion per year in federal tax revenue.

7. On March 28, 1994, Rep. Henry Gonzalez (D-Tex.), then chairman of the House Banking Committee, on the floor of the House, called the derivatives market "an electronic Ponzi scheme." He stated, "I think you stop [the speculation] overnight if you just imposed a one-tenth of 1% tax on those transactions. You'd see an immediate deflation."

8. In a Feb. 28, 1996 report, "Scrambling to Pay the Bills: Building Allies for America's Working Families," by Sen. Jeff Bingaman (D-N.M.) to Senate Minority Leader Tom Daschle (D-S.D.), a proposal to tax speculation was floated. The tax "would impose a small and diminishing securities transfer excise tax (STET) on broad-based security sales, made less than two years after purchase."

Pennsylvania Representative James's bill, H. 2833, proposing a 0.2% transaction tax, would save human lives, while rebuilding the economy. It would raise desperately needed revenues, while beginning to deflate the dangerous speculative bubble. Reviving a 300-year-old tradition, were Representative James's bill to be passed in Pennsylvania, it would create leverage to pass this tax on a federal basis. Every citizen's interest, whether in the United States or internationally, would benefit from its passage.

Is a transaction tax enforceable?

The constitutionality of such a tax was upheld in the courts (see New York State). Nevertheless, individuals or corporations may seek to evade the tax, by engaging in transactions in other states, or through brokers located in other states.

Among the legal precedents dealing with this issue are two Supreme Court decisions: a 1974 case, *National Bellas Hess, Inc. v. Department of Revenue of the State of Illinois;* and a 1992 case, *Quill Corp. v. North Dakota.* These cases have been interpreted to allow imposition of a sales tax by a state, on its residents engaging in transactions through a broker in another state, as long as that broker also has an outlet in the original state.

For example, a Pennsylvania resident who deals with a Merrill Lynch broker in New York, is still subject to a Pennsylvania transactions tax, since Merrill Lynch has offices in Pennsylvania, thus constituting a "physical nexus" of the company in Pennsylvania.

—Richard Freeman