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*

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