Editorial

Once Again, the Transaction Tax

On May 15, Lyndon LaRouche reissued his call, first made in 1993, for a transaction tax on all derivatives trades. At that time, a full year before the world financial system began to blow out as a result of huge derivatives losses, the world famous economist proposed a mere 0.1% tax on the notional, or face, value of every derivatives trade.

Even at that time, the purpose was twofold. On the one hand, such a "sales tax" on this huge and growing speculative market would bring in a substantial chunk of revenue, at least at the beginning. On the other, even such a small tax would prove to be a substantial disincentive to such trades, contributing to the worthy cause of shutting down what was clearly a parasitical drain on the world economy.

In 1993, *EIR* estimated the total volume of derivatives trades to be $80-100 trillion annually. It had to be an estimate, because the lion's share of these trades is not reported. Even the figures available from investment houses indicated that derivatives trading dwarfed the balance sheet assets of the big U.S. banks. And the rate of growth was stupendous. A chart of the size of the derivatives holdings of J.P. Morgan Chase, in the year 2000, based on both company and Comptroller of the Currency figures, showed the derivatives holdings to be $24 trillion, as compared to $660 billion in assets, and a mere $36 billion in equity.

Over the past years, the growth of derivatives, in kind and number, has continued astronomically. The latest estimate put total Over the Counter (OTC) derivatives volume at $248 trillion a year. This puts the total derivatives volume in the range of quadrillions.

So, is this the next source of wealth for our economy, to be garnered by simply putting a small tax on each transaction? No. Such a tax will not provide the funds to bail out a hopelessly bankrupt global financial system. Rather, it will force those institutions carrying out the trades to make disclosures of their derivatives transactions, and bring a new transparency into the world financial system. Such transparency is a major step toward *re-regulation* of the system, a *sine qua non* for returning our world financial system to sanity. And once such transparency is achieved, it will demonstrate primarily that a whole lot of theft has been going on. The so-called profits which have been claimed from these speculative accounts, are going to rapidly disappear.

So, don't look at this transaction tax as a revenue source. Look at it as a means of imposing re-regulation, and of drying out the system. The bubble of unpayable debt is going to burst anyway. We might as well achieve that end through measures that will start the process of re-regulating the financial markets.

What next? That is the question being addressed by LaRouche in his proposals for bankruptcy reorganization, and the issuance of trillions of dollars of Federal government credit directed at those major infrastructure projects which are necessary to bring our economy back above breakeven in a true economic sense.

Drying out the speculative markets is only the first step toward actually putting our financial system back in order. What must be established again is a direct correspondence between the issuance of money, and the production of real wealth. Money must again become the servant of the physical economy, with the sovereign power of the Federal government being used to underwrite real economic growth, not the right to steal.

This idea will be very hard for many to understand. From at least 1971 on, the idea that the economy is based on money, not production, has taken over our culture. A whole generation has been raised on the idea that money is wealth, even as their physical standard of living went through the floor. They are going to have to face the fact that a lot of the money that has been created is totally worthless, and can be wiped out with absolutely no harmful consequences.

LaRouche has been proposing such a shift for more than 30 years, but most people didn't think they had to listen. Now that the blowout is finally catching their attention, leading policy circles are finally beginning to understand that they had better pay attention to what LaRouche has been saying. Sanity begins with differentiating between speculation, and investment in physical wealth. So, let's start with the transaction tax, and move on from there.