Tobin Tax: Making Wall Street Pay Its Fair Share

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Global Research, November 11, 2009
Web of Debt 10 November 2009

Region: USA
Theme: Global Economy

> "Regular people know that they got done in by excesses on Wall Street, and they see a Democratic administration shoveling trillions of dollars to the same Wall Street banks that caused the mess. . . . What is overdue is a little bit of populist retribution against the people who brought down the system — and will bring it down again if the hegemony of the traders is not constrained."
> –Economist Robert Kuttner arguing for a "Tobin tax"

In the midst of the worst recession since the Great Depression, Goldman Sachs is having a banner year. According to an October 16 article by Colin Barr on CNNMoney.com:

> "While Goldman churned out $3 billion in profits in the third quarter, the economy shed 768,000 jobs, and home foreclosures set a new record. More than a million Americans have filed for bankruptcy this year, according to the American Bankruptcy Institute. A September survey of state finances by the Center on Budget and Policy Priorities think tank found that state governments faced a collective $168 billion budget shortfall for fiscal 2010. Goldman, by contrast, is sitting on $167 billion in cash . . . ."

Barr writes that Goldman's "eye-popping profit" resulted "as revenue from trading rose fourfold from a year ago." Really. Revenue from trading? Didn't we bail out Goldman and the other Wall Street banks so they could make loans, take deposits, and keep our money safe?

That is what banks used to do, but today the big Wall Street money comes from short-term speculation in currency transactions, commodities, stocks, and derivatives for the banks' own accounts. And here's the beauty of it: the Wall Street speculators have managed to trade in practically the only products left on the planet that are not subject to a sales tax. While parents in California are now paying 9% sales tax on their children's school bags and shoes, Goldman is paying zero tax to sustain its gambling habit.

That helps explain Goldman's equally eye-popping tax bracket. What would you guess – 50%? 30%? Not even close. In 2008, Goldman Sachs paid a paltry 1% in taxes – less than clerks at WalMart.

Speeding Tickets to Slow Day Traders?

The fact that Wall Street's speculative trades remain untaxed suggests a tidy way taxpayers could recover some of their billions in bailout money. The idea of taxing speculative trades was first proposed by Nobel Prize winning economist James Tobin in the 1970s. But he acknowledged that the tax was unlikely to be implemented, because of the massive accounting problems involved. Today, however, modern technology has caught up to the challenge, and proposals for a "Tobin tax" are gaining traction. The proposals are very modest, ranging from .005% to 1% per trade, far less than you would pay in sales tax on a pair of shoes. For ordinary investors, who buy and sell stock only occasionally, the tax would hardly be felt. But high-speed speculative trades could be slowed up considerably. Wall Street traders compete to design trading programs that can move many shares in microseconds, allowing them to beat ordinary investors to the "buy" button and to manipulate markets for private gain.

Goldman Sachs admitted to this sort of market manipulation in a notorious incident last summer, in which the bank sued an ex-Goldman computer programmer for stealing its proprietary trading software. Assistant U.S. Attorney Joseph Facciponti was quoted by Bloomberg as saying of the case:

> "The bank has raised the possibility that there is a danger that somebody who knew how to use this program could use it to manipulate markets in unfair ways."

The obvious implication was that Goldman has a program that allows it to manipulate markets in unfair ways. Bloomberg went on:

> "The proprietary code lets the firm do 'sophisticated, high-speed and high-volume trades on various stock and commodities markets,' prosecutors said in court papers. The trades generate 'many millions of dollars' each year."

Those many millions of dollars are coming out of the pockets of ordinary investors, who are being beaten to the punch by sophisticated computer programs. As one blogger mused:

> "Why do we have a financial system? I mean, much of its activity looks an awful lot like gambling, and gambling is not exactly a constructive endeavor. In fact, many people would call gambling destructive, which is why it is generally illegal. . . .
>
> "What makes Goldman Sachs et. al. so evil is that they offer vast wealth to our society's best and brightest in exchange for spending their lives being non-productive. I want our geniuses to be proving theorems and curing cancer and developing fusion reactors, not designing algorithms to flip billions of shares in microseconds."

Gambling is an addiction, and the addicted need help. A tax on these microsecond trades could sober up Wall Street addicts and return them to productive labor, and transform Wall Street from an out-of-control casino back into a place where investors pledge their capital for the development of useful products.

The Tobin Tax Gains Momentum

Various proposals for a Tobin tax have received renewed media attention in recent months. President Obama gave indirect support for the tax in a Press briefing on July 22, when he recommended that the government consider new fees on financial companies pursuing "far out transactions". UK Prime Minister Gordon Brown, who has resisted pushes for a Tobin tax in the past, said at the G20 meeting in Scotland on November 7 that a tax on financial trading could prevent excessive risk-taking and fund future bank rescues. It “cannot be acceptable,” he said, that banks enjoy the rewards of their successful trades yet leave taxpayers to pick up the cost of their failures. Governments spent more than $500 billion in the past year bailing out banks. U.S. Treasury Secretary Tim Geithner opposed the tax, but the fact that it was being seriously considered was a major development. The French finance minister said, “It’s not so exotic and it even seems reasonable.”

In the U.S., a bill called “Let Wall Street Pay for Wall Street’s Bailout Act of 2009”, proposing to tax short-term speculation in certain securities, was introduced by Rep. Peter DeFazio (D-OR) last February; and a different bill to regulate derivative trades was approved by the Financial Services Committee in October. Derivatives are essentially bets on whether the value of currencies, commodities, stocks, government bonds or virtually any other product will go up or down. Derivative bets can cause shifts in overall market size reaching $40 trillion in a single day. Just how destabilizing short-term speculation can be — and just how lucrative a tax on it could be — is evident from the mind-boggling size of the market. The Bank for International Settlements estimates that in 2008, annual trading in over-the-counter derivatives amounted to $743 trillion globally – more than ten times the gross domestic product of all the nations of the world combined. Another arresting fact is that just five super-rich commercial banks control 97% of the U.S. derivatives market: JPMorgan Chase & Co., Goldman Sachs Group Inc., Bank of America Corp., Citigroup Inc. and Wells Fargo & Co.

Promoters of international development have suggested that a mere .005% tax could raise between $30 billion and $60 billion per year, enough for the G7 countries to double international aid. Other proponents favor the larger 1% tax originally proposed by James Tobin. The much-needed income from a U.S. tax could be split between federal and state governments.

Pros and Cons

Opponents of the tax, led by the financial sector, argue that it would kill bank jobs, reduce liquidity, and drive business offshore. Supporters respond that Tobin tax profits could be used to create new jobs, and that while the speculative market would shrink, the small size of the tax would hardly affect overall cash flows. More than raising money, the tax could be an effective tool for discouraging short-term traders, who often make money on very small margins. Dani Rodrik, Professor of Political Science at Harvard, writes:

“The beauty of a Tobin tax is that it would discourage short-term speculation without having much adverse effect on long-term international investment decisions. Consider, for example, a tax of 0.25% applied to all cross-border financial transactions. Such a tax would instantaneously kill the intra-day trading that takes place in pursuit of profit margins much smaller than this, as well as the longer-term trades designed to exploit minute differentials across markets. . . . Meanwhile, investors with longer time horizons going after significant returns would not be much deterred by the tax.”

Besides technical questions about how to implement the tax internationally, the offshore argument probably presents the most serious challenge. Should a Tobin tax pass in the U.S., investors would be likely to move to other markets beyond the reach of taxation. The U.S. could penalize traders for doing business abroad, but governments in major markets like Germany and London would no doubt need to endorse the tax for any meaningful shift to be seen. Some experts have argued that the Tobin tax would be best implemented by an international institution such as the United Nations. But other observers see any international tax as a move toward further strengthening the power of the global financial oligarchs. Just the fact that the United Nations, the G20, and the Bank for International Settlements are discussing this option, however, suggests that we the people need to jump in and stake out our claim, before we lose the tax money to international bodies controlled by global bankers. The tax needs to be collected by the U.S. Treasury and go into U.S. coffers. It needs to reach Main Street, where it can be used to stimulate local business and investment.

Officials from the International Monetary Fund insist that implementing a Tobin tax would be logistically impossible. But Joseph Stiglitz, a Nobel Prize winning economist and former World Bank leader, disagrees. In Istanbul in early October, he said that a Tobin tax was not only necessary but, thanks to modern technology, would be easier to implement than ever before. "The financial sector polluted the global economy with toxic assets," he said, "and now they ought to clean it out."

Economist Hazel Henderson proposes a computerized system for imposing a graduated tax that is designed to kill "bear raids" (organized attacks by short sellers). Bear raids on vulnerable currencies have been known to collapse whole economies. She writes:

> "Such a currency exchange tax would be simple to collect using a computerized system, which can be installed on trading screens, such as the Foreign Exchange Transaction Reporting System (FXTRS). This system operates like an electronic version of Wall Street's venerable 'uptick rule' . . . to curb naked short-selling. The FXTRS computerized uptick rule would gradually raise the tax up to a maximum of 1% whenever a bear raid starts attacking a weak currency. Such bear raids are rarely to 'discipline' a country's policies, as traders claim, but rather to make quick profits."

Henderson notes that world economies have become so interlinked that such win-lose strategies are no longer sustainable:

> "In systems terms, the global economy, by virtue of its real-time technological inter-linkages, has become a de facto global commons, a common resource of all its users. Such commons require win-win agreements, rules and standards applicable to all users. If normal competitive behavior (win-lose) continues, the result is lose-lose as competition between players leads to sub-optimization and the system itself absorbs risks and eventually can break down, as witnessed in the current crisis."

The financial rescue operations to date have been win-lose, with Main Street being sacrificed at the altar of Wall Street. Some 48 states have faced budget crises in the past year, forcing them to cut libraries, schools, and police forces, and to raise taxes on income and sales. A sales tax on the exotic financial products responsible for precipitating the economic crisis could help level the playing field and put some points on the populist side of the scoreboard.

***Ellen Brown**, J.D., developed her research skills as an attorney practicing civil litigation in Los Angeles. In [Web of Debt](), her latest book, she turns those skills to an analysis of the Federal Reserve and "the money trust." She shows how this private cartel has usurped the* *power to create money from the people themselves, and how we the people can get it back. Brown's eleven books include the bestselling **Nature's Pharmacy**, co-authored with Dr. Lynne Walker, which has sold 285,000 copies.*

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