November 3, 2011

WASHINGTON, D.C. – Senator Tom Harkin (D-IA) and Congressman Peter DeFazio (D-OR) today introduced legislation to place a tax on certain trading activities undertaken by banking and financial firms. The measure does not harm long-term investing like retirement funds, but instead targets financial trading and complex transactions undertaken by financial and investment firms.

Joining Harkin and DeFazio in cosponsoring the legislation were Senators Bernie Sanders (I-VT) and Sherrod Brown (D-OH) along with Congressmen Bruce Braley, Hank Johnson, John Sarbanes, Bob Filner, Betty Sutton, Earl Blumenauer, Louise Slaughter, Mazie Hirono, Peter Welch, John Conyers, and Maurice Hinchey.

"True deficit reduction in this country must come from a balance of spending cuts and necessary revenue increases," said Senator Harkin. "This trading tax would help raise necessary funds to invest in our infrastructure and the education of our children, among other priorities, and would do so without hurting job creation. There is no question that Wall Street can easily bear this modest tax."

"The first step on the long path to recovery happens when we rein in the excessive speculative activity that has destabilized our financial system," said Representative DeFazio. "This legislation will curb unnecessary speculation and generate needed revenue to help our cash-strapped federal government pay down debt and invest in the real economy to benefit all Americans."

The measure will place a small tax of three basis points (3 pennies on $100 in value) on most non-consumer financial trading including stocks, bonds and other debts, except for their initial issuance. For example, if a company receives a loan from a financial company, that transaction would not be taxed. But, if the financial institution traded the debt, the trade would be subject to the tax. The tax would also cover all derivative contracts, options, puts, forward contracts, swaps and other complex instruments at their actual cost. The measure excludes debt that has an original term of less than 100 days.

By setting the tax rate very low, the measure is not likely to impact the decision to engage in productive economic activity. It would, however, reduce certain speculative activities like high-speed computer arbitrage trading. A transaction tax could help to shift Wall Street away from short-term trading. Given the very high volume of financial trading, it will raise considerable funds, badly needed for government services and for reducing deficits.

The proposed tax would take effect on January 1, 2013.

The European Union is considering a similar proposal, but with a tax rate that is more than three times higher. Today, 30 foreign nations have in place a similar tax, including Great Britain and Switzerland.

Various experts are available to comment on this proposal, including Dean Baker, Co-Director of the Center for Economic and Policy Research, John Fullerton, former Managing Director of JPMorgan, Capital Institute and Lisa Donner, Executive Director, Americans for Financial Reform.

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