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BLOGS

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It's Time to Tax the Wall Street Casino

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As if Wall Street needed more bad publicity, last week's "fat finger" roller-coaster ride further accentuated the degree to which Wall Street has gotten detached from the real world. Thanks (it appears) to a trading error by a Citibank trader who thought he was selling millions not billions of shares in Procter & Gamble, the market jolted downward and triggered hundreds of automated program traders to send, among other things, P&G stock down 37% before recovering. Nothing happened in the real world to justify such a swing in P&G, or the major swings in other stocks.

A savvy commentator had this to say about the fun and games on Wall Street:

"Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes the by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of laissez-faire capitalism — which is not surprising, if I am right in thinking that the best brains of Wall Street have been in fact directed towards a different object."

Savvy indeed but the commentator wasn't talking about last week. That is John Maynard Keynes from his 1936 classic General Theory of Employment, Interest and Money talking not about Wall Street circa 2010 but Wall Street circa 1929. But the same dynamic holds: capital development in America has become the by-product of the activities of a giant, all-consuming casino — to which the best brains of Wall Street have been obsessively directed.

The casino metaphor is a good one. Casinos are not at all good for society and exist solely to aggrandize their owners by taking money from delusional people who think they can beat the house with some consistency. Keynes in fact follows up on that point noting that: "It is usually agreed that casinos should, in the public interest, be inaccessible and expensive."

Not so in America: over the last century, the Wall Street casino has migrated from being reasonably inaccessible to the bulk of Americans to becoming a pervasive part of their lives — with its hand extending deeply into their back pockets by way of their 401K or securitized mortgage.

Keynes not only honed in laser-like on the problem, he had a solution: "a substantial government transfer tax on all transactions...to mitigate the predominance of speculation over enterprise in the US." I couldn't agree more with Keynes. Useless speculation is dominating productive enterprise in our capital markets and providing the greatest rewards by far to the most aggressive and cold-blooded speculators.

My only quibble with Keynes is that I wouldn't make the tax on all transactions but rather enact a steep tax — 80% — on trading gains generated from a holding period of less than one year. While it wouldn't solve all of the problems of the American capital markets, it would dramatically reduce the attractiveness of trading versus building — and that would be a great way to start.