LaRouche Proposes Tax on Derivatives

by Lyndon H. LaRouche, Jr.

March 9, 1993

*[Published in **Executive Intelligence Review**, Volume 20, Number 12, March 19, 2993. View [PDF of original]() at the LaRouche Library.]*

From the Editor: *The "derivatives" market has been the subject of much attention lately, now that European circles are openly denouncing Anglo-American financial warfare against their currencies, such as that which triggered the September 1992 crisis in the European Rate Mechanism (ERM). Derivatives are an enormous, poorly understood, and alarming new element in the international financial markets. They are financial instruments in which actual stocks or bonds are not exchanged, but only agreements by two parties to make payments on a future date at a price related to the performance of a commodity or currency. There are three basic types of derivatives: futures contracts, swaps, and options.*

Economist Lyndon LaRouche on March 9 made the following proposal to deal with the situation.

It is my proposal that some form of nominal but otherwise significant universal tax be placed on individual derivative transactions not only in the United States, but abroad. The included purpose of this taxation is not merely to derive a new source of much needed tax revenue from a source whose taxation will be harmless to the real, that is, physical, economy, but also to bring into the light of day, under penalties of law for non-payment of this tax, the magnitude and structure of the derivative bubble as a whole.

My additional comment qualifying this proposal is that it is clear that the derivative bubble by the very nature of these transactions is a financial bubble in the tradition of the more primitive, more rudimentary, and far less dangerous bubbles of the 18th century such as the John Law bubble in France and the South Sea Island bubble in England in the same period of time. This is the John Law bubble gone mad. The vulnerability to the entire financial system, the chaos and destruction of actual physical processes of production, distribution, employment, and so forth is incalculable potential, and therefore this thing must be brought under control promptly, otherwise all fine plans of stabilization of financial markets and economies go out the window as empty pipe dreams.

We must bring this under control and the best way to do it, I believe, is to impose a universal tax on each individual transaction as a percent of the nominal value of the matters which are traded in these credit, interest, and so forth swaps, and other similar derivatives. That is the only way that we'll bring the magnitude and structure of this into the light of day and force some rationality into the situation, and thus prepare ourselves to be able to take competent moves in order to bring the market as whole under control.

The downside that would be argued from certain sources, apart from the wild free market monetarist manics, will be that the number of transactions related to any single initiating trade, can be enormous, can be over 100 individual transactions. Fine! Tax them all! That's a big amount of paper, they will say. Fine! Tax them all! The burden of doing the paperwork will itself prevent you characters from ballooning this market in that way. If it costs you too much in administrative work and effort to account for 100 transactions on one, linked to one, then that will deter you from building up 50–100 other significant transactions per initial transaction, and that itself will be a good deterrent against the growth of the speculative bubble.

In summary, unless we bring this derivatives market under control and begin to shut it down, at least to a significant degree, promptly, we're going to have the biggest financial blowout in history, bigger than the John Law-type bubbles of the early 18th century, and we'd better find out what we're doing fast. We'd better bring it under control fast, and if we need to tax something, let's tax this—say one-tenth of 1% of the nominal value or 10% of the actual amounts, something like that. One of those two. But I think that a tax based on the nominal value would perhaps be a better tax because of the differentials between those nations or banking systems which allow minting out and those which do not.