

## Use Stock Transfer Tax Rebate to Rebuild New York

Commentary, by .Joe Mysak for Bloomberg News.

New York, January 16 (Bloomberg) -- How is New York City going to be rebuilt? Turn to the stock market, says one of the city's historians.

If New York State rebated only 90 percent of its stock transfer tax, the 10 percent it keeps could develop a revenue stream to back a \$10 billion municipal bond issue, which could be used to pay for all kinds of good things, such as schools and housing—and a new New York Stock Exchange.

This proposal is in "A New Deal for New York," by Mike Wallace, a history professor at John Jay College of Criminal Justice.

"A New Deal for New York," at 115 pages, is less than one-tenth the size of Wallace's previous book, the very popular "Gotham: A History of New York City to 1898," which he co-wrote with Edwin Burrows. The book won the Pulitzer Prize for history in 1999.

"It seems sort of obvious," Wallace says of bringing back the stock transfer tax. "I wonder why it hasn't happened already."

New York State collected, and rebated, \$7.6 billion from the tax in the 2000-2001 fiscal year, according to Wallace. In 2002-2003, the state is expected to collect more than \$8 billion.

### *Wartime Basis*

The stock transfer tax was levied by the federal government to help pay for the Civil War, the Spanish-American War and World War I. New York adopted one of its own in 1905, "despite threats from the New York Stock Exchange (yes, even then) that if passed it would instantly decamp for New Jersey," Wallace writes.

The stock transfer tax has an interesting history. In 1965, when New York State introduced a sales tax, it limited the amount of local sales taxes to 2 percent. Because New York City's sales tax was already 3 percent, it got to keep the stock transfer tax as a consolation prize.

In 1979, the state began the current rebate program. In 1980, the New York Times said the phase-out of the tax was "an attempt to ease the tax burden on businesses that had threatened to leave the city."

As a consolation prize, the state gave New York City what it called "stock transfer tax incentive aid." It regularly amounted to more than \$100 million. The state eliminated the aid entirely in 2001.

"Why not reinstitute even a small portion of that tax, on a short-term . basis, with the goal of

making New York a more competitive place to do business and a more enjoyable place to live life?" Wallace asks in his book.

"Rebating 90 percent rather than 100 percent would still leave an \$800 million revenue stream, sufficient to back the sale (by a newly created New York City Investment Trust Fund) of \$10 billion worth of municipal bonds (at 5 percent)," Wallace writes. \$10 billion would pay for an awful lot of rebuilding.

Wallace says that not everyone will be happy about his proposal to keep part of the stock transfer tax. "It's possible the NYSE would once again threaten to skip town, arguing such a tax would cause it irreparable damage," he writes.

### *London Example*

"If so," he continues, "we might remind it that in 1999, when several European exchanges joined forces and abolished transfer taxes in an effort to capture business from NYSE and the London Stock Exchange, an excitable group of the latter's members insisted that England immediately eliminate its hefty tax, lest the fiscal roof fall in. The British government refused, being made of sterner stuff than the one in Albany.

The London Exchange, Wallace concludes, "continues to flourish mightily."

I couldn't remember the last time I read a sentence with the term "municipal bonds" in a book sold anywhere but the business section of a bookstore, let alone one that advocates the creation of a new bond-issuing authority.

I asked Wallace if he had gotten any reaction to his proposal from bankers. Putting together a new bond authority and underwriting a \$10 billion issue would mean a payday of at least \$50 million. He said he hadn't.

Maybe that's because the bankers who put together municipal bond issues haven't read "A New Deal for New York." Or maybe it's because they picked it up but didn't make it to page 56, where Wallace outlines his proposal. Maybe they didn't hear about his proposal, or his book, at all.

Maybe now they have.