HOLD FOR RELEASE

Remarks by William McC. Martin, Jr., President New York Stock Exchange, at budget hearing in Albany, N.Y. (Mr. Martin's statement will be presented at the hearing on either Monday night, February 12, or Tuesday, February 13.)

When the New York Stock Exchange, at a joint meeting of committees of the Assembly and Senate, on February 24 of last year, presented a statement asking for a reduction in stock transfer taxes, the point was emphasized that neither the Exchange nor its members object to bearing their full share of the tax burden of our State. That statement is now reiterated.

The taxes, to which we renew our objection, are borne by the owners of the securities of American enterprise that are traded in New York State. These taxes place the securities exchanges of New York State at a great disadvantage in comparison with exchanges in other states, which either do not impose any tax at all upon stock transfers, or which collect taxes that are moderate in comparison with those applied by the State of New York.

It has been demonstrated repeatedly that a growing portion of our business is being lost to other states. In other words, our competitive position is so unfavorable that, not only is our securities business being diverted to other states, but that the State of New York is being deprived of revenue which it otherwise should receive were the stock transfer tax modified realistically.

That an important section of the business of the State is suffering seriously as a result of an unfair tax situation is evident. The damage to our general business economy cannot be calculated definitely, but organizations which have studied the problem expertly are convinced that the loss is very substantial.

This damage is reflected in reduced employment, in the loss of building rentals and in the many other consequences of diminished activity. The financial district of New York City has been called "New York's greatest industry." Whether measured in terms of the actual volume of financial business done, or in terms of the general effect of the existence of the nation's financial capital in New York City, this statement has not been challenged.

The concentration in New York City of business in securities having a national distribution is, in a large measure, responsible for the fact that New York is the financial center of the country. A huge portion of the tax revenue of the City, State and Federal Government is derived from this financial activity. This concentration of the securities business in New York is now seriously threatened by the competition of organized exchanges in other states.

For some time a number of out-of-state exchanges have been conducting active campaigns to induce purchasers and sellers of securities to have their stock transactions executed locally rather than in New York. The inducement for these "trade at home" campaigns was furnished by the fact that in New York State the stock transfer tax is heavier than in any other state in which an organized Stock Exchange operates.

The fact that perhaps 75 per cent or more of the public's orders executed on the floor of the New York Stock Exchange originate in other states renders the exchange peculiarly vulnerable to competitive tax appeals based on slogans such as "keep business at home" and "taxes at home are lower." These appeals have been made by the local exchanges to citizens of their states.

Out-of-New York exchanges have in their campaigns to attract business from New York, continually stressed the large tax differential which exists in their favor. They have emphasized its importance to the public in aggressive publicity, in some instances with the active cooperation of state governmental agencies. For example, the tax authorities of Massachusetts enclosed with the 1937, 1938 and 1939 income tax blanks sent to the public, a leaflet entitled "Stock Transfer Taxes are Low in Massachusetts."

These well-planned and persistent campaigns of out-of-New York exchanges to draw business from New York, largely because of the effectiveness of the "savings in state taxes" argument, have met with a considerable amount of success.

It is probable that if the diversion of business which began a few years ago, continues as anticipated, the present position of the New York Stock Exchange, which is already threatened, will in time be still further reduced.

It is appropriate to point out again that active competing stock exchanges now exist in at least six of the large states, other than New York. At the present time, approximately 88% of the shares listed on the New York Stock Exchange may also be traded on one or more of these out-of-State exchanges. In Ohio, Illinois, Michigan and California, no taxes are levied upon stock sales or transfers. In Massachusetts and Pennsylvania, state taxes on stock transfers are uniformly lower than in New York.

For example, if you sell 100 shares of General Motors stock in New York State, New York collects a tax of $4.00, while in Pennsylvania and Massachusetts the state tax would amount to only 20 cents and in Illinois, Michigan and California no charge would be made. Such a differential, as was pointed out to your Committee last year, cannot operate otherwise than to accentuate the growing pressure of competition from these other states.

Upon our appearance here last year, in showing the extent to which business is moving to other exchanges, we used as an illustration the fact that, during 1937, those dealing in lots of less than 100 shares on out-of-state exchanges handled these transactions on such exchanges in a volume of 11.6% of the comparable business executed on the New York Stock Exchange. We pointed out that the ratio rose, in 1938, to 16%. We should now like to point out that, in 1939, it rose to 23%. Thus, in 1938, as compared with 1937, there was an increase in the diversion of business of this type to exchanges of other states amounting to 38%, and, in 1939, the increase over 1937 in such diversion had risen to 98%.

While the loss of revenue from any source is, under present conditions, a matter of immediate concern to the State, any net loss of revenue from a revision of the stock transfer tax is likely to prove less important than the permanent, and possibly irrevocable, damage which the State and City of New York must suffer, in terms of loss of productive business, of employment and of spending power, if the present adverse trend in the financial business of the State is permitted to continue.

The New York Stock Exchange is a national institution. Its members provide facilities for the conduct of a broad national and international business. As long as the New York Stock Exchange retains its preeminence as the nation's primary securities market, it is an economic asset to the State of great value. Not only is it possible for the State, through the presence within its borders of the New York Stock Exchange, to collect transfer taxes amounting to many millions of dollars annually from people outside of the State, but the fact that the primary securities market of the United States is located in New York has long been an important factor in enabling the State to collect large amounts of income, inheritance, property and miscellaneous taxes which it would not otherwise obtain.

The presence of the nation's principal securities market in New York City would normally attract not only a large securities business, but many other kinds of business as well. It goes without saying that the prosperity of our business is of great importance to the people of our State, quite aside from the taxes we pay.

Governor Lehman has clearly recognized the present tendency of other states to frame their tax policies so as to create advantages for their markets in competition with ours, when he said that "we cannot plan our state taxation with complete disregard for the taxation policies of other states." The attention of our Legislature is again drawn to the consequences of the failure to observe this principle.

You are well aware of the fact that the maintenance of high tax rates does not insure increased revenue. An actual loss of revenue often results when our tax system is so designed as to discourage business. This is an elementary tax principle. For example, although tax rates on stock transfers have more than doubled in New York since 1932, the State's revenue from this source was lower last year by $4,670,000 than in the acute depression year of 1932.

We do not contend that the present stock transfer tax, which places us at a competitive disadvantage with other states, is the sole reason for the decline in business on our Exchange and the consequent loss of revenue to the state. We do contend, however, that this tax situation is serious enough to warrant immediate correction. We urge this upon you in a sincere effort to improve business and employment in our State.