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A General Financial Transaction Tax: Financing Development and Enhancing Financial Stability

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1. The concept of a general financial transaction tax

The past 30 years have witnessed a somewhat contradictar

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The present paper summarizes the results of this study (*Schulmeister – Schratzenstaller – Picek, 2008*).

Conceptually, a general FIT seems "prima facie

4. The revenue potential of a general financial transaction tax

The study estimates the potential revenues of a general FTT for three tax rates, namely, 0.1%, 0.05%, and 0.01%. The calculation assumes that the tax base is the notional value of the respective transaction. This design implies that th

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Due to network externalities, financial asset transactions are highly concentrated in certain markets. The same would be true for the potential revenues of an FTT. E.g., if an FTT would be implemented in "stage 1" on all transactions on exchanges in the EU27, almost all revenues would stem from transactions on the London and Frankfurt market places. However, the tax will effectively be paid by all actors who make use of the exchanges in London and Frankfurt. If one assumes that trading activities are roughly proportionate to the overall economic performance (i.e., nominal GDP) then an FTT might well be in line with the principle of a fair sharing of the tax burden.

Of course, for providing such efficient market places as London and Frankfurt, the UK and Germany should get some fixed share of tax revenues. However, the other (main) part of the revenues could be used to finance supranational projects like development aid.

References

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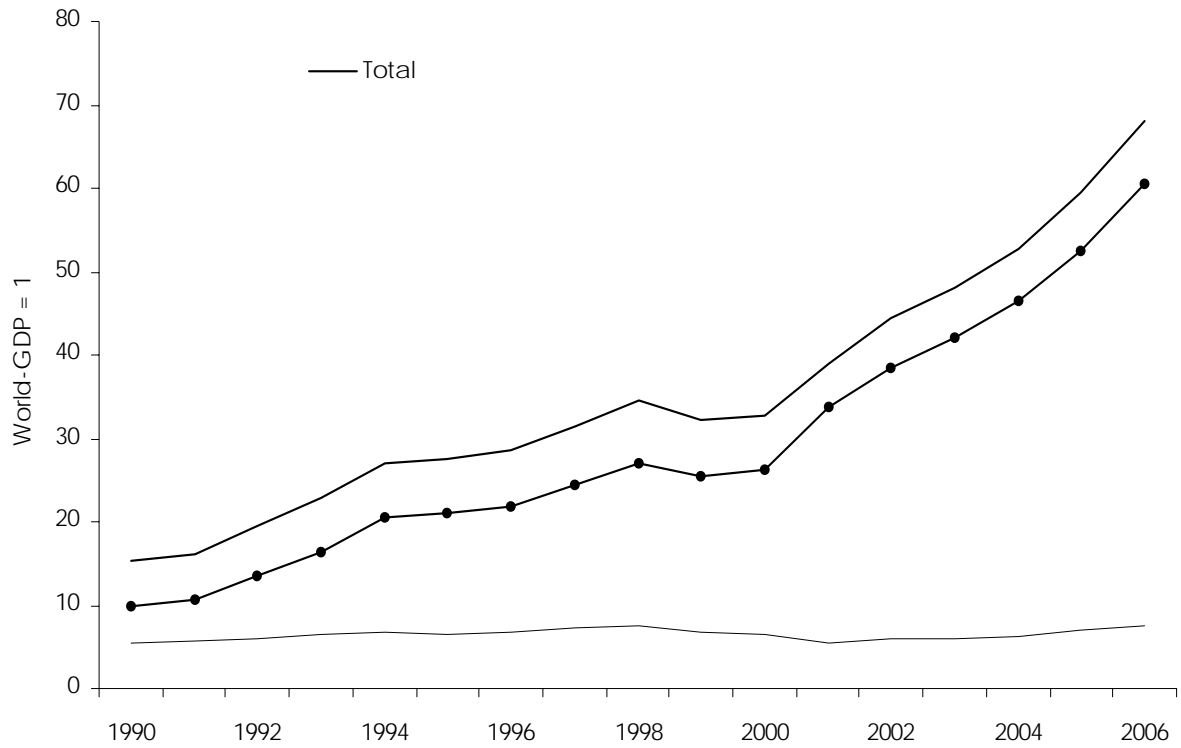
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Annex

Figure 1: Overall financial transactions in the world economy



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Figure 6: Cycle of the dollar/euro exchange rate from 1970 to 2008

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Table 1: Hypothetical transact

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Table 2: Hypothetical transaction tax receipts in the global economy in Bill. \$

		Tax rate															
		0.1	0.05	0.01	0.1	0.05	0.01	0.1	0.05	0.01	0.1	0.05	0.01	0.1	0.05	0.01	
Reduction in transaction volume																	
Spot transactions on exchanges																	
Stocks	Low	66.3	33.9	7.0	20.3	10.4	2.1	33.7	17								