June 11, 2021.

To the G7:

We the undersigned are a diverse, non-partisan group of economists, lawyers, tax experts, public policy analysts, developing country specialists, accountants, advisors on ethics, health specialists, documentary filmmakers, business people, journalists, and anti-poverty, tax justice, and human rights advocates from all G7 countries and several developing democracies.

We have joined together to request that you consider one very specific, practical proposal — a financial transactions tax (FTT), to be adopted initially by G7 members and then proliferated worldwide.

We believe that a global FTT would eventually raise substantial revenue for many countries, including for the G7. But given the emergency situation in poor countries *right now*, our focus here is on them. Given the dominance of G7 financial markets, a G7-wide FTT could quickly start to provide at least $50 billion a year of emergency finance to fund vital public works and longer-term investments in developing countries, especially struggling young democracies.

As summarized below, the case for a G7-wide FTT is strong and the time is now.

1. We applaud the G7's support for a minimum global corporate income tax (CIT) rate for multinational corporations,[1] though its current proposals would do little for poorer countries. Indeed, they would actually reinforce the unfair bias of international tax rules in favor of the

[1] We are concerned that among other things a minimum 15 percent CIT rate is far too low. Not only do many countries, especially developing countries, have much higher CIT rates, but when combined with other recent OECD tax reform initiatives, such a low rate can have perverse effects. See https://www.taxwatchuk.org. Effective international CIT enforcement also requires much tougher "country-by-country reporting," which has so far been absent from the G7's proposed reforms.

richest countries, which host most of these corporations. If this were the *only* collective tax reform that the G7 undertakes right now, therefore, a huge opportunity will be missed — the chance to help developing countries recover from this historic tax injustice as well from as the pandemic, and to help finance public investments and advance the cause of international tax justice.

2. In particular, all the incremental revenue from the G7's proposed CIT rate reform would go to a comparative handful of relatively-affluent "residence" countries where multinationals have their headquarters— including most of the G7. Given that developing democracies are much more dependent on the CIT for tax revenue, this is not helpful.[2]

3. No one can deny that since March 2020, the pandemic has inflicted great hardship on G7 countries, with over 1.1 million deaths, significant economic losses, and untold personal suffering. However, with the help of $trillions in deficit spending, strict public health measures, and abundant vaccines, by now the G7 as a whole is well on its way to economic recovery and to conquering the pandemic.

4. Sadly, this is *not* the case in key *developing democracies* like Argentina, Brazil, Ecuador, India, Kenya, Mexico, Nepal, Nigeria, Peru, or South Africa, which are still fighting fierce daily "street battles" with new COVID19 cases, vaccine shortages, job losses, rising poverty, crime, terrorism, the climate crisis, and financial instability — all at once.

5. Several of these countries were already heavily indebted to begin with, before the pandemic. They now lack the tax bases and debt capacity needed to bootstrap themselves out of the crisis. So for many, recovery is not in sight until 2024-25 at best. Essential long-term investments in health, education, and climate preservation have been pushed off the table, and the UN's SDG 2030 development goals for reducing poverty and inequality are at risk of disappearing over the horizon. Indeed, in

[2] For South Africa, for example, corporate tax revenue has recently accounted for more than 17 percent of total government revenue, while the recent average for the US is only about 8 percent, and for other G7 countries, less than 5 percent.

several countries, nothing less than the future of democratic development is now at stake.

6. Given this situation, we ask you to consider just one specific addition to the G7's tax reform agenda. This is not an economist's pipe dream, but a solution that has been field-tested again and again over many years in more than 40 countries and jurisdictions — from Hong Kong and Kenya to New York State and the City of London. The combined revenues raised (or rebated) by these taxes *already* averages at least $15 to $20 billion a year.[3] Indeed, most G7 countries already have FTTs in various stages of rollout — they just have to be reinvigorated, harmonized and promoted.

7. There are of course many variations on financial transactions taxes, some of which are quite elaborate. But to *seize the opportunity presented by the crisis* and *get started,* we are simply asking the G7 to agree on a *0.1% transactions tax on all stock trades, paid for by investors located anywhere in the world who transact through G7 public exchanges*.[4]

As noted, this approach follows in the footsteps of many other similar taxes that have operated successfully for generations — in the UK since at least 1714; in New York State since 1905; in Hong Kong for decades. Just this February, Hong Kong *raised* its stock transaction tax by 30 percent to .26%, in response to a budget crisis. This move has been a success.[5]

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[3] For example, in 2017, the last year for which accurate records were reported, New York State alone rebated more than $13.8 billion of its stock transfer tax proceeds to Wall Street investors. Since then, the volume of transactions on the two principle NY exchanges has increased dramatically, so we would expect these tax revenues and rebates to have risen.

[4] As noted above, NYS has had a .1% stock transfer tax since 1905. Since 1982, reflecting nothing more sophisticated than Wall Street's increased political muscle, more than $350 billion has been rebated. For more details, see [https://www.taxjustice.net/2021/02/19/submission-to-new-york-state-assembly-the-case-for-financial-transactions-taxes/](https://www.taxjustice.net/2021/02/19/submission-to-new-york-state-assembly-the-case-for-financial-transactions-taxes/).

[5] See this article about Hong Kong's February 2021 stock transactions tax hike, undertaken in response to soaring budget deficits in the wake of the pandemic and mounting political unrest. https://asia.nikkei.com/Business/Markets/Hong-Kong-raises-stock-trading-tax-for-first-time-since-1993. The tax, paid separately by buyers and sellers, previously totaled .2 percent. It has been in place since at least 1993.

8. While the proposed 0.1% tax rate on stock trades might not sound steep, it does not need to be any higher to raise large revenues. Global stock trading has recently been setting records. In 2020, for example, New York's top two exchanges, the NYSE and the NASDQ, registered nearly $60 trillion in trades, nearly half the total volume of the world's 85 stock exchanges. At this pace, even this tiny tax on publicly-traded equities that are transacted on G7 exchanges would easily (and quickly) start to generate at least $50 billion a year for developing countries, over and above Official Development Assistance (ODA).

9. Of course much more revenue could be generated — for rich and poor countries alike — if an FTT were widely adopted by financial exchanges in other countries. And *even more* revenue could be raised if the tax were extended to other traded assets, like bonds, derivatives, currencies, collectibles, crypto-currency, a variety of hedge fund transactions, and real estate.[6]

But these refinements are for the future, given the fact that the immediate needs of developing countries are so dire. Our focus here is appropriately on encouraging the G7 to adopt a version of the FTT that is as simple as possible for everyone to implement ASAP, *right now.*

10. In addition to the global FTT's main attraction — its proven ability to raise an enormous amount of revenue very quickly — it also has several other key advantages.

- First, since most stock trading is conducted by the top 1% of the wealth distribution and "high-frequency trader" (HFT) firms, the FTT amounts to a kind of *progressive sales tax.* If the world is really serious about *finally doing something* to tackle soaring global wealth inequality, instead of just prattling on about it, an FTT is a very good place to start.

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[6] Many tax jurisdictions have long relied on real estate transfer taxes, usually on the order of .1% to 3% of the sales price. In New York's affluent Suffolk County, for example, an RTT has been in place since the early 1980s, at the rate of 1.4 percent for properties over $1 million, with the proceeds devoted to preserving open spaces. Like the 1905 NYS stock transfer tax itself, this tax was sponsored by conservatives.Many US states have similar RTTs.

- Second, despite the huge amount of revenue that a G7-wide FTT would raises, its enforcement costs are relatively low, since most investors (except perhaps the "high freaks") barely feel any pain on any given trade. Thus in 2020, the average trade on the NASDAQ was $8800, so a 0.1% STT would have cost investors a practically painless $8.80 per trade.

- Third, to the extent that the FTT does "pinch' certain high-frequency traders, this may actually be a good thing. It enables G7 countries themselves to tackle "the finance curse," the bloated, unproductive and extractive part of high finance. It promotes longer-term investing and discourages casino-like stock speculation. It also helps to stem the current plague of HFT abuses like "front-running," "naked short selling," massive high-velocity fake bids that lead to no actual transactions, and the kind of anonymous "synthetic equity" financing that recently contributed to the *Archegos* collapse.[7] Indeed, dampening such chicanery, beyond just raising revenue, has long been the favorite reason why leading economists like John Maynard Keynes and James Tobin have supported FTTs.

- Finally, FTTs also dramatically boost financial transparency and help to combat money laundering and corruption — as Kenya recently discovered when its new FTT surfaced a huge amount of "funny money" washing through Nairobi's stock exchange.

11. There is only one unavoidable "problem" with our proposal. If the G7 and the G20 were to succeed at evangelizing a global FTT, and they want to share the revenue equitably, they will then be faced with the "problem" of having to distribute tens of $billions of dollars among numerous deserving countries and causes. There are many potential solutions to this distribution problem, none perfect. For example, an international trust fund might be established to prioritize sound public investments in

[7] See https://www.wsj.com/articles/inside-credit-suisses-5-5-billion-breakdown-archegos-11623072713. This fiasco involved contracts brokered by Wall Street banks that allowed investors to anonymously "own" stocks while skirting beneficial owner declaration requirements. A well-designed FTT would help clean up such chicanery,

developing democracies. But this begs the question of how such a trust fund would be managed.

At this stage, we regard this distribution question as a good problem to have. Indeed, it might even force us to establish more effective global fiscal institutions. But the fact that they don't yet exist is no reason to delay the FTT initiative. The needs of many fragile democracies are so dire right now that the G7 needs to *assume* that this distribution problem is manageable, and just *get on with* the top priority — implementing a global FTT, as a necessary complement to its CIT reforms.

12. In sum, we believe that the G7 now faces an extraordinary opportunity.

- The FTT offers the G7 a chance to promote a progressive tax that would land *precisely* on the *happy few* at the very top of the world's economic ladder who now dominate global stock trading. We suspect that many these people may not even be known to tax authorities. Or, as highlighted in press reports just this week, their clever *enablers* in the legal and accounting professions may have found "legal" dodges that make them *citizens of nowhere for tax purposes* — immune to income, estate, property, wealth, and even sales taxes.[8]

- *The public at large has simply had it with such grotesqueries.* The FTT provides the G7 with a rare opportunity to do something about them with very straightforward enforcement. This nearly-perfect tax could channel $billions from a few hundred thousand wealthy folks at the top to tens of millions of people at the very bottom, whose very lives may depend on it. The FTT is so minimal and frictionless that it is not even noticed by most of those who pay it. It is hardly perceptible at all, especially compared with, say, New York City's 8.875 percent retail sales tax or Europe's double-digit VAT taxes. But in the right hands and

[8] A recent striking example of this is the fact that many top US billionaires have reportedly found it easy to achieve near tax-free status taxes — for example, by borrowing against their wealth and finding ways to deduct the interest; playing extraordinary valuation games with art museums and other "charitable" causes; exploiting the non-taxability of unrealized capital gains; and a wide variety of other gambits. See https://www.nytimes.com/2021/06/08/us/politics/income-taxes-bezos-musk-buffett.html.

if well spent, the positive impacts of all this tax revenue *on the reduction of human suffering* will be *very* perceptible.

- Finally, the FTT can also help make G7 and global financial markets more efficient and transparent, reducing the "finance curse" and finally helping us to realize the emancipatory dreams of economists from an earlier age.

What's not to like?

In conclusion, we strongly urge you to introduce FTTs throughout the G7 now, and also to work closely with the G20 in this critical global mission. Not just for your own benefit, but also for the benefit of millions of people in developing countries in this particular moment of acute need. It would be such a shame to see the G7 waste this pandemic crisis only on itself.

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Respectfully,

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