Using a Currency Transaction Levy to Raise Resources to Address Global Health and Climate Change in Developing Countries

Climate change and the lack of health care services in developing countries are urgent and under-funded crises threatening the livelihoods and security of billions of people.

Even as Wall Street reaps record profits, the financial crisis continues to push millions of people around the world deeper into poverty while shrinking national budgets that provide social safety nets. The financial sector collects huge economic benefits from global currency trading. Speculation on currency continues unabated and largely untaxed, even though it can destabilize the real economy.

Legislation to establish a currency transaction levy (CTL) would amend the internal revenue code to establish a tiny tax on currency transactions to fund global health and climate change programs. Dealing with climate change in developing countries is estimated to cost around $500 billion per year. An additional $251 billion is needed between now and 2015 to strengthen health systems in low-income countries.

What is a Currency Transaction Levy?

H.R. 5783 would create a 0.005% tax on all foreign currency exchange transactions – including derivatives – by large-scale traders in the U.S. (and U.S. subsidiaries of foreign companies) that trade more than $10,000 in currencies per year.

**COMMON SENSE** – Foreign currency exchange is the largest market in the world by volume – 50 times larger than all goods and services traded around the world each year. About $4 trillion worth of currency transactions took place each day in 2009. The foreign currency market is an anomaly in that it remains untaxed.

**NEW, ADDITIONAL, AND PREDICTABLE** – Annual appropriations have not been sufficient to meet the scale of need for global health and climate change. A CTL would help generate funds above and beyond existing commitments for climate and development – to help get us closer to matching the actual need of hundreds of billions of dollars per year.

**EQUITABLE** – A CTL wouldn’t hit middle class investors, small-scale traders, travelers or people sending remittances home. The Investing in Our Future Act includes an exemption for investors and businesses that trade less than $10,000 in foreign currencies per year. It would make Wall Street financiers – who crashed the global economy yet continue to make huge profits – help pay for global public goods.

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SMART INVESTMENT – Investment in international climate change adaptation and mitigation and global health is essential for reducing global poverty, promoting sustainable development, ensuring U.S. national security, and demonstrating our country’s moral and economic leadership.

How is money collected?
Collection of a CTL is feasible, efficient and inexpensive to implement. To reduce the risk of non-payment, trading houses have made technological improvements that centralize and automate the way currency transactions are settled. These electronic systems capture trades whenever and wherever they take place by whoever makes the transaction. Currency traders depend on centralized systems to collect and verify their own transactions, so evasion of settlement and clearing houses is highly unlikely. At a rate of 0.005% a tax would be more costly to evade than pay.  

What is the impact on the economy and the currency market?
More than 30 countries have either permanently or temporarily levied financial transaction taxes for the purpose of raising revenue over the last 25 years. In fact, the UK has had a “stamp duty” of 0.5% on stock transactions that raises the equivalent of 4% of their GDP each year, and this has not harmed the attractiveness of the London Stock Exchange. Empirical evidence shows that a 0.005% is so small that it will have little effect on trading behavior – except to possibly reduce harmful currency speculation. While the U.S. can implement a CTL unilaterally, an internationally coordinated tax on all foreign exchange transactions will bring the most benefit to the global economy and public goods.  

Where is money directed?
GLOBAL HEALTH – 40% of revenue generated is directed to fund the Global Fund to Fight AIDS, TB, and Malaria and other multilateral health funding mechanisms that meet stringent criteria for transparency, effectiveness, and engagement with contributing and implementing countries, civil society, and impacted communities.

CLIMATE CHANGE – 40% of the revenue generated is directed to fund either a Global Climate Fund under the UN Framework Convention on Climate Change or another fund established by the parties to the Kyoto Protocol or the UNFCCC that is generally grant-based, and ensures effective management, balanced governance, and meaningful participation by vulnerable communities.

CHILD CARE – 20% of revenue generated is directed to the Child Care Assistance Trust Fund to invest in the Child Care Development Block Grant to states to make child care more affordable and better quality.  

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