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Why Sweden's Transaction Tax Failed

(And Why the One Percent Solution Is Different)

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In the 1980s, Sweden experimented with a financial transaction tax aimed primarily at stock and bond trading. Critics often cite this policy as evidence that transaction taxes cannot work. However, Sweden's experience illustrates the failure of a **narrow, high-rate tax on a single financial market**, not the failure of a **broad, low-rate settlement-based transaction system**.

Sweden's Policy Design

Sweden introduced its tax in **1984**. The levy applied only to certain financial securities trades conducted through Swedish brokerage firms.

Key characteristics of the Swedish tax included:

- ❑ **High effective rates** on trades
- ❑ **Narrow market coverage** (primarily equity trading)
- ❑ **Easy geographic avoidance**
- ❑ **Manual reporting and brokerage enforcement**

The tax initially imposed roughly **0.5 percent on each side of a stock trade** (1 percent round trip). Later expansions increased taxes on bonds and derivatives.

This structure created powerful incentives for market participants to simply **move trading activity outside Sweden**.

Within a few years:

- ❑ Up to **50–60% of Swedish equity trading moved to London**
- ❑ Swedish bond trading collapsed dramatically
- ❑ Government revenue fell far below expectations

The tax was gradually repealed between **1990 and 1991**.

Sweden's experience demonstrated an important principle: **a narrow tax applied to a mobile financial market will migrate to the lowest jurisdiction available**.

Why the Swedish Model Failed

The failure stemmed from **four structural weaknesses**.

1. The tax targeted only financial trading

The Swedish tax applied mainly to **equity and bond transactions**, not to the broader economy.

Because the tax base was narrow, it relied heavily on a small segment of capital markets that could easily relocate.

2. The tax rate was extremely high relative to trading margins

For securities traders, margins are often measured in **basis points**.

A 1 percent round-trip tax represented a massive cost compared to normal trading spreads.

As a result, moving trading offshore was economically rational.

3. The tax depended on geographic location of brokers

The levy applied primarily when trades were executed through **Swedish brokerage houses**.

This made avoidance simple:

Swedish traders could execute trades through **London-based intermediaries** and bypass the tax entirely.

4. The tax relied on manual reporting rather than settlement infrastructure

In the 1980s:

- electronic settlement systems were limited
- financial networks were fragmented
- enforcement relied on intermediaries

The tax therefore depended on compliance rather than automatic settlement capture.

How the One Percent Solution Differs

The transaction tax proposed in this book is **structurally different in every major dimension**.

Instead of targeting a specific market like equities, it applies **once at the point where money settles through financial infrastructure**.

This is a fundamentally different tax base.

Key Differences

Sweden Transaction Tax vs The One Percent Solution

Feature	Sweden's Transaction Tax	One Percent Solution
Tax Base	Stock and bond trades	All financial settlement flows
Market Scope	Narrow financial sector	Entire payment and financial system
Rate Structure	High relative to trading margins	Very low relative to total flow
Enforcement	Broker reporting	Automatic settlement capture
Avoidance	Easy offshore relocation	Difficult due to domestic settlement rails
Technology	Pre-digital infrastructure	Modern automated clearing systems

The Critical Insight

Sweden taxed a **small slice of finance**.

The One Percent Solution taxes **the movement of money itself**.

In the modern financial system, nearly all transactions—retail payments, securities settlements, interbank transfers, and digital transactions—must pass through regulated settlement infrastructure.

By capturing a tiny fraction of that flow **once at settlement**, the system becomes:

- broader
- harder to avoid
- lower in rate
- simpler to administer

This approach is not a modification of Sweden's experiment. It is a fundamentally different tax architecture.

Bottom Line

Sweden's policy failed because it attempted to tax **a narrow, mobile market with a high rate and weak enforcement mechanisms**.

The One Percent Solution proposes the opposite:

- **a broad base**
- **a very low rate**
- **automatic settlement capture**
- **modern digital financial infrastructure**

The lesson from Sweden is not that transaction taxes fail.

The lesson is that **narrow taxes on mobile markets fail**, while a **broad, automated settlement levy has entirely different economic dynamics**.

Why Modern Clearing Infrastructure Changes the Feasibility of Transaction Taxes

One of the most important differences between the Swedish experiment of the 1980s and the system proposed in this book is the evolution of financial infrastructure. When Sweden implemented its securities transaction tax, global financial markets were still largely dependent on **manual reporting, broker-based trade capture, and fragmented settlement systems**. Enforcement required identifying taxable trades through brokerage firms and relying on compliance reporting. In such an environment, avoidance was relatively easy. Traders could simply route transactions through foreign intermediaries or alternative exchanges that fell outside the jurisdiction of the tax.

Today, the architecture of financial markets is fundamentally different. Modern economies run on **centralized electronic clearing and settlement systems** that process enormous volumes of transactions automatically. These systems record the exact movement of funds at the moment of settlement, creating a transparent and verifiable audit trail for every transfer of value.

Several major systems illustrate this transformation:

Automated Clearing House (ACH).

ACH networks process electronic payments such as payroll deposits, bill payments, and business transfers. These transactions are batched and settled through regulated clearinghouses, producing precise records of every transfer.

Fedwire and real-time gross settlement systems.

High-value bank transfers between financial institutions settle instantly through central bank systems such as Fedwire in the United States. Each transfer represents a verified movement of funds across the banking system.

Securities clearing and settlement networks.

Equities, bonds, and funds settle through centralized infrastructure such as the Depository Trust & Clearing Corporation (DTCC). These systems net, reconcile, and finalize the settlement of trillions of dollars in securities transactions every day.

Digital and electronic payment networks.

Card networks, mobile payments, and emerging digital settlement systems also operate through centralized clearing channels that record the final movement of money between accounts.

What these systems share is a common characteristic: **they already capture the precise moment when money settles.** That settlement event represents the final and legally recognized transfer of value between parties.

Because modern financial infrastructure is automated and centralized, a settlement-based transaction levy can be applied **once at that final clearing event** rather than relying on reporting by individual traders or brokers. The tax becomes an automated feature of the clearing process itself, similar to existing transaction fees already embedded within payment networks.

This technological reality fundamentally changes the feasibility of transaction-based revenue systems. Instead of taxing individual trades or relying on voluntary reporting, governments can theoretically apply a small, uniform levy to **the settlement layer of the financial system**—the same layer that already records and reconciles the movement of funds across the economy.

In the 1980s, governments attempted to tax financial activity at the **trading layer**, which was easy to relocate. In the modern financial system, a settlement-based approach targets the **infrastructure layer**, where transactions are finalized and recorded. This distinction is critical. Settlement systems are far less mobile than trading venues because they are embedded within national banking and payment frameworks.

The evolution of clearing technology therefore changes the conversation. What once required manual enforcement and fragmented reporting can now, at least in theory, be integrated directly into automated financial infrastructure.

The debate over transaction taxation today is not the same debate Sweden faced in the 1980s. The underlying financial architecture has been completely transformed.