

# The One Percent Solution — Clarifications and Technical Notes

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Edward Thurston  
March 2026

## Introduction

Following the initial publication of \*The One Percent Solution\*, readers and commentators raised questions about the mechanics of the proposed transaction tax system. Most of these questions arise from misunderstandings about what transactions are actually taxed and what financial movements are excluded.

The original book presented a conceptual framework rather than a complete tax code. Its purpose was to demonstrate the economic potential of replacing income-based taxation with a broad-based transaction tax tied to a sovereign wealth fund.

This document clarifies the most common questions and explains how the system would operate within modern financial infrastructure, and why it differs fundamentally from earlier transaction tax experiments implemented in Europe and elsewhere..

## The Two Transaction Taxes

The proposal includes two related transaction taxes designed for different parts of the economy.

### **General Transaction Tax (GTT)**

A 1% tax applied when funds leave a payer's account through the primary payment rails of the financial system. Examples include credit card payments, ACH transfers, and bank wires.

### **Investment Transaction Tax (ITT)**

Investment accounts receive a modified treatment designed to encourage saving and long-term capital formation:

- 0% tax when funds enter investment accounts
- 0.5% tax when funds exit investment accounts

## THE ONE PERCENT SOLUTION

### Core Principle

We tax settlement, not speculation.

1. General Transaction Tax (GTT)
  - 1% when funds leave the payer's account
  - Applied across payment rails (cards, ACH, wires)
2. Investment Transaction Tax (ITT)
  - 0% entering investment accounts
  - 0.5% exiting investment accounts
3. What is NOT taxed
  - internal transfers
  - derivative notional values
  - clearinghouse netting
  - central bank operations

### Why it works

Modern payment systems process hundreds of trillions to quadrillions in monetary flows every year. A very small tax on those flows can replace income taxes and simplify the tax system.

## What Transactions Are Exempt

Not every movement of money in the financial system represents a new taxable economic event. Certain financial transfers must be excluded to avoid cascading taxation.

Examples include:

- transfers within the same beneficial owner
- clearinghouse netting adjustments
- margin collateral transfers
- central bank liquidity operations
- derivative notional exposure

These exclusions ensure that the tax applies only to genuine transfers of economic value.

## Settlement-Based Taxation

The core design principle of the system is settlement-based taxation.

A transaction becomes taxable only when:

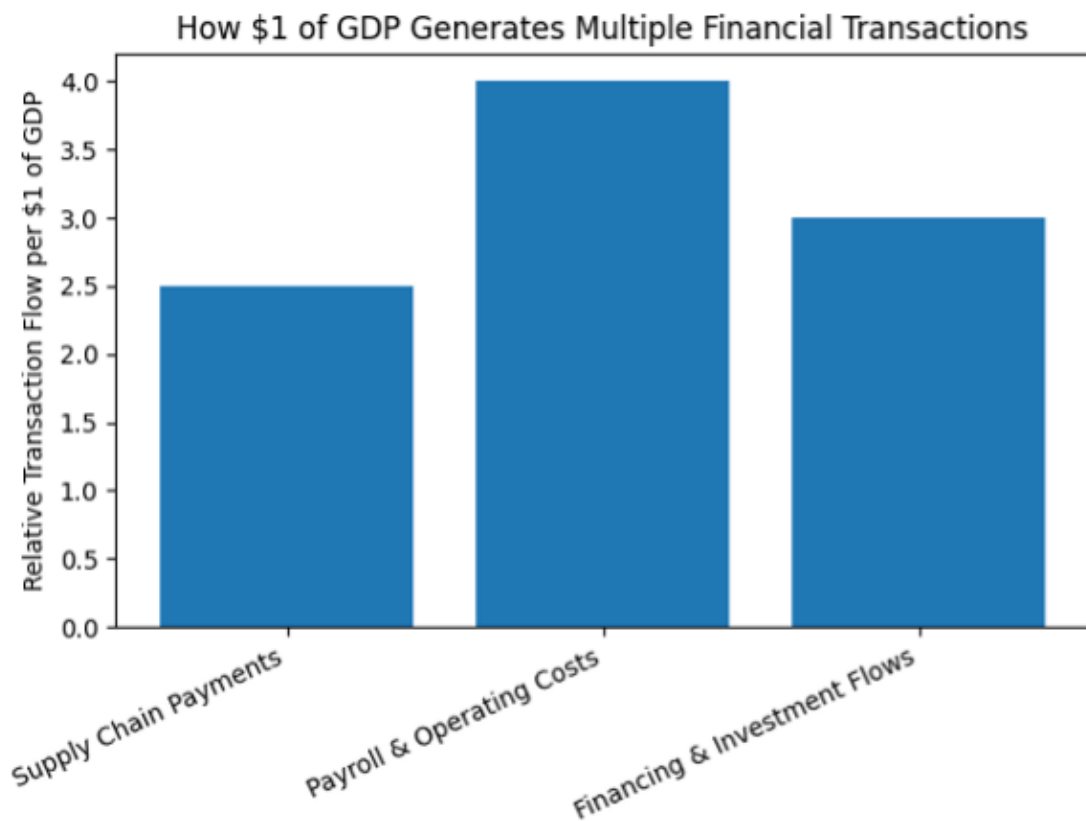
1. Funds settle between two distinct economic actors, and
2. Beneficial ownership of those funds changes.

Internal financial plumbing such as collateral transfers, internal bank movements, and clearing netting operations are therefore not taxable events.

## GDP vs Transaction Flows

GDP measures the final value of goods and services produced. However, producing those goods requires many intermediate financial transactions including payroll payments, supplier payments, loan disbursements, and securities settlements.

Because money circulates through multiple financial layers, the total transaction economy is vastly larger than GDP. While U.S. GDP is roughly \$25 trillion annually, the total value of financial settlement flows in the modern economy may reach hundreds of trillions to several quadrillion dollars each year.



Before a product reaches the final consumer, funds typically circulate through several layers of economic activity, including:

- **Supply chain payments** — manufacturers paying suppliers, distributors paying manufacturers, and retailers paying distributors.
- **Payroll and operating costs** — wages, rent, utilities, logistics, and other business expenses.
- **Financing and investment flows** — loans, equity investments, and capital market transactions used to fund production and expansion.

Because money moves repeatedly through these stages, **the total financial transaction volume generated by \$1 of GDP can easily reach \$6–\$12 of monetary flows** within the financial system.

This circulation explains why the **transaction economy is vastly larger than GDP itself**.

A small settlement-based tax applied to these flows captures a tiny share of this economic circulation rather than taxing income directly.

This is one of the central insights behind *The One Percent Solution*:

**Income disappears during recessions. Money still moves.**

## Derivatives and the Notional Value Myth

Critics of transaction taxes often cite the enormous size of global derivatives markets. These figures frequently exceed hundreds of trillions or even quadrillions of dollars.

However, derivatives markets are measured primarily using notional values. These are reference amounts used to calculate gains and losses and do not represent actual transfers of money.

Under the One Percent Solution:

- notional derivative values are not taxed
- only actual cash settlement flows are taxed

## Technical Appendix: Settlement Infrastructure

Modern financial infrastructure already tracks and clears monetary transfers through centralized systems including ACH networks, Fedwire, securities clearinghouses, and card payment networks.

These systems process extremely large volumes of financial settlement activity. Because the transaction tax would be applied automatically at the point of settlement, the existing payment infrastructure could administer the tax with minimal additional complexity.

## Political Framing for the Second Edition

The most effective way to communicate the idea behind The One Percent Solution is simple:

We tax settlement, not speculation.

Instead of taxing wages and income directly, the system collects a very small portion of the monetary flows already moving through the financial system. Because those flows are vastly larger than GDP, a small tax rate can generate significant public revenue while eliminating the need for complex income tax structures.

## Elasticity of the Tax Base

### Income Disappears During Recessions. Money Still Moves.

One of the most common criticisms of transaction-based taxation is the claim that financial markets are “elastic.” Critics argue that if a 1% transaction tax were implemented, trading activity might collapse and the tax base could shrink by 80–90%.

This argument misunderstands the structure of the modern economy. It confuses **speculative trading activity** with the broader **circulation of money through the real economy**.

The real question is not whether certain financial trading strategies might decline.

The real question is:

**Which tax base is more resilient during economic downturns—income or transactions?**

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## Income Tax Bases Collapse in Recessions

Income-based tax systems depend heavily on highly cyclical sources of revenue:

- wages and salaries
- corporate profits
- capital gains
- bonuses and performance compensation

These revenue sources are extremely sensitive to economic cycles.

During recessions:

- ❑ corporate profits fall sharply
- ❑ layoffs reduce wage income
- ❑ capital gains disappear
- ❑ investment losses replace taxable gains

The 2008 financial crisis provides a clear example. Within two years:

- ❑ federal tax revenue fell dramatically
- ❑ corporate tax revenue dropped more than 50%
- ❑ capital gains tax revenue collapsed by over 70%

Income tax systems are therefore **structurally volatile**.

When economic activity slows, the taxable income base can shrink rapidly.

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## Transaction Flows Behave Differently

Transaction-based systems rely on a different economic reality: **the circulation of money through the economy**.

Even during severe recessions:

- ❑ people still buy food
- ❑ businesses still pay suppliers
- ❑ workers still receive wages
- ❑ mortgages and loans continue to be paid
- ❑ utilities and rent must be paid
- ❑ government transfers continue

These activities generate **continuous payment flows** through the financial system every day.

The modern economy cannot function without these flows. Money continues to move through payment rails even when profits decline.

This leads to a simple but powerful insight:

***Income disappears during recessions. Money still moves.***

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## Where Elasticity Would Occur

Some financial activity would likely decline under a transaction tax.

The areas most affected would likely include:

- high-frequency trading
- ultra-short-term arbitrage strategies
- certain speculative derivatives trades

These activities involve extremely thin profit margins and rapid turnover.

However, while they produce **large numbers of trades**, they represent a relatively small portion of the **real settlement flows of the broader economy**.

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## What Would Remain Stable

The core economic transactions that sustain the economy would continue:

- consumer purchases
- payroll payments
- business-to-business transactions
- loan payments and financing
- insurance payments
- government transfers
- long-term investment transactions

These flows represent the **circulation of money in the real economy**, not speculative trading.

They are far less sensitive to market sentiment.

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## Even Extreme Contractions Leave a Massive Tax Base

Critics sometimes suggest that transaction volumes could fall by 80–90%.

Even after such a dramatic reduction, the remaining transaction base would still be **many times larger than the current taxable income base of the U.S. economy**.

Example:

Scenario	Transaction Base
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Normal estimate	\$2.5 quadrillion
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80% contraction	\$500 trillion
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## Why Eliminating Income Taxes Would Strengthen the Economy

The elasticity argument also ignores the economic impact of eliminating income taxation.

The One Percent Solution proposes removing:

- personal income taxes
- payroll taxes
- corporate income taxes
- capital gains taxes

Removing these taxes would dramatically reduce the cost of:

- hiring workers
- starting businesses
- investing capital
- expanding production

This would increase incentives for productive economic activity throughout the economy.

In other words, the proposal does not merely change the tax base—it removes some of the largest distortions in the current system.

The likely result would be:

- increased economic growth
- greater investment
- higher employment
- stronger business formation
- faster capital formation

These effects would make severe economic contractions **less likely**, not more likely.

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## A Structural Advantage

Under an income tax system, government revenue rises and falls with profits and wages.

Under a transaction-based system, revenue is tied to the **continuous circulation of money through the economy**.

Because money must move for the economy to function, transaction flows remain far more stable than income during economic cycles.

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## Key Insight

The modern economy processes **hundreds of trillions to several quadrillion dollars in financial settlement flows each year**.

Even if certain speculative financial activities declined under a transaction tax, the core transaction economy would remain vast.

The fundamental principle remains:

***Income disappears during recessions. Money still moves.***