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Coming soon: a 'Robin Hood' bank tax?

The odds are rising that industrial nations will coordinate a substantial bank tax to reduce high budget deficits while shielding social programs.



British Prime Minister David Cameron speaks to members of the local business community in Shipley, England on May 28, as he set out the government's strategy for economic growth. Cameron said that growth cannot be restored in Britain until its massive budget deficit is reduced. Leaders in Britain and the US have proposed a bank tax to decrease national debt.

Andrew Yates-pa/AP/File

By David R. Francis / June 2, 2010

In Britain, it's called the "Robin Hood Tax," a proposed levy on banks and other financial institutions to boost government revenues. In the United States, a proposed "financial activities tax," or FAT, would dun Wall Street and, presumably, curb some trading by its "fat cats."

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The odds are rising that industrial nations will coordinate a substantial tax increase on the financial industry. A major goal: to raise revenues in nations with high budget deficits while shielding social programs for the poor and middle class. Robin Hood would have been proud.

Since banks are highly unpopular, politicians may be able to brave the usual flak from any tax hike.

"There is a global commitment to taxing the financial institutions," says Barbara Matthews, manager of BCM International Regulatory Analytics, a Washington consulting firm. It's "full speed ahead" for the Group of 20, the major economic nations of the world.

Ms. Matthews expects congressional action next year in the US, well after the midterm elections. In Britain, the change in government this month hasn't dashed proponents' hopes for a Robin Hood tax on financial institutions to offset the impact of the great recession there.

"We are definitely going to get more money out of the banks," says David Hillman, spokesman in Britain for the Robin Hood Tax campaign, which is also launching in the US, Canada, Germany, Belgium, France, and Australia.

Originally, proponents pushed for a "Tobin tax," a 1972 idea from Yale economist James Tobin to discourage speculation through a small penalty tax on foreign exchange conversions. At the G-20 meeting in Pittsburgh last fall, then British Prime Minister Gordon Brown, French President Nicolas Sarkozy, and German Chancellor Angela Merkel all expressed interest in the idea. But US Treasury Secretary Timothy Geithner called the tax "too broad" and suggested a study by the International Monetary Fund (IMF).

A study is a "classic stalling tactic," says Matthews. But last month the IMF came up with several ways that the financial sector could "make a fair and substantial contribution toward paying for any burden associated with government interventions to repair the banking system," as IMF official Carlo Cottarelli puts it.

These IMF ideas are being taken seriously, says Matthews. One would tax uninsured bank liabilities, such as corporate deposits, which in the US are not covered by the Federal Deposit Insurance Corp. The revenue would possibly go to a "resolution fund" to deal with future major banking failures through bankruptcy not bailout. The tax might be temporary, say, for five years.

Another is the FAT tax, imposed on financial industry profits and executive pay.

G-20 finance ministers were scheduled to discuss these ideas earlier this month and at the heads of state level in Toronto in late June.

Also in the works are proposals for coordinated regulatory reform of financial institutions. Executives of the world's major financial institutions represented by the Institute of International Finance want a coordinated G-20 approach to new regulation dealing with capital adequacy, de-leveraging, and risk management, says Frank Vogel, the institute's spokesman.

Because big financial institutions tend to be international operations, they see a danger in every nation doing its own thing in bank supervision. At stake for governments: hundreds of billions of dollars a year in new tax revenue.

•David R. Francis *writes a weekly column.*

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