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Tax, then Eat, the Bankers, and Other Rich People

David Geracioti January 18th, 2010

Today's **New York Times reports** that SIFMA, the lobby group for the big broker/dealers, has hired a "top Supreme Court litigator" to fight Obama's proposed tax on banks. The theory is a bank tax unfairly and punitively singles out big banks and, therefore, may be unconstitutional.

The proposed tax is meant to raise about $90bn over ten years (**see my Jan. 15 post**), but it won't work. In that post, I quote research from Bernstien's Senior Analyst (and former Lehman CFO) Brad Hintz, who predicts that banks will endeavor to reduce what he calls an "onerous" tax by all sorts of ways. He concludes, "Banks are creative."

Whether it is unconstitutional, is another question. After all, it's amazing what FDR managed to get away with in erecting the New Deal. It's true that the Supreme Court struck down about 100 legislative actions, but FDR still was allowed to largely reshape our government from a traditional "liberal" one (i.e. limited government and personal liberty) to a progressive one. (For an excellent re-appraisal of the harm that FDR's policies did to a generation, read Amity Shlaes excellent book, **The Forgotten Man**.

I featured her in a **"Gurus" column last year**. Her overarching point reduced to a sentence: "The central-planning-like policies Hoover and FDR put into place — trade-killing tariffs, increasing labor costs, price setting and other well-intentioned but nonsensical laws intended to stimulate economic growth — took an economic downturn and turned it into a decade-long depression."

Like FDR, Obama and his crew have someone to scapegoat, rich bankers. And so the bully pulpit is a fine place to stand to begin to try to jam down Americans throats long-cherished liberal policies that you could never get past anyone when times are better. As Obama's Chief of Staff Rahm Emanuel is widely quoted to have said, "You never want a serious crisis to go to waste." (Remember that's what FDR did in enacting the Wagner Act and the minimum wage — preying on American's misery to illegally meddle in private economic transactions.)

Indeed, JP Morgan Chase already caved to Congressional pressure to rein in bankers' pay in cutting compensation. The FT reported in its weekend edition that it set aside only 33 percent of revenue for compensation (and bonuses), down from its historical average of 44 percent. Obama called that "obscene."

What's obscene is that the government largely created this mess in its social engineering efforts to stimulate the dream of home ownership. Cato's Doug Bandow **nicely sums it up here**, by listing the alphabet soup of gub'ment programs and agencies all screwing up the pricing mechanism of home ownerhsip.

And in **Friday's Investor's Business Daily**, Jeffrey Miron, another Cato scholar (and Harvard econ professor), persuades me that, as he wrote, "The U.S. made a huge mistake in bailing out the financial industry. Bankruptcy would have been the right way to punish the financial sector for its excesses." His essay is titled, Bailing Out the Banks Was Wrong, but New Tax Won't Make It right.