

News

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Amid rage at banks, new tax proposal evokes mixed reaction

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President Barack Obama unveiled the plan Thursday, saying the new fee on risky assets of big financial institutions was a way to recoup the cost of a massive bailout of the sector than began in 2008.

The plan, which requires congressional approval, would raise 90 billion dollars over 10 years and could be kept for 12 years to offset the full 117 billion dollar shortfall now estimated for the Troubled Asset Relief Program (TARP).

"We want our money back and we are going to get it," Obama said, adding that his determination "is only heightened when I see reports of massive profits and obscene bonuses at some of the very firms who owe their continued existence to the American people."

Some analysts lauded the move.

"This tax broadly makes sense from both a political and a policy perspective," said Douglas Elliott, a senior Brookings Institution fellow and former investment banker.

"Right now the public is extremely angry at bankers and would support measures up to shooting and then burning them. There is a strong imperative for politicians and regulators to show that they are on the public's side and not the banks. This is particularly important as banks are about to announce near-record bonus payments, which the public will find galling."

Peter Cohan, who heads a management consulting and venture capital firm and teaches at Babson College, also supported the measure, even though the banks that repaid TARP funds would be taxed to pay for government losses elsewhere, notably on insurance giant AIG.

"Wall Street is the primary culprit for the financial crisis and should pick up these losses -- especially AIG's," Cohan said.

"That's because many Wall Street banks got a back door bailout through AIG when the government made good on the credit default swap payments AIG owed the banks but couldn't pay on."

Cohan said the tax also appropriately applies to the riskiest assets of the banks and exempt things such as insured bank deposits.

This approach "would seek to discourage the kind of risk-taking that started this mess and reduce bonuses."

The Obama administration has repeatedly said it would try to recoup the full cost of the 700-billion-dollar Troubled Asset Relief Program (TARP) which was used to bail out banks, and also tapped to aid

crippled automakers.

But the Financial Services Roundtable, an industry lobby for major banks and insurance firms, opposed the plan, calling a "premature effort to recoup TARP funds," which the industry still has four years to repay.

"Two-thirds of the TARP investment from banks has already been repaid with a large profit to the taxpayer," said Steve Bartlett, president and chief executive for the Roundtable.

"This proposed tax will do nothing more than stifle economic recovery and encumber more pressing concerns, such as covering new regulatory costs."

Mark Calabria of the libertarian Cato Institute called the plan "misguided."

"If the effort is really about deficit reduction, then it completely misses the mark," he said.

"The real outcome of this proposed tax would be to increase consumer banking costs while reducing the value of bank equity, all at a time when banks are already undercapitalized."

In Congress, similar divisions emerged along partisan lines.

Democratic Senator Chris Dodd, who heads a key banking panel, endorsed the idea.

"The president has it right," said Dodd. "Wall Street owes a great debt to the American public and we have the right and the obligation to recoup as much money as we can for the taxpayers."

But Republican Senator John Cornyn called it "another job-killing policy that makes little economic sense."

"Proposing higher taxes on any one business sector sends the signal to all businesses and families that they could be next. This kind of uncertainty is what's holding back small businesses from hiring," Cornyn said.

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