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Economists React: Tax On Banks “Not All Political”

Economists, analysts and others weigh in on the Obama administration’s proposed tax on big banks:

This is not all political. There are valid policy reasons as well for a moderate tax, spread out over a number of years. First, the Emergency Economic Stabilization Act, which authorized the TARP, requires the Administration to eventually propose specific means to recoup any taxpayer losses from the financial industry. The surprisingly swift recovery by the banks makes it reasonable to accelerate that decision. Second, there is a need to show taxpayers that the TARP not only helped them by averting a potential mini-depression that could have resulted from a further financial meltdown, but will have done so at no net cost. This cost issue is an important policy goal in its own right and also increases the probability that Congress and the public might support any remaining actions that need to be taken to deal with the tail end of this financial crisis. – *Douglas Elliott, Brookings Institution*

We have mixed feelings about the newly proposed levy on the liabilities of the biggest 50 US banks. As well as being very popular with voters, President Obama’s plan to tax banks makes some sense from an economics perspective; it will recoup some of the taxpayers’ money spent on the financial bailout and, at the margin at least, it will dissuade banks from becoming too big too fail. However, to the extent that it discourages banks from making loans in the future and increases the incentives for banks to use off-balance sheet vehicles, the tax is a bad thing. – *Paul Ashworth, Capital Economics*

We are somewhat skeptical that Congress will pass such a tax and if they do, it could be several months before Congress does so. While we think it is tough to predict whether this idea passes or not, we think this adds to the political risk that we have already expected for larger banks for the coming weeks and months. – *Brian Gardner, Keefe, Bruyette & Woods*

How Will the Country Survive a Hike in Bank Fees Equal to 0.06 Percent of GDP? That’s the nightmare scenario raised by the big banks in response to President Obama’s proposal to impose a tax on the largest banks equal to 9.0 billion a year. The banks argued that this would be really bad news for the economy since they would pass on the fee to their customers. … It is also worth noting the implication of this claim for the nature of competition in the banking industry. The proposed fee would only apply to banks with assets of more than $50 billion, a relatively small number of banks. If these banks really can pass on higher costs to consumers, then it implies an extraordinary level of monopoly power in the industry, with the large number of small and mid-size banks not providing effective competition to the largest banks. – *Dean Baker, Center for Economic and Policy Research*

I’m in favor of the bank tax; what’s not to like about extracting $117 billion from large banks to pay for the net costs of TARP? But it’s by no means enough. … Why $117 billion? Because that’s the current projected cost of TARP. But everyone realizes that TARP was only a small part of the government response to the financial crisis, and the main budgetary impact of the crisis is not TARP, but the collapse in tax revenues that created our current and projected deficits. So why not raise a lot more? – *James Kwak, Baseline Scenario*

Maybe President Obama is coming around to the realization that the TARP has indeed been a loser for the taxpayer. He appears, however, to be missing the critical reason why: the bailouts of the auto companies and AIG, all non-banks. This is to say nothing of the bailout of Fannie Mae and Freddie Mac, whose losses will far exceed those from the TARP. Where is the plan to re-coup losses from Fannie and Freddie? Or a plan to re-coup our rescue of the autos? … Econ 101 tells us (maybe the President can ask Larry Summers for some tutoring) corporations do not bear the incidence of taxes, their consumers and shareholders do. So 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 under-capitalized. – *Mark Calabria, Cato Institute*