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Obama wants banks to shoulder bailout burden with new tax

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Wall Street profits are returning but the economy still ails, leaving the U.S. President with a desire for payback for taxpayers

Tapping into populist outrage over the financial crisis and Wall Street bonuses, the White House is selling a controversial plan to slap a fee on banks to ensure they shoulder the full cost of massive financial bailouts and help tackle record U.S. deficits.

U.S. President Barack Obama is eager to send a message to Wall Street as many financial institutions report a return to handsome profits while the broader economy remains sluggish and unemployment is at a troublesome 10 per cent.

Financial firms expect to dole out healthy bonuses to executives this year, even as many U.S. taxpayers seethe at the legacy of government bailouts: a federal deficit that hit a record $1.4-trillion (U.S.) last year, with no end in sight.

A bank fee would amount to payback of sorts for the historic rescue of Wall Street. The U.S. government spent hundreds of billions of dollars helping financial firms and auto makers during the worst financial crisis since the Great Depression, providing last-resort financial stability to giants such as Citigroup, AIG, and mortgage firms Fannie Mae and Freddie Mac.

The fee is expected to be included in Mr. Obama's much-anticipated budget plan due to be sent to Congress next month, according to reports on Monday.

"Given the mood of the country, it is essential that we do it," said Barney Frank, the Democratic chair of the House financial services committee. "That was part of the deal."

Taxing banks is a politically seductive move for Mr. Obama. Few industries are less loved than banking in the aftermath of the financial crisis. And it's undeniable that the banks, their executives and their shareholders benefited hugely from the government's bailouts.

"Politically, it makes a lot of sense and it doesn't hit any of their constituencies," said Mark Calabria, director of financial regulation studies at the Cato Institute in Washington.

But Mr. Calabria said fees - such as similar proposed financial transaction taxes being pushed in Congress - won't work.

And like the broader budget, would require the approval of Congress.

Legislators have already backed off the idea of putting an extra tax on bonuses.

"They are floating a trial balloon to see whether this is something they should flesh out in the budget," Mr. Calabria said.

White House officials insist the objective is to get back the $700-billion paid out under the Troubled Asset Relief Program (TARP).

"The President has talked on a number of occasions about ensuring that the money that taxpayers put up to rescue our financial system is paid back in full," White House spokesman Robert Gibbs told reporters Monday. "I think that's the least that taxpayers are owed."

Mr. Gibbs said some Wall Street executives "continue not to get it" when it comes to big bonuses at bailed-out companies.

And New York Attorney-General Andrew Cuomo has asked the first eight banks that received TARP money to turn over data on expected bonus payouts for 2009. They are Bank of America Corp, Bank of New York Mellon Corp, Citigroup Inc., Goldman Sachs Group Inc., JPMorgan Chase & Co., Morgan Stanley, State Street Corp. and Wells Fargo & Co.

So far, details of Mr. Obama's proposed fee plan are scant. White House officials are talking loosely about a "fee" to dissuade risky behaviour by banks and to raise revenue.

But the money raised would not reduce the budget gap significantly or dissuade risky lending practices at banks, according to Cato's Mr. Calabria. Nor is it about repaying the bank bailouts, because Treasury Secretary Timothy Geithner has suggested the government expects to be repaid most of the $700-billion paid out under TARP.

The government could put a fee on liabilities or profits. Officials have not said what size of fee they are looking at or how long it would stay in effect.

A special tax on banks is an old and controversial concept. The late Yale economist and Nobel laureate James Tobin pitched the idea of taxing international currency trades in the 1970s. Prof. Tobin saw it as a way to thwart currency speculation, and famously urged "throwing sand in the wheels of international finance."

His ideas gained a renewed following after the Asian financial crisis of the 1990s, and are winning converts now.

The European Union has called for a global transaction tax, and British Prime Minister Gordon Brown pushed it a recent meeting of the Group of 20, which includes Canada and the United States. The idea would be to put the money away for the next crisis.

Several European countries are also looking at a special tax on the bonuses of bank executives.

In the past, Mr. Geithner and U.S. Treasury officials have reacted warily to a transaction tax, warning that banks would simply pass the cost to their customers.

Meanwhile, the Federal Deposit Insurance Corp. is looking at modifying the fees it charges lenders based on the risk profile of its executive pay packages.

The International Monetary Fund said it's discussing measures, including a tax, for the financial sector to pay for costs of the global economic downturn.

The IMF said on its website it will "examine policy options for how governments can recover public money that was used to support banks and other financial institutions during the current crisis."