CAPITAL

by Kent Hoover

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Main Romney's Dilemma

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The Politics of Taxing

President Obama's proposal to slap a new tax on large financial firms is "strictly political," said Steve Bartlett, president and CEO of the Financial Services Roundtable.

Bartlett is right, but Obama's proposal is good politics. Americans show no signs of letting bygones be bygones when it comes to the Wall Street bailout, especially now that the nation's largest banks are returning to their bonus-happy ways.

Obama today unveiled a proposal to impose a "Financial Crisis Responsibility Fee" on the liabilities of financial firms with more than $50 billion in assets. The fee, which would be in place for at least 10 years, would raise an estimated $117 billion. That's how much the Troubled Asset Relief Program is expected to cost the government once all of the TARP money that can be paid back is paid back.

"My commitment is to recover every single dime the American people are owed," Obama said. "And my determination to achieve this goal is only heightened when I see reports of massive profits and obscene bonuses at the very firms who owe their continued existence to the American people—who have not been made whole, and who continue to face real hardship in this recession."

The financial firms that are awarding these huge bonuses have repaid their TARP money to the government, however, and the government has made money on these investments, thanks to dividends, interest and stock warrants issued by the recipients.

The new tax, Bartlett said, "will do nothing more than stifle economic recovery and encumber more pressing concerns, such as covering new regulatory costs," he said.

The U.S. Chamber of Commerce sent a letter to White House yesterday, begging it to reconsider the tax. It fears the new tax would make credit harder to get, because "the more loans that are written,

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the more taxes would have to be paid." It also fears the cost of the tax will be passed on to bank customers or shareholders.

Community banks, however, won't be subject to the new tax. So it shouldn't affect credit availability or cost for their customers. Washington loves community banks, despite their role in the real estate bubble. The House's financial regulatory reform bill exempted community banks from Consumer Finance Regulatory Agency examinations, and the Obama administration is working on ways to use TARP money to provide cheap capital to community banks so they can make more loans to small businesses.

The fact the tax only hits huge banks makes it harder to attack. Republicans who criticize it will be accused of being tools of Wall Street.

But the president's rationale for the bank tax—that it's needed to make taxpayers' whole for the government's TARP investments—is suspect. The government's losses on its TARP investments won't come from banks; they will come from the billions it plowed into non-banks **American International Group**, General Motors and Chrysler, notes Mark Calabria, the Cato Institute's director of financial regulation studies.

Plus, once the tax is in place, it may not go away, even after taxpayers are made whole for TARP. That's because the federal government, facing deficits as far as the eye can see, won't be able to afford to lose it as a revenue source.

"The risk is that the big banks become like tobacco companies or casinos," said Andrew Redleaf, CEO of White Box Advisors, in investment firm. "The government starts by campaigning to eliminate vice and then finds it's addicted to the revenue."

Kent Hoover is the Washington bureau chief for bizjournals.

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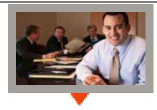


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