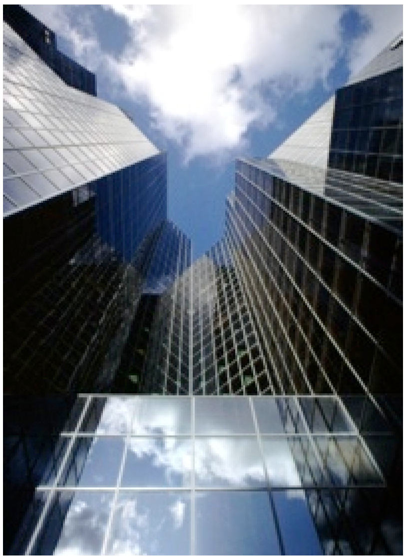
Obama Ponders New Taxes on Banking



The Obama administration is considering asking Congress to impose higher taxes on banks as a way of cutting the deficit. Proposals that have been mentioned but rejected include a tax on financial trades and a special tax on bonuses paid to bank executives. Proposals now being actively considered by the administration include taxes based upon the size of a financial institution, a tax on the riskiness of the financial institution’s loans, or a tax on the bank’s profits.

These taxes are only partially intended to reduce the deficit. The administration also wants to appease perceived public anger at the higher profits earned by banks during a time of recession as well as executive bonuses during a time of high unemployment.

Lobbyists in Washington expressed surprise at these proposals. They noted that banks have been repaying the TARP funds with interest. President Yingling of the America Bankers Association said that such proposals were exactly the wrong thing to do during a recession: the effect would be to dry up credit to struggling businesses that provide jobs, the announced focus of government concern now.

Perhaps the real reason for President Obama’s pondering these punitive changes in the tax laws for banks is that banks have been thwarting some of his congressional proposals to tighten regulations on banking. There’s also the very real possibility that the punitive proposals could become (and perhaps already are) part of an international effort: The European Union considered a global transaction tax last month, and British Prime Minister Gordon Brown made a similar request at the Group of 20 meeting in November. Britain and France have also been working on tax increases on executive bonuses — again dovetailing with proposals that the Obama administration is seriously considering.

Following this populist agenda, these coordinated tax increases in America and other nations would exclude smaller banks. Community banks have a presence in nearly every congressional district and are perceived as not being the cause of the current financial problems. Cracking down on Wall Street is nearly always politically popular. More importantly, simply floating these proposals has a powerful intimidating effect on what large financial institutions do and say. Executive bonuses are an infinitesimal part of the TARP bailout, but popular anger at what the “big guys” are earning is too often easy to tap into. (Of course, if there were no bailouts, then the highly charged political issue of how bailout money is being used would be nonexistent, and businesses would be forced to survive and prosper in the marketplace based on their own merits, or go out of business.)

The big picture, of course, is that the federal government and, perhaps, international institutions as well, are going to be watching and reacting to the ordinary business operations of the banking industry.

Almost every other part of American business connects, at some point, to banking. It is difficult to see exactly what federal interest exists in controlling the compensation of private officers of private financial institutions — except of course to demonstrate federal dominance over private financial institutions. That, however, is exactly what our national government appears intent upon doing.

Market forces reward prudent and efficient banking practices and punish foolish and wasteful banking practices. Banks have failed in our history without a calamity, and banks have thrived in our history in spite of what the federal government does. Most Americans do not know this. History in schools does not teach us that our nation flourished long before vast regulatory complexes like the Federal Reserve System. Banknotes, in times when America was prosperous and growing, were issued by private banks and were redeemable in gold. Indeed, a “dollar” once simply meant a measurement of gold. Now, with federal regulation of financial institutions reaching a point where banks are told how much they are allowed to pay their executives, we are witnessing the rise of socialism and, with the help of the European Union and other institutions, the specter of global socialism as well.