

The bank tax & the G20 summit: An overview

*Canada fiercely against tax on banks aimed to curb financial speculation.
Prime Minister Harper flies to Europe this week to pressure UK and France.*

by Darren Puscas

A confrontation is brewing at the upcoming G20 summit in Toronto, pitting Canada against European countries that are promoting a global [“Robin Hood” bank tax](#) which could raise hundreds of billions of dollars for social programs, food security or debt payment.

This Wednesday, Canadian Prime Minister Harper will be [traveling to London and Paris](#) to meet with new British PM David Cameron and French President Nicolas Sarkozy. He will try to convince them that the bank tax, which proponents say would help curb risky speculation at the heart of the economic crisis, is a bad idea. The US, while still uncommitted, is leaning towards Canada’s position.

Opposition from one country would undermine the consensus required for the adoption of the multinational bank tax. With these crucial European meetings and the G20 summit on the horizon, it is a good time to reflect on what this tax is all about.

The lines are drawn: Pre-summit bank tax discussions

In early February 2010, British Prime Minister Gordon Brown suggested that [a deal on a potential tax levy](#) could be reached at the Toronto G20 Summit. A few days later, the Canadian government [publicly opposed any such agreement](#). “We’re not going to impose capital taxes on our financial institutions,” Canadian Finance Minister Jim Flaherty told journalists. “We’re against raising taxes and I hope to be able to convince my colleagues that these are unwise moves.” The Conservative government has also argued that as the only G8 country whose banks did not require bailouts it should not have to enter into a bank taxation plan.

The Association for the Taxation of Financial Transactions for the Aid of Citizens ([ATTAC](#)) has criticized the Canadian Conservative government for rejecting financial regulation, accusing it of being beholden to financial interests. “The Conservative government is opposed in principle to any new form of tax,” said Claude Vaillancourt, co-president of [ATTAC-Québec](#). “The Conservatives are blinded by the non-interventionist principles of [neoliberal economics](#), to which they adhere with ideological fervency.”

In April, the Harper government put on a full court press in opposition to the tax. During the G20 Finance Ministers meeting in Washington, D.C., Canada pushed hard and got what it wanted – the bank tax idea fell to the [bottom of the June summit's economic regulation agenda](#) and was openly opposed by a few of the G20 countries.

Nevertheless, there have been renewed European calls on the issue, including German leader Angela Merkel recently stating she [wants the Financial Transaction Tax on the agenda](#) at the Toronto G20 meetings. And there are bank tax campaign organizations (such as [At the Table](#)) that continue to work very hard to get it back on the agenda. Despite Canada's efforts to the contrary, there is no question that the bank tax issue is still up for debate during the June summit in Toronto.

Why is Britain so strongly behind the tax?

Prior to the economic crisis, London was a preeminent banking centre and over the past 20 years has been [steadfastly opposed](#) to most regulation of financial services.

The crisis changed all that.

After the insolvency of several British banks, a \$1.38 trillion US bank bailout, and an election looming ahead, then Prime Minister Brown was suddenly [talking tough about banks](#) “giving something to society,” telling the media he was “interested in how support is building up for international action.” The election of David Cameron presumably should not change this (if he sticks to his word), as he [campaigns in support of the bank tax](#). It will be interesting to see his position at the summit now that he has been elected (and after he talks to Harper on Wednesday).

The two types of bank taxes proposed

Britain's proposals include a tax on bank transactions and a levy-style tax on bank assets.

Option 1: The Financial Transaction Tax (or Tobin Tax)

The transaction tax, often called the ‘Robin Hood tax’ or the ‘Tobin tax’ (after the US economist James Tobin, who first proposed it in 1972), is the more ambitious. It would focus on the trillions of transactions that take place in financial markets every day, including speculative ones such as derivatives [[explained clearly here](#)], which were a key part of the financial crash.

Precipitating the crash, these assets, including bundles of sub-prime mortgages, became overvalued due to speculation. When their values fell rapidly in 2008, the collapse began.

The transaction tax would put a very small tax (from 0.05 per cent to 1 per cent) on each of these transactions. Critics of unregulated banking argue that had such a tax been in place a few years ago investment banks would have thought twice about performing these transactions, thus lessening the likelihood of the crash.

“A low transactions tax...has little or no impact upon useful, longer term transactions, but limits ‘noise trading’ and very short term ‘in and out’ speculation,” argues [Canadian Labour Congress](#) economist Andrew Jackson. “Progressive economists who have advocated a financial transaction tax...believe that it would reduce speculation and volatility, without interfering with normal and useful activities including stock and currency trading and even hedging for legitimate purposes.”

A 2009 study by the Austrian government ([pdf](#)) showed that a 0.05 per cent tax on UK financial trades could raise about £100bn a year, paying for the expansion of social programs, paying down debt, and providing insurance funds against future bailouts.

Grassroots organizations like ATTAC-Québec take a stronger position, suggesting that any new funds from a tax should not go to banks, which might only encourage them to take more risks, potentially leading to new crises.

“The tax should simply be a fee for assisting citizens across the world,” said Vaillancourt. “This tax could, for example, give all citizens basic services—quality health care or free education.”

Despite its current opposition, Canada was one of the first G20 countries to consider adopting the Tobin tax. In 1999 the Liberal government [passed a resolution](#) to “enact a Tobin tax in concert with the international community.” However, the Reform Party (later the Conservative Party) opposed the resolution and it did not gain enough international support to be enacted.

Option 2: The bank Levy

The other proposal promoted by European countries is a tax or levy on the assets of banks. It would not bring in sums on the scale of a Tobin tax, though some financial analysts believe it would restrain banks and raise some bailout money. As it stands now the levy has gained support from Britain’s key European counterparts, France and Germany, both of whom are [strongly promoting it](#).

From the perspective of the banks this is a more acceptable proposal than the Tobin tax as it would be either a one-off or infrequent fee based on a bank’s worth rather than a tax on its every transaction. From the perspective of advocates of the FTT, this is an inferior choice both because of its nature as a one-time fee and because it is more likely to be used create an insurance fund to bail out the banks after a crash rather than build a tax which could stabilize markets by discouraging risky speculation.

Is Canada really an inspiration for the world's troubled banks?

A great deal of Canada's authority on these bank tax issues is based on the perception that the country's traditional banking sector was able to withstand the financial crisis. The historical record is murkier - there is much more to the story than mainstream media accolades of bank prudence and wise Conservative government policy.

In the late 1990s (and again in the early part of the new millennium) the five Canadian banks aimed to merge into three institutions to obtain the capital base to compete internationally with banks such as Citigroup, UBS, and Royal Bank of Scotland. They hoped to enter the "major leagues" of investment banking and non-traditional speculative banking: the very markets that were at the heart of the crash. The banks were unsuccessful in their quest, as the Canadian government [blocked the mergers](#).

Many critics have argued ([here](#) and [here](#), for example) that it was not a prudent fear of systemic risk, or the Liberal government's foresight that stopped the mergers. Rather, it was news of the banks' ambitions and public outcry about branch layoffs and closures and increased service charges that forced the Canadian government's hand, pushing it to block the mergers. Canadian financial elites and the business class harshly criticized the government.

Yet it may have been fortunate for bankers, and the current government, that the Canadian public was not swayed. Otherwise, Canadian banks likely would have needed a US or UK style bailout in the 2008 crisis.

[According to political commentator Murray Dobbin](#), the current Conservative government actually has offered a great deal of money to banks in the past two years, and he questions whether this was a form of bailout in itself. The Canadian government spent \$70 billion to buy up risky mortgages from the big five banks (Dobbin wonders, if Canadian banks are so wonderful, why does the government need to buy these mortgages?), created a \$200 billion fund called the Emergency Finance Framework to insure banks when they need it, and currently ensures 100% of all mortgages through the Canadian Mortgage and Housing Corporation – eliminating risk for banks.

The fiscally sound Canadian bank appears to be more fable than fact.

US position key

Unsurprisingly, the US position leading up to the June G20 meetings is likely to be a major determinant of the success or failure of the G20 bank tax talks. The enormous US bank bailouts have made it difficult for the US government to point to their strong financial sector as a reason to oppose bank taxes. Nevertheless, the US, ever averse to taxation of any kind, has also come out strongly against the Tobin tax and has reacted ambiguously to the idea of an [international bank levy](#).

On the other hand, the Obama administration has made public statements over the last few months about a domestic bank levy proposal. This may lead the US to be more open to an international levy given that it would shield them from capital flight if all nations bought in.

Conclusion: is consensus on a bank tax possible at the G20?

Because consensus is required for G20 policy decisions, the growing Atlantic divide leaves any tax or levy plans up in the air. Meanwhile, the positions of the other 15 G20 countries are still being developed and do not seem to be getting much attention from the major players.

Though tax watching might seem like a dull sport, it is worth observing the developments both during Harper's trip to Europe this week and this June at the G20 summit. The European powers backing these taxes have been shaken by the crisis and pressured by their electorate to do something about the banks. The taxes are not radical solutions to more fundamental systemic problems, but at least they point in the right direction: towards the banks.

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[This is an updated version of a bank tax backgrounder that [first appeared](#) in [The Dominion](#) in its [Special Issue on the G8/G20](#)]

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