



Too Big to Fail? Too Big to Bail!

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What should we do about the big banks?

President Obama has proposed a “Financial Crisis Responsibility Fee.” It’s a small tax on big banks (and some other financial institutions) that make risky loans. There are about 50 of them.

It’s a small step in the right direction.

1. What are these “risky loans?”

They are loans (or investments that depend on the repayment of loans) that have been made to borrowers whose ability to repay the loans is considered highly questionable. One example is sub-prime mortgages, with lenders speculating that housing prices would just keep on rising indefinitely.

2. Why should we tax these banks?

For two reasons. First, it was risky lending by the big banks that produced the financial collapse and then the deep recession that is still taking a huge toll in terms of unemployment and lost income. So it’s only fair for the banks to pay something for the damage they have done.

Second, since the tax is only on the risky loans the banks can avoid it by cutting back on that kind of lending. And if they really did that there might be no need for bailouts in the future.

3. Won’t the tax discourage lending now when we need it to help businesses step up their hiring?

No. Most of the big banks’ \$50+ billion that is tied up in risky loans never goes into real job-creating business. It is just speculation. Remember, most of the money that the banks lend to solid businesses won’t even be subject to the tax. And the tax itself is very small: 15 cents for each \$100 of the risky loans. Also, we’re talking about only the 50 banks with the biggest load of risky loans, whereas

most job-creating business loans are made by the much more numerous smaller banks.

4. How much money are we talking about in all?

The tax would probably bring in about \$9 billion per year. Obama wants it to pay for the \$117 billion of the bailout that wouldn't be repaid otherwise.

5. What will be done with all that money?

The country will have to decide. The financial collapse and the recession threw millions of people out of work. Our most pressing need is for jobs. With long term unemployment continuing to rise from already record levels, the jobs lost during the recession must be replaced. But beyond that, even before the recession the economy was not creating anywhere near enough jobs to keep up with the growth of the population and the people looking for work. So we need even more jobs than we had before the financial collapse.

6. Will the bank tax bring in enough money to create all the jobs that we need?

No. However, another very small tax on the financial sector would. A tiny tax on all financial transactions (such as buying and selling stocks, and all the buying and selling that go on when traders engage in speculative transactions) could generate much more income than the bank tax and, like that tax, would not hamper legitimate, job-creating investing. It could pay for a job-creation program that was big enough to make a real dent in unemployment. Unfortunately, President Obama has not yet endorsed a financial transactions tax. (For more information concerning a financial transactions tax see "New Financial Transaction Tax Working Paper" on the CPEG Website, cpegonline.org.)