U.S. Chamber Unveils Study Highlighting Consequences of Proposed 'Bank Tax'

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The U.S. Chamber of Commerce's Center for Capital Markets Competitiveness released a study on September 28 conducted by Hal S. Scott, Nomura professor of international financial systems, Harvard Law School that highlights the unintended consequences the proposed "bank tax" would have on access to credit, job creation, and the overall economy.

The study, "Financial Crisis Responsibility Fee: Issues for Policymakers," concludes that imposing the tax now – more than three years in advance of the legislative deadline – could lead to a $1 trillion decline in lending, reducing access to credit for job creators and consumers at a time when the economy is still struggling to recover.

"There could not be a worse time to impose a tax like this," said Tom Quaadman, vice president of the U.S. Chamber's Center for Capital Markets Competitiveness. "This would be much more than a tax on banks. This tax would choke off consumers' access to credit and make our bad economic situation worse."

The study highlights six issues for policymakers to consider when determining whether to support the tax:

• Cutting Off Credit – As American businesses and consumers struggle to access credit, this tax would only exacerbate the credit crunch and could lead to a $1 trillion decline in lending. The tax would be imposed at the very time banks need to raise more capital just to remain safe and sound.

• Wrong Tax at the Wrong Time – Raising taxes on certain financial institutions will do nothing to address the fundamental challenges facing the U.S. economy: high unemployment and low levels of job creation. In fact, it would likely work in the opposite direction.

• Uncertainty About Size of Shortfall and Arbitrary Timeline – While the tax is intended to recoup any shortfall in the funds financial institutions return to the federal government in connection with assistance they received under TARP, the government's own estimates of the shortfall have fluctuated dramatically, and the only consistent theme is that the shortfall is steadily declining.

• Potential for Double Taxation – Several European countries are planning some kind of bank tax, which could subject multinational financial institutions to multiple levels of taxation on certain elements of their balance sheet.

• Potential for Excessive Taxation – There is a risk that the fee will continue to be levied even after the TARP shortfall has ended.

• Wrong Way to Reduce Leverage and Risk – Trying to reduce leverage and risk by taxing financial institutions overlooks that there are other regulatory vehicles available to meet these specific objectives.

"Given the continued uncertainty about the size of the TARP shortfall, coupled with the weak economy and the potential consequences of reduced access to credit, seeking to impose the tax now – three years earlier than required – is ill-advised," Harvard Law Professor Hal Scott concluded in the study. "Not only may the tax be counterproductive, there are more effective tools to help curtail leverage and risk-taking in the financial system."