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Banks' arguments against a tax 'are not credible'

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A European proposal to introduce a tax on banks has earned the ire of financial institutions. Economist Gunther Capelle-Blancard, deputy-director of the CEPII economic research institute, spoke to FRANCE 24 about some of the issues at stake.

FRANCE 24: Do you think that the proposals of the European commissioner for the internal market, Michel Barnier, make sense?

Gunther Capelle-Blancard: Yes, without any doubt. It is important to understand that the banks and the financial sector, until now, had time before the introduction of vigorous regulation and duly profited from it. The European Commission proposals, notably the bank tax, must allow for the adaptation of mechanisms that date, in part, from the crisis of 1929. Until the current crisis banks never ceased growing, and with the implicit support of governments. If, today, a bank goes bankrupt, the indirect effects are enormous. It was therefore necessary to set up a system to prevent the risk of contagion. It seems completely normal to me that the same banks that contribute financially are the ones that will be guaranteed.

FR24: The financial sector, notably in London, has mounted a campaign to criticise proposals that would limit their competitiveness and would force it to pay for the errors of other banks. Are these fears justified?

Capelle-Blancard: There are objections that the lobbyists usually make. These arguments are not credible and are, in part, false. Europe's banking and financial sectors are, today, interconnected. If a bank has a problem, the others will feel its effects. The financing will not go to pay for one bank in particular, but for the stability of the sector as a whole. As for the alleged reduction in competitiveness, I would simply note that the United States is introducing a similar mechanism that is also aimed at better regulating banking activities.

FR24: Is the European Commission's proposed mechanism sufficient, in your opinion?

Capelle-Blancard: The International Monetary Fund proposal is, in this regard, very interesting. It recommends the introduction of a second tax ironically dubbed FAT, for Financial Activities Tax. What Barnier wants is, in effect, a supplemental insurance policy. The banks pay into a fund that would come to their rescue if they run into trouble. Like all those insured, they will thus be inclined to take even more risks. That is what is called, in economics, the moral risk. The situation is somewhat unique, in that no other sector stands to benefit. It would therefore not be strange to ask the banks to pay a supplemental tax. The money collected could then be used to finance other projects or to reduce deficits.