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“Windfall Tax on Bankers’ Bonuses”

Melissa Francis: England’s Labour Party announcing it will place a fifty percent tax, yes, fifty percent on bonuses. France could soon follow suit. So with record bonuses looming on Wall Street this year, could there be a wind fall tax on Wall Street? That is our Call of the Wild today. Let’s bring in Peter Flaherty, President of the National Legal and Policy Center and Christian Weller Associate Professor of Public Policy at the University of Massachusetts. Thanks to both of you for joining us. Peter what do you think the impact of this would be and should we do it? A lot of viewers liked the idea yesterday.

Peter Flaherty: Well, Melissa, you are too young, but I know Larry will remember...

Melissa Francis: I love the way you are starting this.

Laughter

Peter Flaherty: ...Larry remembers when the Rolling Stones moved from London to New York....

Larry Kudlow: Yes.

Peter Flaherty: ...because the British government wanted to grab ninety eight cents of every dollar they earned. So I think we have got to be cognizant of that. I think the problem though is that this virus is spreading and if the United States takes similar measures, where will the Rolling Stones and other tax refugees go?

Melissa Francis: Well won’t they just defer their bonuses until next year? I mean inst that really what it is all about. They are not going to get the revenue. They are just going to not give our bonuses this year and maybe promise it next year. Christian?

Peter Flaherty: Well there are ways around this and this in not serious public policy. This is a political stunt. Incumbent governments on both sides of the Atlantic know that they have a political problem.

Melissa Francis: Right.

Peter Flaherty: That is identification with these government bailouts. Now on September twelfth, I was down there with the Taxpayer March and people had a lot of beefs. But the biggest beef was these bailouts.

Melissa Francis: Yeah.

Peter Flaherty: They are very much resented by the American people.

Melissa Francis: People hate them. Christian take a whack at it.

Christian Weller: Well I think that bankers make an easy target as Peter points out right now. There is incredible anger out there among the public over the bailouts. I think what the British government, what the French government and also what the American government are looking at is ultimate to putting institutions, structures, regulations, taxes in place that will discourage some of the risky gambles, the search for the quick buck, the risky excessive risk taking we have seen that brought us to this crisis and rather encourage on the other hand long term growth, long term innovation...

Larry Kudlow: But Christian.

Christian Weller: ...and quite frankly, right now, the structure, the executive compensation structure we have is not doing that.

Larry Kudlow: Christian that is not what Alistair Darling is talking about.

Christian Weller: In fact he actually is...

Larry Kudlow: That is not what Sarkozy is talking about. He is talking about a vicious vindictive class warfare one time four month tax. That is all he is talking about. It is the most blatantly political thing. Christian, I am all for long term restricted stock options that will have incentives, but that not where we are going here. This is a four month tax that just happens to coincide with the elections next spring in England. Now, really Christian, what is your take on that.

Christian Weller: Well, I think this is a first step in the right direction. I am not in Britain. I am not a voter in Britain, so I can't speak for British politics here. But the argument here and the argument that Alistair Darling made was a long term growth argument. That is the same argument that you see in France. It is the same arguments that you see...

Peter Flaherty: Christian, you are looking at the symptoms, you are not looking at the disease.

Christian Weller: Well then, let's make it a permanent tax.

Peter Flaherty: The disease is excessive risk taking. And excessive risk taking was enabled on Wall Street by government bailout after government bailout going back twenty, thirty years in this country. Let's get serious about that rather than these sort of band aids after the problem has already become a crisis.

Melissa Francis: What about that Christian?

Christian Weller: Well then we are all in agreement. We do need to reduce excessive risk taking. We need to refocus corporate governance towards long term growth.

Larry Kudlow: We don't have to raise taxes.

Peter Flaherty: Well then why are we continuing the TARP?

Christian Weller: You raise taxes ultimately to discourage certain, this is as Peter said this is a symptom of certain activities and you want to discourage those activities.

Larry Kudlow: You know... You are going to get less wealth, less capital. You are going to get fewer people in the financial services industry.

Christian Weller: You are going to get less risk taking and get more long term growth.

Larry Kudlow: That's great less risk taking and so then less entrepreneurship, less invention.

Christian Weller: Well less excessive risk taking. We have too much risk in the middle of a crisis.

Melissa Francis: How do you define that?

Larry Kudlow: I don't know what that means. Peter Flaherty, if you are a banker and you live in New York City, you are already paying fifty percent. That is the deal Peter because you have got to take federal, state and local.

Melissa Francis: That is true.

Larry Kudlow: And in this country, although we have not yet penalized the bonuses, the way Britain is, look at what they are doing. They are going to raise the top tax rate.

Peter Flaherty: That's right.

Larry Kudlow: The expiration of the Bush tax cuts. Then health care is going to raise it five and a half percent. Today in the *Wall Street Journal* if you noticed the editorial, I'd almost forgotten this, the House Democrats now want to jack up the tax rate on investment partnerships. Right. Without reforming the corporate tax, they are going to double the tax rate on risk taking for investing partnerships. So lets shut down risk, is that the message we want to send here Mr. Flaherty?

Peter Flaherty: Well it is easy to scapegoat bankers, but let's remember Obama wants to limit everyone's pay. Obama referred to people making two hundred, two hundred fifty thousand dollars as very rich. They are going to get hit by Cap and Trade, the

expiration of the Bush tax credits, the capital gains tax hikes and whatever else. These people are not very wealthy. They are very middle class if they live on either of the coasts and they happen to be among the most productive members of our society.

Melissa Francis: But Peter he has been saying that since the beginning. He said that in the campaign, and everybody voted for that. Maybe that is what most of the country wants. I mean that is not new, that is not a surprise. We knew that everybody who makes more than two hundred thousand dollars was going to get hit if he was elected and he was elected anyway.

Peter Flaherty: Well there is an election next year and we will see what happens. Lets remember that Timothy Geithner and Barack Obama are identified with Wall Street right now due to their embrace of Wall Street. And you know, heck, Geithner's chief of staff is a former lobbyist for Goldman Sachs.

Melissa Francis: Alright.

Peter Flaherty: So it is their problem, but there is an election next year.

Melissa Francis: We have got to leave it there guys. Thank you very much for joining us.

Larry Kudlow: Thank you Christian. Thank you Peter.