

UK change of heart on banking tax plan

By Jean Eaglesham and Chris Giles in London

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Gordon Brown, the British prime minister, rapidly backpedalled from his proposal for a financial transactions tax on Sunday after a chorus of criticism of his plan set out in a speech on Saturday to a meeting of global finance ministers.

The US led a backlash against the [“Tobin tax”](#) on financial transactions after Mr Brown took a [Group of 20](#) finance ministers’ meeting by surprise with his proposal at the gathering in St Andrews, Scotland.

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In private briefings, UK officials had initially suggested the transactions tax was the prime minister’s preferred mechanism out of the four options he had raised, which included insurance levies and funds to finance future bail-outs.

But London’s emphasis switched after the idea of a tax came under fire from the US, Canada, Russia, the [International Monetary Fund](#) and the [European Central Bank](#), in effect killing a proposal that Mr Brown said needed global support to be effective.

Tim Geithner, US Treasury secretary, said: “A day-by-day financial transactions tax is not something we are prepared to support.”

Dominique Strauss-Kahn, IMF head, repeated his long-held position that a [Tobin tax](#) is “a very old idea that is not really possible today”.

The prime minister’s handling of the issue provoked renewed tensions with the Treasury. Alistair Darling, chancellor, is understood to support the main thrust of Mr Brown’s argument but to be frustrated by the prime minister’s promotion of a proposal he knew the US would have no choice but publicly to oppose.

Christine Lagarde, France’s finance minister, welcomed Mr Brown’s comments, a reflection of Paris’ long-held opinion of a transactions tax. French officials said they were not confident the UK would press the issue with a general election looming.

Mr Strauss-Kahn, in comments to Reuters, said: “We’re working on a tax on the financial sector which, in line with what Gordon Brown said, would solicit an insurance premium from a business activity that is riskier than others.”

The International Monetary Fund reports in April on the feasibility of insurance levies and other mechanisms to try to ensure banks and their customers bear more of the costs of any future bail-outs

On FT.com, [Mr Brown defends his argument](#) that tighter regulation of the banks may not on its own be sufficient to “protect against future risk and to compensate for wider [bail-out] costs to the general public”.

The UK premier admits that this “will not always be a comfortable discussion but it is in my view an essential one”.

But he added little to the idea of a transactions tax, including it as the last of four options.

British officials underscored this change of emphasis. “We’re not that massively wedded to a transactions tax. We’re not saying ‘it’s this or nothing’ – we’re saying we need a deal,” an aide told the Financial Times.

Aides to Mr Brown insisted that he was not abandoning the principle of agreeing some mechanism to make the banks bear more of the costs of future bail-outs.

“We knew going into the G20 finance ministers’ meeting that these were pretty radical steps that would put some noses out of joint,” one insider said. “The prime minister has taken a calculated risk and we’re very much up for the fight on this.”

The weekend summit revealed a “surprising degree” of international agreement about the need to change the risk-reward balance enjoyed by the global banks, British government insiders said.

Mr Brown’s initiative provoked attacks from his political rivals, with the Conservatives claiming his failure to judge the international mood had left the country isolated.

“This is embarrassing,” Mark Hoban, the shadow financial secretary, said. “Gordon Brown has demonstrated that he will put nothing before a cheap headline including Britain’s credibility before the world.”

Others sprang to Mr Brown’s defence. George Soros, the fund manager, said last night the prime minister’s proposals “fit in with everything I’m saying needs to be done ... the banks should, when they can, be a source of taxation, having been a drain on taxpayers”. Some form of transaction tax was “in principle a very good idea”.

Additional reporting by Peggy Hollinger in Paris