
Robin Hood tax's time has come

The US, UK, French and other governments have finally recognised the need to raise taxes on the financial sector, both on the banks' balance sheets and perhaps on financial transactions as well. Amazingly, the big banks have mostly gotten a free ride right through the financial crisis. Wall Street continued to pay itself mega-bonuses in 2008 and 2009, pocketing more than \$20bn this past holiday season. Total Wall Street profits in 2009 are estimated at more than \$55bn, a record, pumped up by cheap loans from the Federal Reserve to the banks that were lent onward at a significant spread.

The urgency of increased tax revenues is clear enough. The US budget deficit is around \$1.5 trillion this year, more than 10% of GDP, and with prospects of \$1 trillion a year deficits as far as the eye can see. The UK budget deficit is even more dramatic, at around 13% of GDP this year. As I wrote with George Osborne [in the Financial Times this week](#), we should get started on deficit reduction already this year, especially given the continued turmoil in the global financial markets. We don't want to see a Greek-style funding crisis hitting the UK and US.

But neither the US or UK can close their huge budget deficits through spending cuts alone. The US could save a couple percent of GDP by ending the hapless wars in Iraq and Afghanistan, and by cutting other wasteful military spending, but these cuts are unfortunately not in the works. There is even less scope for cuts in non-military discretionary budget spending. Sectors such as education, roads, rail, water and sustainable energy need more rather than less public spending.

The Obama and Brown governments have suggested a tax on the banks' balance sheets, such as a

tax on the banks' liabilities. Such a balance sheet tax is advisable, but not sufficient. It's time, too, to tax financial transactions as well, on currency, derivatives, and other financial assets. Derivatives markets, for example, have soared in size, without proper regulation, taxation, or discernible societal benefits, and arguably with huge social costs (as in the massively misguided market for credit default swaps). As the late Nobel laureate James Tobin argued almost 40 years ago, macroeconomic stability and microeconomic efficiency will both be enhanced by a tax on the financial casino.

The introduction of a financial transactions tax has been debated since Tobin first made the proposal. The case for a [Tobin tax](#) has grown stronger over time, as the motivations to raise revenues, restrain speculative trades and soak up excess trading profits all are stronger than ever. Moreover, the administrative capacity to levy and collect such taxes has also strengthened, as has the likelihood of reaching a trans-Atlantic consensus on introducing such taxes. The key point is that after more than 30 years of debating a financial transactions tax, it's time to try it.

The [Robin Hood tax campaign](#), to levy a financial transactions tax and allocate a designated portion for global development assistance (as Tobin himself had proposed) therefore has [enormous merit](#). As campaign leader Richard Curtis has noted, Tobin and Robin differ by only one letter, underscoring the sound provenance of the campaign ideas. Of all of the uses of government revenues today, the most urgent of all is surely to meet our commitments to the world's poorest people. Reducing our budget deficits is crucial. Closing the deficit of political will on urgent development aid is a matter of life and death.

Robin Hood tax's time has come

The time has come to implement the Robin Hood tax. Ideally the new tax will be introduced both in the US and Europe. If the US delays, however, in response to the Wall Street lobby, then the UK and the rest of Europe should simply move ahead with the tax to get their own house in order.