Banking occupies a unique niche in the economy. Both vital and prone to crisis, Wall Street and the City of London are the beating hearts of the economy, pumping liquidity through the arteries of industry nationally and globally. When they suffer a financial arrhythmia, as in the dire crisis of September 2008, the entire world economy risks sudden death.

Life support systems are wheeled in.

The Federal Reserve and the Bank of England, the ultimate providers of liquidity, not only save the banks but pad their profits too. The seignorage of the central banks (income earned by the privilege of money creation) is, in effect, shared with leading banks by lending them funds at near-zero rates that they lend out at a higher rate.

Thus were Wall Street's record profits of 2009 concocted by the Fed, despite the banks' terrible balance sheets and record of reckless behaviour. The Fed pumped more than a trillion dollars of new liquidity into the system, and Wall Street netted an estimated $55 billion or more of profits. With a knowing smirk, the bankers helped themselves to their share of the seignorage as well, to the tune of $20 billion in bonuses, not even counting unrealised stock options.

The big financial institutions, notably the primary dealers for the central banks, such as Barclays, Deutsche Bank and Goldman Sachs, therefore occupy a blessed position. By all rights they are public utilities, vital organs for the economy that owe their financial rewards and lifelines to their proximity to central bank printing presses. The mega-bonuses flow year in, year out, rain or shine, boom or bust.

Far-sighted bankers long ago figured out that they too should share the seignorage — not with the public but with the public officials who oversee the Fed and the Treasury. The financial sector is the biggest lobbying industry in America and the biggest campaign donor. The Fed's money gets spread around. The same occurs in London, Paris, Tokyo and beyond.

We are told that bankers' bonuses are needed so these skilled technicians — who nearly bankrupted us all — do not jump ship. But where would they go? What economists would call the "opportunity cost" of bankers — their next best salary outside banking — would be a sharp step down without the seignorage. Ouch.

Even as they feed on Wall Street largesse, politicians have finally had to face the brazenness of these arrangements. The White House and 10 Downing Street recently called for a new banking tax to recoup some of the seignorage, as have other G20 governments. And none too soon, with
the public up in arms about the injustice of it all and national budgets haemorrhaging mega-deficits.

Of course, taxation can be only one part of a coherent strategy of reform, including taxes, new regulations on leverage and compensation, controls on derivatives markets and more stable monetary policies than in the Greenspan-Bernanke era.

If the public remains alert, therefore, we will have a financial sector tax introduced throughout the G20 economies. But what should we demand of it? For those of us who have advocated for years a global financial transactions tax or banking tax, the answers are well known. First, we should demand international tax harmony, so the banks don't simply manoeuvre their books and trades to the lowest-tax havens.

Second, we should demand a transparent and collectible tax base, focused on leading institutions, with the tax levied on financial transactions, or on banks' liabilities or on some combination of the two. The choices are largely technical: administrative feasibility, magnitude of collections, incidence of the tax and the benefits in reducing irresponsible bank behaviour. The Obama Administration recently proposed a liabilities tax. The German and French governments, on the other hand, have proposed a financial transactions tax. Both options, and others, should be explored.

Third, a key goal should be to recapture some of the privileged profits of the big banking houses. And we should demand justice in the use of these funds, especially in the shadow of broken fiscal promises and broken hopes for economic justice. No small part of the tax should be directed towards deficit reduction, reflecting the urgency for fiscal solvency in all of our countries. But some should be devoted to the global poor — why its proponents call this combination of tax and transfer the Robin Hood tax.

As always, the poorest have borne the brunt of financial misdeeds and watched the brazenness of bank bonuses alongside broken promises of global assistance. Pledging part of the tax to development aid would help to harmonise the aid burden. Several European governments, including Germany and France, have endorsed this view. Oddly, the Obama proposals neglected this, but the oversight is sadly consistent with the US not pulling its fair share of development aid. Earmarking part of a globally harmonised bank tax would help to assure donors everywhere that the US and other laggard donors would live up to international standards of burden-sharing. Since Wall Street caused this crisis, the case for this fair sharing is even stronger.

At Gleneagles in 2005 the G8 promised to double annual aid to Africa by 2010, roughly $30 billion extra each year. They have fallen about $20 billion short this year. What the Wall Street bankers take home in year-end bonuses in a bad year, the mighty G8 can't find for 800 million of the world's poorest and hungriest people, even to honour an explicit and oft-repeated promise. There is no better use for the banking tax than to honour those promises, and put development assistance on a predictable and reliable basis.
The financial debacle could bring about real financial reform rather than another bubble. A banking tax devoted to deficit reduction, improved regulation and help for the global poor would hit three targets at once.

Banking would again be recognised for what it should be, a public utility, rescuing us in part from the orgy of greed let loose by reckless deregulation.

Banking standards would be better harmonised across the G20, moving towards a level regulatory playing field rather than the recent race to the bottom between New York, London and other money centres. And some justice would be done, by showing that we have the gumption to honour our word, when dishonour means hunger, disease, and the deaths of millions of the world's poorest people.

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What bankers get in bonuses, the G8 can't find for the poor

The rewards are down to proximity to central bank printing presses