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## European bank-tax axis an 'end run' around G20

By Kevin Carmichael  
Globe and Mail Update

*Facing political pressure at home, EU heavyweights forge ahead with plan to introduce levies*

There is at least one group of winners from the British, French and German decision to jointly implement a bank tax: those who worry the rise of the Group of 20 has set the world on a path to global government.

The day international bureaucrats dictate property tax rates in Fredericton is as far away as ever. As financial institutions in London, Paris and Frankfurt can now attest, national government is alive and well.

British Prime Minister David Cameron needed to offset the sting of an austere "emergency" budget with some evidence that he wasn't relying solely on the middle class to pay the cost of the country's cleanup from the financial crisis. With Britain on board, Germany and France can go ahead with their plans without worry that new levies would drive the European operations of major banks to London.

The formation of this European axis threatens to change the nature of the debate at the Toronto G20 summit this weekend.

Earlier this month in Busan, South Korea, finance ministers and central bank governors appeared to put an end to the bank-tax fight by endorsing the principle that banks would be made to pay for financial rescues, and that individual governments would decide how that would done. But the G20's agreement to disagree now appears to be off. On Tuesday, Prime Minister Stephen Harper's spokesman, Dimitri Soudas, predicted a "very lively" discussion on the subject.

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Eswar Prasad, a senior fellow at the Washington-based Brookings Institution and the former head of the financial division at the International Monetary Fund, predicted talks now will have a "sharper edge" as the result of what he called an "end run" by the Europeans around the G20 process.

In an interview on Monday in New York, Finance Minister Jim Flaherty said he was hopeful the G20 leaders would agree on "some principles that would be consistent with the principle that if financial institutions cause a crisis, the institution pays for it and not the taxpayers."

According to Dr. Prasad, the Europeans violated the spirit of those discussions by announcing their preferred course before the G20 got a chance to endorse even the principle.

That doesn't auger well for the G20's ability to set aside national political considerations for the global good - what Mr. Harper, at the beginning of his G20 co-presidency earlier this year, called "enlightened self-interest."

The U.S. also intends to implement a bank levy and would benefit from a G20 endorsement. Yet the Obama administration has been far less aggressive in its approach. A senior U.S. official, who spoke to a group of international reporters on condition of anonymity, said Tuesday that President Barack Obama accepted that not all countries felt the need to tax their banks and the U.S. wasn't pushing for an international levy.

Mr. Flaherty convened a conference call of Group of Seven finance ministers and central bank governors Tuesday, and while bank taxes came up, the focus of the conversation was economic growth, reducing deficits, and capital standards for banks, said a person familiar with the discussion.

"A lot of what the Europeans are saying is for domestic consumption. They have to show their domestic banks that they are going to try to get broader agreement," said Thomas Bernes, acting executive director at the Centre for International Governance Innovation and Canada's former executive director at the IMF.

The test will come as the G20 attempts to co-ordinate its economic policies and to give emerging powers a bigger stake in the IMF. In both cases, countries will have to sacrifice, whether it's China allowing greater appreciation of its exchange rate at the expense of its exporters, or European countries relinquishing their disproportionate hold on the IMF at the expense of national pride.

"If the G20 can't co-ordinate a bank levy, it is difficult to see them getting together on the bigger changes that have to be done," Dr. Prasad said.

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