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IMF proposes tax on financial industry as economic safeguard

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The International Monetary Fund has proposed a set of broad taxes on the financial industry to guard against future crises, and the levies that would target "excess" profits and compensation as well as raise hundreds of billions of dollars in the United States alone.

In the agency's most detailed statement yet about how banks and finance companies should pay to offset their risk of failure, IMF staff outlined a possible "financial stability contribution" that would be based on the threat that a firm's collapse would pose to the economy. The levy, the IMF said, should raise an equivalent of at least 2 percent of a country's economic output -- around $300 billion in the United States -- and set it aside to underwrite the costs of putting failed institutions out of business.

A separate "financial activities tax" would impose taxes based on excess profit and perhaps pay, a proposal designed to discourage outsize executive bonuses and the sort of high-return but risky investments that helped drive the global economy into its worst recession in decades.

The IMF paper, approved by Dominique Strauss-Kahn, the fund's managing director, will be reviewed by finance ministers from the Group of 20, whose representatives are in Washington for meetings this week. Meant to be confidential advice for the finance ministers, the paper was leaked to the BBC and posted on its Web site.

It comes at a time when the IMF is playing a central role in moderating the G-20's debate over how to change the global financial system. In a series of reports issued in recent days, the fund has lectured countries over weak bank regulation and warned that spiraling government debt in the developed world could trigger the next crisis.

The IMF was asked last fall to report specifically on how best to recoup the public funds spent propping up the financial sector, and how best to raise money to pay for future problems.

The idea is a central issue in the financial reform debate under way in Washington and European capitals, where legislators have offered a range of measures: from a fee on large institutions, proposed by President Obama, to a tax on all financial transactions, being discussed in Europe.

In that environment, the IMF could prove to be a shaping voice, giving a sense of international urgency to proposals likely to be opposed by bank and financial lobbyists in different countries. The IMF's proposed fees would raise more money than the other options under debate, with an emphasis on discouraging the type of risk-taking that caused the recent crisis.

The two proposed levies, the IMF paper said, had the advantage of being easier to set up than some others and easier to coordinate across borders -- an important concern as the fund pushes for roughly common standards throughout the world. It also said the taxes should be applied to a "broad perimeter" of companies, meaning not just banks, but financial companies defined more expansively, so that firms have no incentive to redefine or reorganize themselves to avoid the taxes.

In both cases, the aim is as much about changing behavior as it is about raising money, part of an effort to minimize the "systemic risk" posed by companies that grow so large that their failure can cascade into a larger crisis.

Taxing profits above a certain level "would become a tax on 'excess' returns in the financial sector," the staff paper said. "As such it would mitigate excessive risk-raking." The tax would also apply to "remuneration" -- possibly all the wages at a financial firm, but more likely executive pay and bonuses considered unreasonably high.

Officials in the Obama administration are pushing financial reform this week on Capitol Hill, and Democratic leaders are discussing whether to include a "bank tax" in Obama's existing proposal to impose fees on the largest institutions.

The IMF is urging quick action on global financial reform and hoping that this summer's meeting of G-20 leaders produces an agreement on basic principles. A senior Treasury Department official said on Tuesday that there was "convergence" among the G-20 nations behind a levy of some sort on the financial industry.

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