Britain: City attacks Labour’s bank bonus tax

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Top bankers, financiers and the corporate media have launched a ferocious attack on what are in reality timorous plans to tax the banks’ bonus pools outlined by Chancellor of the Exchequer Alistair Darling in his pre-Budget report.

The media and the Conservative and Liberal Democrat opposition parties joined in lambasting the plans as “unsettling”, “economically illiterate” and an “embarrassment”. Bankers raised the spectre of a mass exodus of London’s top earners for more tax-friendly regimes like Switzerland and the Far East, and the demise of London as the world’s second most important financial centre.

David Frost, director general of the British Chamber of Commerce (BCC), said that the plans to tax bonuses would be enormously damaging. “The very people we need to create wealth could be located anywhere and could simply go somewhere else,” he said.

A senior Wall Street banker was quoted as saying, “I can’t tell you how many people have called me from London asking to move. The question all the banks now have is: who the hell wants to be in the UK? Some businesses will definitely leave.”

One banker said, “When I am sitting there at 2 in the morning, I need to be compensated for the fact. I am also not going to do it for a bonus that is 20 percent of my salary.” Another said, “The bonus is an incentive system for people to work hard and smart”. Of course, these same bankers see no problem in demanding that workers accept long hours and annual salaries far lower than their own bonuses.

Darling’s plans are entirely cosmetic and toothless. He expects the tax to raise only ?550 million and affect just 20,000 bankers because it applies to only half the bonuses actually paid, so-called discretionary bonuses. And he hopes that banks will curb their bonuses to avoid the tax.

The tax is in any case a one-off windfall tax on discretionary bank bonuses this year that are expected to be at least ?6 billion and up to ?12 billion, topping by far last year’s ?4 billion bonus pool. It will be payable by the banks paying the bonus, while the recipients will pay income tax on whatever they receive. It will exclude bonuses written into bankers’ contracts and the so-called guaranteed bonuses to “star performers” that pay regulation was supposed to end. Banks are widely expected to be able to avoid the tax altogether by increasing salaries to make up for any loss in bonuses, something many US banks and Barclays have already done.

It will apply to any bonus of more than ?25,000, but will only last until April 5 2010. So banks can simply defer payment until the next fiscal year, although the Chancellor “will consider extending the period of the charge” if there is widespread evasion.

Even though the proposals are mere window dressing, the Treasury has already buckled under pressure from the City. It has backed off from applying the tax to investment and hedge fund managers working within banks. It has met privately with leading investment banks and the British Bankers Association “to listen to their concerns”.

More concessions can be expected. Insurers, stock brokers and asset managers who are part of a banking firm, subsidiaries of overseas lenders, the smaller banks and building societies, and those non-banking companies that carry out banking activities have lobbied furiously to be excluded from the tax.

The Royal Bank of Scotland (RBS) which is 84 percent state-owned and whose directors had threatened to resign en masse if the government refused to allow them to pay out more than ?1.5 billion in bonuses, lashed out at the government for the “politicisation” of the bank. Chief Executive Stephen Hester said, “The process of the politicisation of RBS is damaging to our business and to the taxpayer interest,” citing a ?15 billion fall in its share price due to the furore over bonuses. He has evidently forgotten that RBS would not exist at all if the government had not “politicised” the bank by coming to its rescue.

Speaking about the bonus tax, Hester said, “I don’t think it is going to help the City”. He repeated his warning that there could be a “very clear and very sharp” potential for a “conflict of interest” between the government’s determination to reduce bonuses and the need to pay “competitive” rates to top earners.

The *Financial Times’* Lombard column attacked Darling for gambling with the City’s future. Another *Financial Times* journalist called it a “banker-bashing” move aimed at winning votes for Labour in the forthcoming election. This is true, up to a point: opinion polls show that support for Labour, although still lagging behind the Conservative party, has risen since the bonus furore. The government, which for the last 12 years has done everything in its power to support the financial elite, cannot be seen to sanction the banking sector’s lavish bonuses, when the taxpayers’ bailout for their reckless trading and loans has cost ?850 billion—so far.

But as well as being a public relations exercise designed to placate growing popular anger over bonuses at taxpayers’ expense, the tax is also a cover for the massive spending cuts, tax rises, freeze on public sector pay and cuts in public sector pensions that the financial oligarchy are demanding. Darling said that the purpose of the tax was to ensure that “The biggest burden will fall on those with the broadest shoulders”. All banks had benefited, either directly or indirectly, from the government’s support during the financial crisis and should be using any profits to rebuild their capital base, not paying out generous bonuses. “I am giving them a choice. They can use their profits to build up their capital base, but if they insist on paying substantial rewards, I’m determined to claw back money for the taxpayer,” he said.

The so-called profits out of which the bonuses are to be paid do not represent any real creation of wealth. All the evidence shows that the banks have reduced their lending to the productive sectors of the economy. Instead, they have used the cash generated by the government’s rescue to return to the speculative trading in financial instruments that led to the crash in the first place. Given a green light by the Labour government, they are paving the way for another and bigger financial crash.

The gains generated by such gambling only show up as “profit”—in the short term at least—because the investment bankers have shifted some of their bad debts off their own balance sheets on to that of the government. All the international institutions have warned that the banks have declared less than half their likely losses. The IMF expects British banks to write down a further ?1,500 billion by the end of 2010, more than the entire UK GDP.

The banks’ determination to reward themselves so handsomely at the taxpayers’ expense is not simply the product of individual greed and avarice. It reflects the decline of capitalism in general and British industrial capital in particular, epitomised by the turn more than 30 years ago to a new regime of capital accumulation based upon ever more parasitic forms of financial speculation. Far from creating wealth for the benefit of all, this is has led to the greatest appropriation of wealth by a tiny elite, creating the social inequality that is the hallmark of Britain today.

The Labour government, ever more closely linked to the interests of finance capital, has done everything in its power to promote London as a global financial centre. One investment banker was quoted in the *Financial Times* as revealing perhaps more than he meant to when he said, “The contract between government and business is broken.”

Such throw away lines beg the question as to precisely what that “contract” entailed. It blows apart the myth of a democracy and testifies to the oligarchic nature of British society.